Q3 2016 Earnings Call

Company Participants

- Alain Lessard, Senior Vice President, Commercial Lines
- Charles Brindamour, Chief Executive Officer
- Darren Godfrey, Senior Vice President-Personal Lines
- Louis Marcotte, Chief Financial Officer & Senior Vice President, Finance
- Patrick Barbeau, Senior Vice President-Claims
- Samantha Cheung, Vice President-Investor Relations

Other Participants

- Brian Meredith, Analyst
- Doug Young, Analyst
- Geoffrey Kwan, Analyst
- Jaeme Gloyn, Analyst
- Kai Pan, Analyst
- Mario C. Mendonca, Analyst
- Meny Grauman, Analyst
- Paul Holden, Analyst
- Tom MacKinnon, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Tiffany and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financials Third Quarter Results Conference Call. Thank you. Samantha Cheung, Vice President of Investor Relations, you may begin your conference.

Samantha Cheung {BIO 19462616 <GO>}

Thanks, Tiffany, and good morning, everyone. Thank you for joining the call today. A link to our live webcast and background information for the call is posted on our website at www.intactfc.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 this conference call.

Joining me today are Charles Brindamour, CEO; Louis Marcotte, CFO; Darren Godfrey, SVP of Personal Lines; and Alain Lessard, SVP of Commercial Lines; and Patrick Barbeau, SVP of Claims. We'll begin with prepared remarks, followed by a Q&A session.

With that, I would like to turn the call to Charles to begin his remarks.

Charles Brindamour {BIO 7012323 <GO>}

Good morning, everyone, and thank you for joining our call. Earlier today we announced third quarter net operating income of CAD 1.01 per share through absorbing CAD 0.93 per share of cat losses. It was clearly a challenging summer as many of our customers faced severe weather conditions including multiple hail, wind and rainstorms. As usual, our troops across the country worked hard to help our customers get back on track.

We were pleased to see our top line grow 5% in the quarter all organic. Clearly our new product lines telematics software and improved digital experiences continue to pay off, particularly in personal lines. On the commercial side, while growth was negatively impacted by tough conditions in the West we continue to see benefits from rate increases and the introduction of new products for a sharing economy.

Despite 8.1 points of cat losses, we delivered a combined ratio of 97% with two points improvements in the underlying loss ratio. That being said, personal auto's performance was choppy given intense hail activity and the fact that upcoming rate increases and the full impact of recent reforms is not yet fully felt. Our commercialized performance continues to be excellent.

Our operating ROE remained healthy at 13.4% particularly in light of our strong capital position and the impact of elevated catastrophes. When comparing ourselves to the industry, we outperform by 680 basis points on ROE for the first half of the year. We ended the quarter with a strong balance sheet, CAD 881 million of excess capital and our book value per share grew 10% for year-over-the-year to CAD 41.47.

Let's now look at our third quarter results by line of business. So, personal auto grew 5% thanks to our telematics software, the continued success of Quick Quote, as well as the strength of our marketing initiatives. While growth was solid, the combined ratio deteriorated by 9.9 points to 104.3%, impacted by severe weather, lower favorable prior year's claims development and some cost inflation.

We estimate that weather represented approximately 8 points of combined ratio from catastrophes and other non-catastrophe weather events. To address, cost pressure rates increases are being implemented across the country. This rate momentum, combined with our claims action plans, finer risk selection and additional benefits from recently implemented reforms will improve our auto results within 12 months.

When it comes to the industry outlook for auto, we continue to anticipate a rational competitive environment with low to mid single-digit growth in the coming 12 months as rate increases are implemented to address cost inflation. In personal property, premiums grew 8% as new products and continued rate increases were deployed in favorable market conditions.

The combined ratio of 99.7% included 18.8 points of catastrophes from severe weather. Our underlying results were very good having improved 8.2 points year-over-year on the effectiveness of our profitability actions. When we look at our performance so far this year, a combined ratio of 96.4% after absorbing losses from Fort McMurray and severe summer weather storms that were well positioned to meet our 95% target combined ratio on a full-year basis, even in bad times.

In terms of the industry outlook for personal property, there is no change there. We expect recent weather events will prelaunch the firm market conditions in personal property with mid to upper single-digit growth over the next 12 months.

In commercial P&C, difficult conditions in Western Canada upset rate increases leading to flat premium growth. With that said, our commercial P&C business delivered an outstanding combined ratio of 81.3%, one of the best quarters in recent years. The underlying current year loss ratio improved 3.2 points from last year from the success of our profitability action.

Commercial auto premiums grew 7% in the quarter, mainly driven by new products aimed at the sharing economy. The combined ratio improved substantially by 8.4 points to 88.6% on the heels of strong underlying result. Our actions are working so far and we're on the right path to maintain a low-90s (06:37) combined ratio in that line of business.

