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Conference Call Transcript

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CORPORATE PARTICIPANTS

Michelle Dodokin
ING Canada - VP, IR

Charles Brindamour
ING Canada - President, CEO

Mark Tullis
ING Canada - CFO

CONFERENCE CALL PARTICIPANTS

Doug Young
TD Newcrest - Analyst

Tom MacKinnon
Scotia Capital - Analyst

John Reucassel
BMO Capital Markets - Analyst

Jean Vibert
Putnam Investments - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Q4 2007 ING Canada earnings conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. (OPERATOR INSTRUCTIONS) I would like to remind everyone that this conference call is being recorded today, Wednesday, February 20, 2008 at 10:00 a.m. Eastern Time.

I would now like to turn the conference over to Ms. Michelle Dodokin, Vice President Investor Relations. (OPERATOR INSTRUCTIONS-French)

Michelle Dodokin - ***ING Canada - VP, IR***

Thank you, and good morning everyone. A link to our live webcast and background information for the call is posted on our website at www.INGcanada.com under the Investor Relations tab.

As a reminder, the slide presentation contains a disclaimer on forward-looking statements, which also apply to our discussion on the conference call. Charles Brindamour, our Chief Executive Officer, and Mark Tullis, our Chief Financial Officer, will begin with some formal remarks on our performance in the quarter, and then we will take some questions from financial analysts and investors.

With that, I will ask Charles to begin his formal remarks.

Charles Brindamour - ***ING Canada - President, CEO***

Thank you, Michelle. Good morning, everyone. Earlier today we announced our fourth quarter results for 2007, in addition to a 14.8% increase in our quarterly dividend, as well as a normal course issuer bid, to buy back up to 5% of our outstanding shares.

Our fourth quarter net income was $0.77 per share, compared to $0.82 per share in the same quarter last year. Our net operating income increased 9% to $0.83 per share, reflecting favorable underwriting results in the quarter, with a combined ratio of 95.3%. Our 12-month return on equity remains strong at 15.4%, which is well above industry long-term averages.

Our underwriting results and personal property and commercial non-auto improved in the fourth quarter, due to lower catastrophic claims, and more favorable prior year development. Personal auto results decreased due to higher severity and frequency of current accident year claims. Overall, our underwriting income at 48 million increased year-over-year, excluding the impact of a 20.7 million market yield adjustment to claims liabilities. Direct written premiums increased slightly in the fourth quarter as growth in personal lines was offset by lower commercial premiums. Our personal lines business grew 2.3%, but commercial premiums decreased year-over-year, reflecting a shift in the portfolio towards smaller, more profitable accounts.

This, in my view, demonstrates our disciplined commercial pricing strategy in a highly competitive environment. In personal lines, direct written premium rates increased for the first time since 2003, which is an important change reflecting the positive steps we have taken both in automobile insurance and in home insurance, to ensure that our premiums proactively reflect the cost pressures we have identified in 2007.

Notwithstanding solid underwriting results, and an increase in investment yield to 5.1%, our net income declined year-over-year, due to a small net investment loss of 3.3 million. The loss on invested assets reflected impairments in our equity and fixed income portfolios, caused by a decrease in equity market conditions, as well as other investment-specific factors, which my colleague Mark Tullis will comment upon later.

Looking at the industry for the coming 12 months, we expect the industry profitability and premium growth to trend toward historical averages. On the commercial side, we anticipate that the pricing environment will remain competitive. Higher material costs and labor rates will be factors driving higher claims costs in the coming 12 months. In home insurance, higher water-related property damages caused by an increase in seasonal storms and higher construction costs, have contributed to higher claims in recent years. These factors could drive increases and industry premiums over the coming period.

Moving on to automobile insurance, the product over the last three years has been favorable, both from a competitive and a consumer point of view, as a result of a stable cost environment, as well as the effectiveness of cost containment measures in a number of provinces. As many of you already know, medical claim costs began rising in Ontario in 2007, heading from moderate erosion in the 2003 automobile reforms, which was in fact expected after a period of time. The industry is proactively keeping regulators abreast of changes in the claims environment, and premiums are likely to rise in 2008.

