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Conference Call Transcript

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the quarter two, 2005 ING Canada Earnings Conference Call. My name is John, and I will be your coordinator for today. At this time, all participants are in a listen-only mode. We will be facilitating a question and answer session toward the end of today's conference.

(Operator's instructions)

I would now like to turn the presentation over to your host for today's conference, Mr. Brian Lynch, Director of Investor Relations. Please proceed, sir.

Brian Lynch - ING Canada - Director, Investor Relations

Okay. Thank you, John. Good morning and welcome everyone. This call is being broadcast over the Internet at ingcanada.com, where you'll find supporting presentation materials, including slide number two regarding forward looking statements.

We ask everyone to take a minute to review that slide and refrain from placing undue reliance on any forward-looking statements we might make for the many reasons detailed in the slide. French and English transcripts of the call will be posted to our site shortly.

Claude Dussault, CEO, will make some introductory remarks, and Mike Cunningham, CFO, will briefly review our financial performance. Following, we'll open the call to questions, in either French or English, from financial analysts and investors. Charles Brindamour, EVP, is also available to respond to questions.

With that, I'll ask Claude to begin his comments.

Claude Dussault - ING Canada - Director, President and CEO

Thank you, Brian. Good morning everyone and very pleased to be here this morning and to report another very strong quarter by ING Canada. As you have seen by now, our earnings per share of \$1.67 represents a strong increase over our earnings per adjusted share of \$1.29 for the same quarter last year. Behind those numbers, what has been driving those strong results are strong underwriting results, including contribution of Allianz of Canada, and healthy realized gains where obviously all key drivers to these results.

Our combined ratio was for the quarter 81.2% in spite of the Alberta hail and rain storms. The after re-insurance impact on the before-tax income of these storms was \$43 million and that represents 4 percentage points on the combined ratio.

The good underwriting experience was the result of continued low frequency in automobile insurance and favorable development of our prior-year loss reserve. The favorable development of our loss reserve mostly in automobile insurance confirms to us that the reforms that were put in place in 2003/2004 across many provinces are effective and are producing good quality effect on our costs.

Our direct written premium increased by 12.3%. This is also a strong increase in the quarter, driven by the acquisition of Allianz Canada and also by the increase of our number of insured risk, excluding Allianz. So, we are measuring the growth of our units, excluding the acquisition of Allianz, and that number is a growth of 3.9%. So, during the year, that is our way to measure how effective our organic growth is excluding the acquisition.

These positive factors were offset by an average rate reduction of 7% in personal automobile insurance and a shift towards smaller accounts in commercial insurance. We also received, this quarter, from S&P, for the first time, a rating. And our credit rating for the insurance companies was established at A+. And we also had our rating by A. M. Best reconfirmed at A+, (excellent) for all the insurance companies.

In the early part of Q3, we completed the sale of the mutual fund assets that we had announced earlier, and we also divested as we announced through a press release from Commercial Marine Insurance. These transactions have to be seen as being consistent with our strategy to focus on our core product lines. As far as the Allianz integration is concerned, it continues to progress according to plan, in terms of time frame, and in terms of expected performance within the integration. But the contribution to the underwriting profit from Allianz year-to-date has been better than expected. It has been \$44.5 million for the first half of this year.

Now, as far as the current outlook is concerned, we believe that the industry returns in automobile insurance are likely to continue to exceed historical levels for the next 12 months. In commercial lines, pricing continues to soften while costs are increasing. We expect, however, returns to remain in excess of historical levels in the foreseeable future for commercial lines.

As we said a number of times, we expect industry growth to be below historical levels for the next 24 months, and the underwriting results not to remain at the very favorable results that we have experienced in 2004 and 2005 in the industry. However, the industry behavior has remained well balanced in this cycle, so far this year, and has not overreacted to the positive results.

As far as ING Canada is concerned, we believe that our scale advantage and our strength in pricing underwriting and multi-channel distributions will give us the capability to continue to outperform the industry both from an ROE perspective, as well as from a growth perspective. So, these were my opening comments, and I would like to ask now, Mike Cunningham, to get into more details on the financial side.

Mike?

Mike Cunningham - ING Canada - SVP and CFO

Thanks Claude. Second quarter '05 was a good quarter from an underwriting standpoint, and as well from investment results. Net income was up 29.7% to \$223.6 million, compared to \$172.3 million in the prior year. Operating earnings up 14% and the ROE remained outstanding at 37.8% for the trailing 12 months.

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Compared to the first quarter of '05, we experienced increased underwriting profits that were obtained from Allianz of Canada's book as well as our own, and we also had favorable loss reserve development in the Allianz book. Due in large part to our personal auto business frequency remaining low, we continued the strong underwriting profit plus favorable loss reserve development in the ING book as well. We did experience significant losses in the southern Alberta storms in June of '05, but the results from the automobile pools for the quarter were favorable by \$8.5 million after-tax compared to the prior year.

Investment income was up due to more investable assets coming from the Allianz acquisition in December, plus the retained profits. And, in addition, we had to receive \$9.5 million after-tax of interest credited to us in relation to an interim settlement on the 2001 portfolio purchase transaction with Zurich. Realized gains were up significantly in Q2 '05 versus '04, influenced by losses incurred in '04 versus gains in '05 for our fixed-income portfolio. Net unrealized gain position improved during the second quarter.

The corporate and other segment profit was up almost \$12 million, pre-tax, due to the result of our affiliated brokerage operations plus benefits of lower interest expense and higher investment income. Our debt-to-total capital ratio moved lower to 4.8%.

As Claude mentioned, we did during the quarter receive an A+ rating from Standard & Poor's for our operating subsidiaries. Plus, AM Best confirmed our A+ rating for our existing companies and raised the ratings of Allianz and Trafalgar to A+ as well.

So, those are my comments and now I think we're ready for questions.

Brian Lynch - ING Canada - Director, Investor Relations

Operator, perhaps you could remind people how to pose a question if they like.

QUESTION AND ANSWER

Operator

(Operator instructions)

We will take our first question from the line of Brad Smith of Merrill Lynch. Please proceed.

Brad Smith - Merrill Lynch - Analyst

Thanks very much. Yes, Mike, I had two quick questions. I heard you mention that you got an interest credit. I think it was \$9.5 million. I was just wondering if you could elaborate as to the exact amount and whether there were further credits that you can earn going forward? And, then I was also just curious on the balance sheet, the reinsurance share of unpaid claims seems to be climbing, wondering if there's any color you can add to that?

Mike Cunningham - ING Canada - SVP and CFO

Sure Brad. The interest is in relation to an interim settlement as a part of the Zurich transaction that we did at the end of '01.

Brad Smith - Merrill Lynch - Analyst

Okay.

Mike Cunningham - ING Canada - SVP and CFO

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There were guarantees related to loss reserves and so the, there's an interim settlement this year. And in two years there will be a final settlement. And the interest relates to a..., there was a receipt of \$100 million for that transaction on the interim settlement and the interest relates to that. So, that, the interim settlement was our best estimate at this point in time. So, if that, is ultimately the final settlement, there would be no more interest, but if there is a change, then it could go either way actually.

Brad Smith - Merrill Lynch - Analyst

And it was \$9.5 million in Q2, is that correct?

Mike Cunningham - ING Canada - SVP and CFO

Yes. After-tax. \$14.5...

Brad Smith - Merrill Lynch - Analyst

After-tax. And it went through investment income?

Mike Cunningham - ING Canada - SVP and CFO

Yes.

Brad Smith - Merrill Lynch - Analyst

Great. Thanks Michael. And then, just about the reinsurance receivable?

Mike Cunningham - ING Canada - SVP and CFO

Yeah, that's driven heavily by the cap, the southern Alberta storms is what's causing that. There's nothing, no unusual type of reinsurance transaction or anything of that nature. It's just our reinsurance program.

Brad Smith - Merrill Lynch - Analyst

So, would it be fair to say, then, that the increase there plus the charge that you took to your own underwriting, I think it was \$43 million, if I remember correctly, was the gross loss on that storm?

Mike Cunningham - ING Canada - SVP and CFO

The gross loss was about \$84 million.

Brad Smith - Merrill Lynch - Analyst

Okay. Great. Thanks very much.

Claude Dussault - ING Canada - Director, President and CEO

Yeah, just to clarify Brad, in the total amount we also include a payment to reinstate the reinsurance premium.

Brad Smith - Merrill Lynch - Analyst

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Oh.

Claude Dussault - ING Canada - Director, President and CEO

There is a charge when you, when you have a catastrophe to reinstate the coverage for the rest of the year. So that's part of the total of our \$43 million.

Brad Smith - Merrill Lynch - Analyst

Terrific. Thanks very much.

Operator

And your next question will come from the line of Jamie Keating of RBC Capital Markets. Please proceed.

James Keating - RBC Capital Markets - Analyst

Thank you and good morning all. Quite the results this morning. Everyone, congratulations. I wanted to just, Brad got most of my questions, but I wanted to investigate the redundancy a little bit more here, if I can, on the whole book. I suspect investors and analysts will be trying to come to grips with what combined and ultimately what claims ratio they should be looking at here.