Two weeks ago, an Alberta Court lifted the cap on pain and suffering awards for minor injuries resulting from auto accidents. This decision has been appealed by the Government of Alberta, who is also seeking a stay of procedures. Hence, there is uncertainty over the ultimate outcome of the Court's decision. While we have specific provisions to account for this eventuality, we continue to assess the potential impact on the judgment, on claims costs, so as to take action both in pricing, claims, and reserving, as more information becomes available if we deem necessary.

As mentioned before, we also announced this morning a quarterly dividend increase of $0.04, or 14.8%, as well as a normal course issuer bid to buy back up to 5% of our outstanding shares, which equates roughly to 220 million at the current market price. Through our dividend increase and share buyback, we are returning excess capital to shareholders, while retaining the financial flexibility to continue to pursue potential acquisition opportunities.

In conclusion, we finished 2007 with positive momentum in our businesses, and we are optimistic about 2008, as we continue to adjust premiums in personal lines, and remain disciplined in commercial lines. Our strategy is to outperform the industry from a profitability and a growth point of view are progressing well in my view across all of our business units. Finally, our business is supported by a strong capital base, making it possible for us to return capital to shareholders, while maintaining our strategic agility. So overall, we are well-positioned to create value for our shareholders in the coming year.

And with that, I will turn the call over to our CFO, Mark Tullis, to provide more detail on our investment results and financial conditions.

Mark Tullis - *ING Canada - CFO*

Thank you, Charles. As Charles noted, our net operating income in the fourth quarter increased to 102.8 million, reflecting favorable underwriting performance. Net income decreased by 13.6 million, primarily due to an 18.6 million drop in investment gains.

Underwriting income decreased year-over-year, but increased before the impact of a 20.7 million market yield adjustment to claims liabilities. This market yield adjustment was largely offset by gains on held for trading assets, so there was a minimal impact on net income. Fourth quarter net operating income, which excludes net gains and losses on invested assets, was $0.83 per share, versus $0.76 last year, reflecting improved operating results, and the positive effect of our share buyback in March 2007.

Our small net loss on invested assets was mainly due to $43 million in equity and debt impairments. 37 million of the impairments were in our equity portfolios. We impair equities securities if there is a negative event, such as suspension of dividends.

Approximately half of the equity impairments were event-driven. The other half were caused by a decline in equity values. Under our accounting policy, we impaired equities if the values were 25% below book value for a period of six months, and not expected to recover in the mid to near term. The other 6 million of impairments were related to SIV capital notes.

Other than our 19.8 million remaining exposure to SIVs, we have no leveraged investments. We have no direct investments in asset-backed commercial paper, collateralized debt obligations, hedge funds, mono lines, or U.S. mortgage loans. Relative to the Alberta situation, our year end financial statements have a provision for this item. Our reserves are reviewed on a regular basis, and if the changing situation results in a reassessment of the provision, we would take action as required.

On a final note, we currently have a very strong balance sheet, with 1.5 billion in excess capital and debt capacity. The share buyback and dividend increase are positive initiatives, that will allow us to create incremental value for shareholders, while maintaining our strong financial position. ING Groep has opted to participate proportionately in the share buyback to maintain their 70% ownership position.

With that, I will turn the call back to Michelle Dodokin.

Michelle Dodokin - ***ING Canada - VP, IR***

Thanks, Mark. Operator, we are ready to start the question and answer period.

QUESTION AND ANSWER

Operator

Thank you. (OPERATOR INSTRUCTIONS) Your first question comes from Doug Young of TD Newcrest. Please proceed.

Doug Young - ***TD Newcrest - Analyst***

Hi, good morning. Just on Alberta, I guess this is probably for Charles, I know there are a lot of unknowns at this point in time, and you have indicated that you have a provision, but how comfortable are you that that provision is sufficient to offset the upticking claims that we are likely going to see short-term, based upon what you have seen in the study that you have done so far?

Charles Brindamour - ***ING Canada - President, CEO***

Good morning, Doug. As we said, we anticipated a likelihood of an outcome of that nature over time, and that is the reason we have built the provision, with the information we have at this point in time, the provision we carry is within the range of the expectations that we have given the additional information. So it is within the range.

Doug Young - ***TD Newcrest - Analyst***

Okay. And then sticking with Alberta, I know there have been many discussions around the grid, around getting more flexible pricing. Where do we stand with all of that at this point in time?