Can you talk a little more about industry reforms sticking at the provincial level and so on. I wonder if you could just help us, or guide us, as to what you see happening here in the market if, if on a look-forward basis these reforms stick? Can you talk a little bit about how your views may be changing on where pricing can hold? Because, we've got, obviously, very good results in-quarter.

Claude Dussault - ING Canada - Director, President and CEO

Sure. Good morning, Jamie. It's Claude Dussault. First to talk about historical pattern of loss-reserve development and when you look back at our difference, at our triangle, there's been variation from year-to-year.

But, if you average the over the long term, the type of development we have, we've had positive developments on our reserves on average, just slightly higher than 3% over 12 month period. If you look at this year, our development for the first six months is about 3.8%.

So, we are, after six months, probably twice higher in our loss reserve development than we would be based on historical patterns. So, if you try to isolate, that is higher than historical pattern.

Now, in terms of the relationship of that with the reforms, when you look at the development there is a significant proportion that comes from auto insurance in '03 and '04. And normally, you have more development in the early years of the development of accident years.

But, I think part of what has happened is as we were getting into those reforms and producing reserves at the end of '03 and at the end of '04, the database we had to assess, what would be the ultimate cost of that, was more limited. We were into a new environment, and within that environment, we had, there was some uncertainty about how those things will ultimately develop.

So, what we are saying is that they are developing positively versus the uncertainty that we saw early in the implementation of those reforms. So, from that point of view, we are saying that's a positive sign in terms of where the reforms are, and clearly, what this does is it continues to confirm to us that the fundamental of that business continues to be quite healthy. So, from that perspective, we feel much less uncertainty. Many things can change on a go-forward basis, but from that perspective it has brought certainly more understanding of how these reforms are performing.

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What to expect for future reserve is something that we wouldn't want to guide on. I guess, the best way to look at it is historical pattern over long term, because in every period our actuary works at doing the best estimate of what they think it is going forward. And, I would say that when you look at automobile insurance, we probably have a better handle on how the new environment is today than we had a year or two ago.

James Keating - RBC Capital Markets - Analyst

That's very helpful. Thank you, Claude. Just to be clear, there's another layer of benefit as well, perhaps coming from the general auto safety and auto safety rules, so on, as another driver here?

Claude Dussault - ING Canada - Director, President and CEO

Yeah. There are...

James Keating - RBC Capital Markets - Analyst

Difficult to measure, of course.

Claude Dussault - ING Canada - Director, President and CEO

Yeah. But there are multiple factors, and I think this is a fact that we said there are also, in previous calls, longer term trends around aging of population and safety, in general, behavior, and the short term, which we said were also affecting and including price of gas. So, we have those things that are playing in terms of how the loss costs have been occurring in the first half of the year. We think that the factors are continuing to keep frequency at historical low levels.

James Keating - RBC Capital Markets - Analyst

Thank you very much Claude.

Operator

And your next question will come from the line of Tom MacKinnon of Scotia Capital. Please proceed.

Tom MacKinnon - Scotia Capital - Analyst

Tom MacKinnon. Just, page six, on the slide show, a quick question here. Allianz' contributing \$260 million of direct premiums written. There's 135 in the first quarter. Is this a year-to-date figure, or is there some seasonality in the Allianz book here? And then I've got a couple of follow-ups.

Claude Dussault - ING Canada - Director, President and CEO

The year-to-date?

Mike Cunningham - ING Canada - SVP and CFO

Yeah.

Claude Dussault - ING Canada - Director, President and CEO

Yeah. Yes, it is a year-to-date number.

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Tom MacKinnon - Scotia Capital - Analyst

Okay. And then, do you have an, what IBNR is as a total of the net unpaid claims? I know there was some tinkering with the IBNR in the quarter, do you know what that is as a percentage of total unpaid claims?

Claude Dussault - ING Canada - Director, President and CEO

We're looking for it.

Tom MacKinnon - Scotia Capital - Analyst

Maybe how that's moved? And then, while you're looking at that, I'm just sort of looking at your combined ratio, sort of historically relative to the industry. I think you beat the industry by about six points, or something like that. In 2004, and then, if I look, in 2003 you're pretty well come even with the Canadian industry and combined. And if I look at the first quarter of 2005, you're not, you're maybe six points better.

Now the second quarter of 2005, this is a phenomenal combined of 81, I'm just trying to look at sustainability of that figure going forward. I know you seem to be somewhat cautious on how long we're going to keep having these favorable underwriting trends. But, if you can give us a little bit of color on that, please.

Claude Dussault - ING Canada - Director, President and CEO

Yeah. I think the one thing first, when you look at 2003, mix of business has an influence on that because personal lines were performing at on average for the industry at much worse levels than commercial lines. So, this has an influence on that because personal lines were performing at on average for the industry at much worse levels than commercial lines.