Charles Brindamour *- ING Canada - President, CEO*

Doug, as I mentioned in previous calls, good progress was made on that front with a number of recommendations that would improve in my view the premium environment in Alberta, from a consumer point of view, and from a competitive point of view. As you probably know, there is an election taking place in March, and as such, the file is on hold until the election actually takes place in a few weeks from now.

Doug Young *- TD Newcrest - Analyst*

Charles, is it fair to say this is probably an end of '08 type of event?

Charles Brindamour *- ING Canada - President, CEO*

No, I think that we will see progress before the end of '08 in that respect. I am comfortable that the regulator is reasonable and rational, and recognizes the importance of, and the value of making these changes for the consumers in Alberta, so in my view, this is a Q2 to Q3 area where I expect change.

Doug Young *- TD Newcrest - Analyst*

Okay. Just wanted to go on to Ontario. Have you applied for the rate increases in personal auto, and if so, by how much? And when should we see that potentially come through?

Charles Brindamour *- ING Canada - President, CEO*

As you know, Doug, we have one initial rate increase that took place for new business in September, and renewal in November. We have indeed filed for additional rate increases to take place in the first half of 2008.

Doug Young *- TD Newcrest - Analyst*

And do you care to--?

Charles Brindamour *- ING Canada - President, CEO*

Yes, I think that from a competitive point of view, Doug, I would rather not comment on the magnitude of the rate increase, and you will understand the sensitivity here, in particular, given we were among the first players to move from a rate point of view. I think that I would rather delay the moment for that magnitude is known to the marketplace.

Doug Young *- TD Newcrest - Analyst*

Just one last one and I will requeue. Do you know where the industry ROE and combined ratio was for 2007, any indication?

Charles Brindamour *- ING Canada - President, CEO*

No, no indication at this point in time. I think the ROE of the industry will move towards historical average in the coming 12 months, and at the end of the third quarter, based on OSFI financial data, the industry's ROE was in the 13% range.

I don't have full year information at this point in time, but that is sort of what the OFSI data, which is not a complete set of data, but a good representation of the industry in my view, that is where it was at the end of Q3.

Doug Young - ***TD Newcrest - Analyst***

That was a year-to-date number?

Charles Brindamour - ***ING Canada - President, CEO***

That was a, well, it is a trailing 12-month, I suspect.

Doug Young - ***TD Newcrest - Analyst***

Okay. Thank you.

Operator

Your next question comes from Tom MacKinnon at Scotia Capital. Please proceed.

Tom MacKinnon - ***Scotia Capital - Analyst***

Yes, thanks very much. Couple questions here. One on the favorable reserve development, 5.1% in the quarter, 45 million, I guess it would have even been higher, had it not been for the interest rate adjustments. Given that you are talking about higher severity in the current accident year, I am just wondering how much of this do you think is going to be sustainable going forward?

Charles Brindamour - ***ING Canada - President, CEO***

Tom, this is Charles speaking. I think when we look ahead, the best way to think about favorable reserve development is by looking over a longer period of time historically. As you know, we have mentioned that our historical pattern has been in the 3% range, and in my view, that is the best indication of how one should think about favorable development in the mid-term going forward.

Tom MacKinnon - ***Scotia Capital - Analyst***

Sometimes it is 7 and sometimes it is 2. I mean--?

Charles Brindamour - ***ING Canada - President, CEO***

Yes, fourth quarter was 5.1. The full year was at 3.3, and historically, it is in the 3 to 4% range, so to me what we have seen this year is relatively consistent with what we have seen historically, and therefore the best way I can help on this one is to say look, if you look at the year, if you look historically, it is a good way to think about what the future might look like.

Tom MacKinnon - ***Scotia Capital - Analyst***

Okay. Follow-up is on the cat claims. What was the size of the cat claims in the quarter, and what has generally been your fourth quarter run rate in terms of cat claims?

Charles Brindamour - ***ING Canada - President, CEO***

The cat claims in the fourth quarter, and that would be occurrences with an impact greater than 5 million, was around 10 million in the quarter, and it has been varying over time. At the end of 2006 in the fourth quarter, it was 26 million, if I recall, or 25 million, but in 2005, it was zero. So just on that basis, it would be in the 10 to 15 million range, if you take the average of those three years. However, as you know, because of the nature of cat, it is difficult to say what is the run rate in a given quarter.