So, year-by-year, those fluctuations happened also with distribution of mix of business both geographically and by line of business. But, overall, and this is one thing that during the year is harder for us to assess in terms of our outperformance of the industry. But that outperformance has been increasing in the last year, clearly. And, we believe that a lot of the fundamentals on which we've been working should help us to continue to grow that outperformance over the long term.

Now in the short term, it is harder to measure. So, as we get more data on the industry, this is certainly a key. As you know, in our outlook, we are trying to assess where the industry will go over the medium and long term, and our focus is to keep growing our outperformance of the industry. But, quarter-by-quarter, it is hard for us to assess. But, our sense is that we are probably continuing to improve that position.

Tom MacKinnon - Scotia Capital - Analyst

Is there any way you could assist us in trying to estimate reasonable combined ratios, going forward given the statements you're making about the sustainability of the favorable underwriting performance you're getting now?

Claude Dussault - ING Canada - Director, President and CEO

I think the way to look at it and the way we've tried to position it for now, for the last six months, is basically the dynamic we have, is low frequency and a given level of premium that was not anticipating that those low frequencies would continue at that level, from an industry point of view.

So, the fact that the loss costs and the frequency remain at low levels, as we've said before, price will tend to move towards those new levels over time. But, it takes longer in terms of deteriorating combined ratio when it happens that way than if we were facing increasing frequency. So, it is, unfortunately, easier to forecast the medium term than it is to do the long term, because we think that markets will be efficient and will return to historical performance levels.

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So, but if frequency remain at these low levels it will happen to lower premium. That's why our outlook is anticipating lower average increase of rates than historical levels. But, if frequency was to start moving up that deterioration would happen faster.

Tom MacKinnon - *Scotia Capital - Analyst*

So it seems to take longer for the markets to react than for the consumer to react, if you will. And the consumer hasn't reacted. Would that be a safe, I mean, consumer reacting in terms of frequency?

Claude Dussault - *ING Canada - Director, President and CEO*

Yeah. The thing is, yeah, I think it's the consumer, because we don't think that the consumer behavior is the major driving factor of those frequencies. I know that the theory of people not claiming being one of the big factors, we believe that other external factors are more significant. And, those haven't really changed that much, especially I mentioned price of gas short-term. In the long-term trend, are positive. The reforms are working well. So those factors have been pretty sound so far. And, in fact, it is not changing as we might have anticipated.

And, over the long term, we've seen changes in frequencies that were not always easy to explain what was driving it. So, we remain prudent about anticipating frequency levels, and I think that's what reflect the approach within the industry of being careful about not creating a significant swing in price. But, prices are still going down to reflect those better results.

Tom MacKinnon - *Scotia Capital - Analyst*

And, finally, if you do have that IBNR figure that'd be helpful, but...

Mike Cunningham - *ING Canada - SVP and CFO*

Tom, it's 1.3 billion amounts. It's about 37% of our net claim liabilities.

Tom MacKinnon - *Scotia Capital - Analyst*

And how is that trend?

Mike Cunningham - *ING Canada - SVP and CFO*

It's pretty flat.

Tom MacKinnon - *Scotia Capital - Analyst*

It's been pretty flat.

Mike Cunningham - *ING Canada - SVP and CFO*

Through the end of the year was just about the same relationship, same, essentially the same size of the net liabilities, same, relatively same percentage - 37%.

Tom MacKinnon - *Scotia Capital - Analyst*

And, finally, given the fact the redundancies in the reserves in the first half of the year, we're tracking well ahead of what happened in previous years. And, I'm not sure how far you think we are through the Ontario reforms, but you seem thinking, or all provincial reforms, but you seem to be feeling pretty comfortable about them, given the reserve releases that you've taken or the redundancies you've taken.

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Can you help us feel comfortable that this isn't too early to start, you know, start doing these, taking advantage of these redundancies? Do you think you've had enough window here in terms of the impact of these reforms?

Claude Dussault - ING Canada - Director, President and CEO

I think you have to remember that our average duration on the reserve is just over two years. So, it is normal to see those kinds of patterns in the early part because of the type of business. This is a business that has a fairly rapid way of developing. There are some classes of businesses that take longer and we are trying to make sure in our approach that we apply the proper methodology on a go-forward basis.

And, so, our approach has been to try to, and the approach of the actuaries, to look at it at the end of the quarter and make sure that on a go-forward basis we have the best balance sheet estimates of where they are going to be. But, as we get more information and that claims are being closed, those are being reflected in the results.

So, part of it is claims that have been closed during that period of time, that are now settled so that is based on past which has been closed on lower level than we would have expected when they were first reserved in '03.