Tom MacKinnon - ***Scotia Capital - Analyst***

All right, and finally, if you would be able to quantify kind of over the last 12 months what had been the rate increases for personal auto, maybe personal property, and commercial businesses as well?

Charles Brindamour - ***ING Canada - President, CEO***

Yes, you are saying over the last--

Tom MacKinnon - ***Scotia Capital - Analyst***

Yes, give us over the last 12 months. Or whatever timeframe you want to give us.

Charles Brindamour - ***ING Canada - President, CEO***

Well I think if we look at automobile insurance over the last 12 months, we have been in an environment, as you know, where we went from rate decreases to rate increases in the fourth quarter. So I would say for the full year, the average rate change in automobile insurance has been minus 2%. However, Doug, I think it's important--

Tom MacKinnon - ***Scotia Capital - Analyst***

Tom.

Charles Brindamour - ***ING Canada - President, CEO***

Sorry, sorry. Excuse me. Excuse me, Tom. It is important to recognize though, that when you think about automobile insurance, rate is only one part of the equation. We have had over the last year a 3.6% increase in average insured amounts in automobile insurance. And that is a factor that is countering the change in rate that I just described.

Tom MacKinnon - ***Scotia Capital - Analyst***

And you filed for a rate increase in the first half of 2008, and didn't you file for a rate increase you have had a couple rate increases put in prior to that?

Charles Brindamour - ***ING Canada - President, CEO***

Yes, that is right. In the latter part of last year, so essentially Q4, we have as we mentioned, filed for rate changes in Ontario, so the overall minus 2 that I described for the year is actually zero in average for the fourth quarter. And as the rate change will take its full effect, it will be reflected in our top line throughout 2008.

Tom MacKinnon - ***Scotia Capital - Analyst***

And person property, any idea there?

Charles Brindamour - ***ING Canada - President, CEO***

Yes, personal property, Tom, two factors to take into account. First of all, some insured, I expect going forward to see mid-single digit, some insured increases, and then from a rate point of view, in the latter part of the year, we have taken a number of rate actions across a number of jurisdictions where I expect mid-single digit rate increases in personal property, or home insurance throughout the year.

In commercial insurance, as I have mentioned before, what we have seen there, a competitive marketplace definitely. However, our retention has been very strong in the upper 80s, low 90s, and the average rate change in '07 has been less than 2%, a decrease of less than 2% in commercial insurance, despite the competitive environment.

And our ability to maintain fairly good rate levels in commercial lines is driven by the fact that we have a distinctive strategy for small business, and in that segment of the business, we have grown our units by close to 6% over 2007. It is in the mid to larger commercial accounts that competition is more difficult, and where writing new business for us has been also more difficult. But overall, we have seen a less than 2% rate decrease in commercial insurance last year.

Our issue in commercial insurance, Tom, in 2007, and I expect it will continue somehow in 2008, has been the shift towards small accounts from a top line point of view, has been a hit in the 3 to 4% range throughout the year. And this is directly driven by what I just explained, where we have grown our small accounts, but have had a tough time writing new business in mid to large accounts. And therefore there is a 3 to 4% impact on the top line and commercial lines, just as a result of this shift in mix, which in my view is a sign of discipline, and because smaller accounts are profitably consistently over time, that is not a bad thing.

Tom MacKinnon - ***Scotia Capital - Analyst***

All right, thank you.

Charles Brindamour - ***ING Canada - President, CEO***

Pleasure, Tom.

Operator

(OPERATOR INSTRUCTIONS) Your next question comes from John Reucassel of BMO Capital Markets. Please proceed.

John Reucassel - ***BMO Capital Markets - Analyst***

Thank you. Charles, just on the insured risk growth, it was a little more modest this quarter, you mentioned because of the premium rates and personal auto, and you have had pretty good growth rates there over the last year or so. What would you expect, what should we expect on insured growth going forward, outside of, when you are talking about your premium increases here?

Charles Brindamour - ***ING Canada - President, CEO***

Yes, if we look at the full year, our units in personal auto were growing in the 3 to 4% range. This, in the fourth quarter, has been lessened, I would say as a result of the new business or the rate changes we have made in personal auto, but has also been impacted by the rate changes we have made in personal property, because close to more than 50% of our policies are combined home and auto policies. And therefore this has had an impact on our personal auto growth rate in the fourth quarter.