Tom MacKinnon - Scotia Capital - Analyst

Okay. Thanks for that.

Claude Dussault - ING Canada - Director, President and CEO

You're welcome.

Operator

And your next question will come from the line of Doug Young of TD Newcrest. Please proceed.

Doug Young - TD Newcrest - Analyst

Good morning.

Claude Dussault - ING Canada - Director, President and CEO

Good morning Doug.

Doug Young - TD Newcrest - Analyst

Just maybe Claude, if we can start with, I think obviously you sound a lot more positive than you have in the past, specifically about, you know, the Canadian personal auto and the prospects in that market. I think in the past, you've talked in the context of saying where you think the industry will trend back to more than a normalized rate within a 36-month time frame. And, I'm just wondering, is that still the time frame you think will transpire where the industry moves back towards the historical norm?

Claude Dussault - ING Canada - Director, President and CEO

Yeah. I think our prospective view on the industry is not changing. I think what we have now is the first six months, at least based on our own experience, that indicates that the trend hasn't really started the way that you would expect it from a frequency point of view. And it's always the same thing, as we've discussed before, our anticipation was that it would come both from price and from frequency, and from the frequency in the loss cost side, it's not, it's not coming the way that we might have expected.

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So, we think it's going to come probably more from the premium side until frequency starts moving. So, the process has been delayed, but the general trend towards the market returning to historical level, I think we haven't changed our view. I think we, we certainly want to send a message that we are confident in our ability to continue to outperform based on our past performance and our ability to perform in different periods of the cycle. And maybe we haven't emphasized that enough recently. And that's certainly one thing we want to continue to emphasize.

Doug Young - TD Newcrest - Analyst

Okay. Fantastic. On the reserving side, I know there was a \$27.5 million IBNR adjustment. And, I'm just trying to gauge you know how should we be looking at that number. Is that something that's that we should expect maybe to continue that there be reserve adjustments on the IBNR side? Or was that something that was more one time in nature?

Mike Cunningham - ING Canada - SVP and CFO

That adjustment came from our quarterly valuation of the claim liabilities. Our actuaries each quarter take a detailed look at the reserve positions and that was the result of that review. So, there's a process that occurs quarterly, but we wouldn't expect that necessarily, that kind of outcome. It's a matter of, in this case, the automobile business continuing to develop favorably and that reserve review process is what helps bring that to light.

Doug Young - TD Newcrest - Analyst

Okay.

Claude Dussault - ING Canada - Director, President and CEO

In a way, what this is all about is better understanding in auto insurance. The pattern of the new environment. So, I think this is one of the things about reforms and changes in products. It's that there is some time that is required to see how new patterns develop and I think this reflects the view of our actuary on the pattern, based on where the case reserves are today.

Doug Young - TD Newcrest - Analyst

Okay. And just maybe on the gain on the sale of the divestments. Were they basically immaterial?

Claude Dussault - ING Canada - Director, President and CEO

They will be in Q3.

Doug Young - TD Newcrest - Analyst

They will be? Okay. Okay. Thank you very much.

Operator

And your next question will come from the line of Quentin Broad of CIBC World Markets. Please proceed.

Quentin Broad - CIBC World Markets - Analyst

Yes. Good morning guys.

Claude Dussault - ING Canada - Director, President and CEO

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Good morning.

Quentin Broad - CIBC World Markets - Analyst

Just a few questions. Average price reductions across the entire book, I think you mentioned 7% in personal lines auto Claude. Can you give us a general view?

Charles Brindamour - ING Canada - EVP

A general view about?

Quentin Broad - CIBC World Markets - Analyst

What price decreases you're experiencing across the rest of your books.

Charles Brindamour - ING Canada - EVP

So you mean for other lines of business?

Quentin Broad - CIBC World Markets - Analyst

Correct.

Charles Brindamour - ING Canada - EVP

What we're seeing in commercial lines basically for our own book of business, we're seeing very low single digit flat to rate increases in commercial-other. And, we're seeing for new business increased competition in the upper end of the marketplace, that is mid to large commercial lines.

And so, the overall average rate in commercial lines is not declining, currently. Even though prices are softening, there's not an effective decrease in price at this point in time.

Quentin Broad - CIBC World Markets - Analyst

Great. And Charles, is there any changing in terms and conditions that is material at this point?

Charles Brindamour - ING Canada - EVP

Not that we observe. No.

Quentin Broad - CIBC World Markets - Analyst

Great.

Charles Brindamour - ING Canada - EVP

Some of the other lines, Quentin, in personal property we're seeing decent increase in insured values there in a well controlled rate environment. And that would sort of complete my comments on the other lines of business.

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Quentin Broad - CIBC World Markets - Analyst

On the reserves, has there been any change in the discount rate in the quarter or on the view on pads?

Claude Dussault - ING Canada - Director, President and CEO

No.

Quentin Broad - CIBC World Markets - Analyst

Okay. Just, Claude, you talked about, or I think Mike said that the IBNR's 31% I thought, I heard, of total reserves. And, then, you suggested the duration of your liabilities is around two years. How would you benchmark that level of IBNR which I would have thought is high in relation to the claim, you know, specific claim reserve given that short tail risk?

Claude Dussault - ING Canada - Director, President and CEO

I've never looked at it on a relative, I don't think the information is available to compare what our IBNR would be with other companies or I haven't looked at that. So, I think it has a lot to do with the profile of the business, and the mix of business, and so on. So, ...

Charles Brindamour - ING Canada - EVP

I think we have to be careful when we look at IBNR percentages compared to the overall reserve and then compare that against companies, because IBNR percentages are dependent on the actual work that the claims force is doing, which might differ in approach from company to company. So, we have to be careful when we compare these ratios from company to company.

Claude Dussault - ING Canada - Director, President and CEO

And depending on the speed of growth, it could have an effect over years versus more recent years. I don't there is a good rule of thumb to assess that relative to duration.

Quentin Broad - CIBC World Markets - Analyst

Thanks. Okay. Finally, I guess, just in terms of your capital levels, obviously against a 170% MCT, you're running fairly significant excess capital. Any thoughts on a) the M&A environment given Allianz' moving along quite nicely b) dividends, and c) I would suspect you don't want to reduce your liquidity, but buybacks?

Claude Dussault - ING Canada - Director, President and CEO

Yeah. I think to the M&A, as we've said, this is our, certainly our view that this is part of our strategy in terms of growth of market share over time. The M&A activity on the short term basis is always a challenge to comment on, as you know, and it's all a matter of finding the right fit at the right valuation, and if that was to occur.

So, to the point of we would be interested in making acquisition, I think in terms of integration, our ability to integrate, we'll have that capability in '06, second quarter of '06. But the whole issue of potential sellers is the big issue in terms of can we achieve a proper transaction at the right value.

We have been positioning our balance sheet to give us that capability if that opportunity was to occur. So, it's on that basis that we've been positioning our dividend payments so far. So, at this stage, our view would be M&A would be priority, probably dividend second, and buyback third. But these things can change over time.

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Quentin Broad - CIBC World Markets - Analyst

So is there any change right now in terms of the level of activity or discussions, or rumors or innuendos with respect to M&A, i.e. has there been any pickup or reduction in just the chatter in the market from your perspective?

Claude Dussault - ING Canada - Director, President and CEO

I don't know how to measure those things.

Quentin Broad - CIBC World Markets - Analyst

Thanks guys.

Operator

And your next question will come from the line of John Reucassel of BMO Nesbitt Burns. Please proceed.

John Reucassel - BMO Nesbitt Burns - Analyst

Thank you. Just a couple of questions. Sort of missed it, Claude, the Allianz, the deal went better than expected. Did you, is that just that you're able to retain more clients at better rates? Or, what's driving that? Why is Allianz better than expected?

Claude Dussault - ING Canada - Director, President and CEO

Yeah. Good morning John. I think what's going on is the underwriting results are better than what we had expected. And, basically, we are realizing, with the Allianz book of business, the same favorable results that we have seen on our main book of business. So, from that perspective, considering that the results are the way they are for the first half of this year, and adding on top of that, the Allianz addition with the same kind of performance, this is certainly producing better than what we had anticipated. And, it's from that angle that...

John Reucassel - BMO Nesbitt Burns - Analyst

Okay. So, retention, I think you were talking about 75% to 80% of the business. Is that where you stand on?

Claude Dussault - ING Canada - Director, President and CEO

Our model was to achieve 75%. And we believe this is a target that we will reach.

John Reucassel - BMO Nesbitt Burns - Analyst

Okay. And how much of that book has rolled over now?

Claude Dussault - ING Canada - Director, President and CEO

We started renewals in the main markets March 1st.

John Reucassel - BMO Nesbitt Burns - Analyst

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Okay.

Claude Dussault - ING Canada - Director, President and CEO

So, that will be completed by the, in terms of the full book, for the main markets by the end of February of next year.

John Reucassel - BMO Nesbitt Burns - Analyst

Okay. Okay. Well, we've talked about everything else I need to talk about, but one last thing, the growth in the BELAIRdirect, and I think in the prospectus, I guess, I'm working on memory. Is it 20-plus percent or higher? How is that effort still going? Are you still seeing that type of growth? What's the rollout in Ontario? How is that going?