I expect, John, that this is a timing issue, and that over time we will grow organically at speeds comparable to what we have seen earlier in 2007, but I think that as the market adjusts to trends throughout 2008, there might be in personal automobile, periods with maybe less growth in the first half of 2008, than we have seen in the first half of 2007 from a unit point of view.

I am comfortable with that situation because I think it is very important to react to trends as quickly as possible, because it is an opportunity for us to expand the ROE advantage, and I think that if there is growth slowdown comparable to what we have seen in the fourth quarter, it is only a timing issue, and reacting early to trends is giving us a position to grow faster later in my view, and I think it's important to be as such.

Mark Tullis - ***ING Canada - CFO***

I think another factor to remember is we had very good growth last year in Q4 in personal auto, so as we look at the quarter-over-quarter, we are comparing with the growth in a quarter where we had very high growth.

John Reucassel - ***BMO Capital Markets - Analyst***

Okay, okay. On the buyback, a lot of companies do the normal course issuer bid, just, and be opportunistic and may or may not ever complete much, or any of the repurchase program. Are you guys intent on executing most of that program, or how are you approaching the normal course issuer bid here?

Mark Tullis - ***ING Canada - CFO***

Right. First of all, we are pleased to be able to do a normal course, last year because of some regulatory issues that we had to work through, we did the SIB instead of the normal course, but we were able to work out all the arrangements with the regulatory authorities this year and do the normal course.

As you pointed out, it does give us flexibility so as things arise during the year, if we have opportunities for capital usage, the advantage to normal course gives us is that we can suspend purchases. But our intent is to utilize that during the year, and make regular purchases throughout the year, and in the event that we don't have strategic options come up during the year, we would intend upon exercising all of that throughout the year.

John Reucassel - ***BMO Capital Markets - Analyst***

Okay, okay. And then last question, just ask you what response I get is ING Groep did sell their Mexican P&C business. What should investors in ING Canada, should they draw any implications from that?

Charles Brindamour - ***ING Canada - President, CEO***

No. I think that the sale of the Mexican operation is a repositioning in Latin America. The Groep sees lot of opportunity for growth there in wealth management and retirement services in general, and that is essentially the rationale behind the change. I think that while P&C is not a core business for the Groep, they have provided us with the tools and the flexibility with the IPO in 2004, to pursue our growth strategy here, and that is really the story there. So there are no specific implications for Canada as a result of the Mexican transaction.

John Reucassel - ***BMO Capital Markets - Analyst***

Okay, thank you.

Charles Brindamour - ***ING Canada - President, CEO***

Pleasure.

Operator

Your next question comes from [Jean Vibert] of Putnam Investments. Please proceed.

Jean Vibert - ***Putnam Investments - Analyst***

Yes. I just wanted to follow up on the last question. I had the pleasure of getting up very early this morning and listening to the ING Groep call, where they once again reiterated their intent to focus on four core businesses, which don't include non-life, and a question came up at the very end of the call, about whether or not investors should anticipate more sales in the non-life arena.

And the answer was a little bit difficult to interpret, but something to the effect that where there is a positive statement, there are consequences, and I was left with the impression that perhaps there was more to be done in terms of refocusing the parent. Is that, does that jive with your understanding?

Charles Brindamour - *ING Canada - President, CEO*

You know, as I mentioned in answering John's question, I think that the Groep through the IPO in 2004, has provided us with the tools to grow organically, while limiting their investments in Canada. I think they will retain their 70% participation through the normal course issuer bid as we talked about this morning, and while ING Canada is not a core business of the Groep, and this is not new, it continues to be a very profitable investment for ING. And I think this has been the Groep's position in the last few years, and still is the Groep position.

Jean Vibert - *Putnam Investments - Analyst*

Okay, thank you.

Charles Brindamour - *ING Canada - President, CEO*

Pleasure.

Operator

Ms. Dodokin, there are no further questions at this time. Please continue.

Michelle Dodokin - *ING Canada - VP, IR*

Okay, thank you everyone for participating. The webcast of this call will be archived on our website for one year. A telephone replay will be available at 1:00 today until Thursday, February 27. The replay number is 1-877-289-8525, or 416-640-1917. The passcode is 21261391.

Our first quarter results will be released on May 14, 2008. That concludes our conference call for today. Thank you for attending.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect your lines. (OPERATOR INSTRUCTIONS-French)