Claude Dussault - ING Canada - Director, President and CEO

Yeah. I think the numbers we mentioned were double-digit when we did the IPO, was the level it's now high single-digit in terms of overall premium, both in Ontario and Quebec. And considering that premium has been going down in terms of units, we are in double-digits, so this is going well.

John Reucassel - BMO Nesbitt Burns - Analyst

Thank you.

Claude Dussault - ING Canada - Director, President and CEO

You're welcome.

Operator

(Operator instructions)

And we'll pause a moment to compile a list of additional questions. And your next question is a follow-up from the line of Brad Smith. Please proceed.

Brad Smith - Merrill Lynch - Analyst

Yes. Thanks very much. Two quick questions, Claude. Just going back to the reforms and how they're working. You've made it, I think, clear that you don't believe that the frequency is primarily being influenced by consumer fear or other behavioral elements.

I was wondering if you could just elaborate a little bit as to, you know, how it's developing in terms of what the other factors that might be affecting the frequency are merging and how you feel about them. It seems that with a more optimistic view, with respect to the forms, reforms, that you know something's come to light or you've become aware of something that's influencing the frequency that you think is going to stick.

Claude Dussault - ING Canada - Director, President and CEO

Yes, Brad, I would say from a reform point of view, there has been a positive on the frequency, but most importantly, a positive on the loss cost.

And, the question was how much would that be controlled by the effect of the reform? And, when, as an example, caps are put on minor injury, how effective will that cap work in jurisdiction?

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And that part of the thing was unknown when that happened. In Ontario, a lot of the things that were put into place were to reduce fraudulent type of claims and systems that had been built in the past.

And, the question is always, will those, will they find a different way of creating inflation in the system. And, I think in Ontario, there's been vigilance on that to make sure that on the accident benefits side, there hasn't been this type of inflation being created. But, there is no guarantee for the future.

So, that part is working well. I think on the frequency on top of the reforms, is the fundamental trend. I think we've said in the past that there are longer-term trends in terms of the profile of the aging of population, the safety laws. And we said price of gas in our view was probably more, a significant factor in the short term than people being afraid to claim.

We think that there is, there has been a reduction of small claims because of people not wanting to affect their premium, which we never thought this was the major factor. So, what we're seeing is that price of gas remained high. So, those factors which we can't predict have been working in our favor from that perspective.

As far as the client's behavior on claims, I think we've shown that we are confident that this is not the major factor and we've introduced in the last two months a new product to eliminate the impact on the premium for people who have their first at-fault claim accident.

So, did that give you what you were looking for in terms of those factors? It is we'll need, and I think as the week goes further, we'll need to keep looking back at how can each of those factors influence frequency, but overall what we are seeing, at least in our book of business, is continuing low frequency. And the piece we cannot isolate, as I mentioned, earlier, is are we improving our relative position also, versus the industry, which might be a factor too.

Brad Smith - Merrill Lynch - Analyst

If we were to, just to talk about the improvement in underwriting profit in your, say, personal auto book, would you be able to give us a rough estimate as to how much of that is being produced by frequency, and how much is being produced by severity or loss cost? Just very roughly.

Claude Dussault - ING Canada - Director, President and CEO

Quite hard to isolate that. Charles, do you...

Charles Brindamour - ING Canada - EVP

Yeah, it is, it's not that straight forward to isolate, because, when you look at severity, for instance, if you look at the automobile business, severity is well in-checked. But, in fact, the average premium reflect the what we call a "drift," which is an increase in the value of the car population for which we collect premium which translates into severity.

So, it makes the comparison not straightforward to make. I guess, what we can say for this quarter when it comes to frequency, for instance, is that when we exclude the fact of the Alberta storm, the frequency has been going down still, in this quarter, in our key markets. And, that is very positive and better than what we had anticipated.

Brad Smith - Merrill Lynch - Analyst

Okay. Thanks very much.

Claude Dussault - ING Canada - Director, President and CEO

Thank you.

Operator

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And your next question will come from the line of Jason Donville of Sprott Securities. Please proceed.

Jason Donville - Sprott Securities - Analyst

Good morning and congratulations on a good quarter.

Claude Dussault - ING Canada - Director, President and CEO

Thank you. Good morning.

Jason Donville - Sprott Securities - Analyst

I just was wondering, you know, in terms of the political, I guess, the political regulatory environment, we've seen some very positive things over the last 24 months as far as Ontario goes, but we also had, not too long ago, a lot of pressure, public pressure, in terms of bringing down premiums.

I see premiums have come down. Do you, is that kind of, as long as it keeps drifting down, do you think it is going to be quiet on that front? Or, are you finding that the government and the regulatory side is looking at profitability, and going, hey look at your ROE is where it is, let's take premiums lower?

Claude Dussault - ING Canada - Director, President and CEO

I think my general sense and when I go and kind of look across the country, what was a political crisis a couple of years ago has been pretty much evaporating in terms of crisis point of view. If you look at the situation for the consumer in the automobile insurance, we have problems of availability and problems of fast rising price. In the past two years, the availability issue has been very well addressed, and there's been solutions put into place to make sure that people have access to the products. And, affordability has been addressed as well, and prices are coming down.

So, from that perspective, we believe that this is the very healthy environment. And, competition is also effective in the market. I think the, and I think it is well understood by the regulators. I think the thing that when we're looking at the industry, that we have to be careful with, is not to, either from the regulator point of view or from a company point of view, is to be overly optimistic when things are good, and overly pessimistic when things are bad.

And, I think stability in the long-term will come by having a longer-term view of past experience and how these things can fluctuate. And, I think one thing we've learned in the recent crisis in automobile insurance is dramatic rate increases is very unpopular and generating a lot of reaction.

So, before the market goes into a position of significantly lower rate, I think everybody is conscious that we have to be sure this is sustainable. And, so, it's going step by step and we are still taking some rate decreases in different areas, but by small percentages.

Jason Donville - Sprott Securities - Analyst

Okay.

Operator

And your next question is a follow up from the line of Tom MacKinnon. Please proceed.

Tom MacKinnon - Scotia Capital - Analyst

Yeah. Thanks. I think you mentioned there was some favorable loss development in the Allianz book. Can you give us the dollars of that?

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Mike Cunningham - *ING Canada - SVP and CFO*

Sure.

Tom MacKinnon - *Scotia Capital - Analyst*

Before and after tax. And, I don't know if you still run a combined on the Allianz books, but what that would have been?

Mike Cunningham - *ING Canada - SVP and CFO*

For the second quarter, the favorable development on the Allianz book was \$23 million, and mostly from the auto.

Claude Dussault - *ING Canada - Director, President and CEO*

And year-to-date was 26.7.

Tom MacKinnon - *Scotia Capital - Analyst*

And do you keep track of combined for that book anymore.

Charles Brindamour - *ING Canada - EVP*

Yeah. The combined June year-to-date was very much in line with our own combined, which was around 83.6% for the Allianz book of business.

Tom MacKinnon - *Scotia Capital - Analyst*

And do you have that in a loss, in a expense?

Claude Dussault - *ING Canada - Director, President and CEO*

As we're looking at it, the development in Allianz was fairly similar in terms of the percentage, or pretty close on the loss reserve, as our overall because we've been using similar methodology between the two portfolios.

Mike Cunningham - *ING Canada - SVP and CFO*

The loss was 51.4% and the expense 31.7%.

Tom MacKinnon - *Scotia Capital - Analyst*

Okay. Thanks very much.

Operator

And your next question is a follow up from the line of Doug Young. Please proceed.

Doug Young - *TD Newcrest - Analyst*

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Hi. Just on the regulatory side. I know there are some investigations going on in Quebec that was talked about last quarter. And, I wonder if there is any updates on what's happening there?

Claude Dussault - ING Canada - Director, President and CEO

No. There hasn't been any important development. I think it's still proceeding and has been calmer in terms of because of the summer and so on. But we expect that this will continue to proceed in the fall and between now and year-end.

Doug Young - TD Newcrest - Analyst

Any sense of what's, you know, what potentially, the outcome could be? Is it material?

Claude Dussault - ING Canada - Director, President and CEO

I would believe that at this stage that there is nothing that would be material. Honestly, at this stage, we don't know exactly where this, where the process of the inquiry will go. I think we have been providing information so far on the relationship we have with the brokers. We've been doing that through a questionnaire first, and now, they've asked us more detail around that.

So, the investigation is around broker distribution and relationship with insurers and they are reviewing that information. And, on that basis they will have to determine if there is anything improper that was done. At this stage, we believe things were done in the proper way.

Doug Young - TD Newcrest - Analyst

Okay. Great. Thank you.

Operator

Ladies and gentlemen, this concludes today's question and answer session. I will now turn the call back over to Mr. Brian Lynch for closing remarks.

Brian Lynch - ING Canada - Director, Investor Relations

Thanks John. We certainly appreciate your interest in ING Canada. I'd like to remind callers the next earnings release and conference call will take place on November 10 at 10 AM. And that concludes today's call. Thank you.

Operator

Ladies and gentlemen we thank you for your participation in today's conference. This concludes the presentation and you may now disconnect. Have a great day.

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