With respect to the outlook for commercial lines, the industry remains competitive but market conditions are firm leading to low single-digit growth in the coming year. In summary, while the quarter's underlying results are disappointing at 97%, the underlying performance in our property lines and commercial auto improve meaningfully. A strong testament to the resilience of our operations.

Personal auto was a drag on our performance in Q3, but the actions we're taking will have a positive impact over the next few quarters. We're also making good progress on several of our strategic initiatives. Our product offering for the sharing economy is gaining momentum with the growth of car sharing services in Ontario, Alberta and Quebec.

With the coverage we provide to Uber and Turo, two leaders in the sharing economy, the drivers and customers we serve are well insured. We continue to develop innovative solutions to leverage these emerging opportunities. On the digital front, we reached a milestone with 1 million online quotes for our auto products through Quick Quote, our online quoting engine. This translates into about CAD 100 million in new business premium since its launch in early 2015.

On the back of this success, we launched Quick Quote for homeowners where customers can get a quote in two minutes on average. Consumers are reacting well to a simpler, faster and easier experience.

On the claims front after a successful start in Calgary, we recently launched a new service center in Ottawa. It is well received so far. To give you some perspective on capacity, our Calgary service center serviced 2,000 customers since its launch in February. Beyond an easier experience and higher quality repairs, we have reduced the repair time by about 25% for those customers using the Intact centers. We remain on target to open our Toronto location later this month, while Montreal is targeted for early 2017.

Finally, we're also pleased to have made progress in building the strength of our two core brands. In recent national research, 30% of Canadian named Intact Insurance unprompted when asked to think of home and auto insurance provider, up 7 points from last year. This is an all-time high. Intact Insurance is a relatively new brand, but truly gaining momentum. Furthermore, belairdirect was not far behind at 27%, up 4 points nationally.

Clearly, the initiatives we have in place are making a difference and we're on the right path to build the Intact Insurance and belairdirect as household names. In conclusion, while we had a tough quarter the business continued to show its resilience. Our initiatives are paying off in driving solid top line growth and outpacing the industry. Our actions continue to drive underlying results improvement. That being said, our team is relentless in driving initiatives to protect our business against natural disasters and improving personal automobile profitability.

In addition, we've seen material progress on our strategic initiatives, particularly with regards to our digital leadership, the expansion of our distribution, and the sharing economy. Our focus on offering a customer experience that is second to none combined with our financial strength, places us in a very strong position to benefit from the environment in which we compete. So I'm confident that the strategy we have in place will continue to help us outperform the industry ROE by at least 500 basis points and grow our net operating income per share by 10% per year overtime.

And with that, I'll turn the call over to our CFO, Louis Marcotte.

Louis Marcotte {BIO 18040440 <GO>}

Thanks, Charles. Good morning, everyone. Although Q3, 2016 was a challenging quarter for Intact with CAD 166 million in net losses from multiple catastrophes, our operations still generated CAD 137 million in net operating income. Our operating ROE was 13.4%, we have a very strong capital position with CAD 881 million of excess capital and our book value per share is up 10% from Q3 last year.

Our operations have again shown their resilience in the face of adversity, with solid earnings and a strength of balance sheet. When I look at our overall underwriting activities, we improved our underlying current year loss ratio by 2 points in the quarter to 62.8%. Thanks to our profitability initiatives. All lines of business contributed to the improvement except for personal auto, which experienced some uptick in frequency and severity, most of which relates to a rise in claims from hailstorms.

Prior year claims development was favorable across our businesses consistent with our long-term expectations, but 2 points below Q3 last year, which had benefited from favorable development in the industry books (12:00). Even if the summer of 2016 seemed long, warm and beautiful for many Canadians, some of our customers placed a high number of severe weather events. This resulted in 8.1 points of CAT losses, twice as high as last year and well above our expectations.

Given the frequency in severity of catastrophe losses in the recent past, we have revised our expectation for the future annual run rate from CAD 200 million to CAD 250 million, half of which are still expected to occur in the third quarter. This takes into account the growth of our business as well as loss mitigation and product changes being rolled out in response to changing weather patterns. We also expect the firm conditions to continue for another 24 months as insurers adapt to these changes.

Net distribution income grew 7% in Q3 to CAD 30 million from growth in our broker network and higher profitability. For the full year of 2016, we expect to report slightly above CAD 110 million in net distribution income and this amount should grow north of 15% in 2017. Our investment portfolio continues to deliver consistent investment income slightly below last year at CAD 102 million as expected. Although average net investments increased 6% to CAD 13.6 billion from operating cash flows and mark-to-market gains on common and preferred shares, this was offset by a lower reinvestment deal.

We continue to expect investment income to decline marginally in dollar terms over the next 12 months. We reported net investment gains in the quarter of CAD 17 million, a sharper improvement from last year's losses of CAD 64 million. Favorable equity markets led to realize gains on our equity portfolio compared to net losses and high impairment charges last year.

In summary, we reported quarterly earnings per share of CAD 0.91, CAD 0.04 lower than last year as the impact of elevated catastrophe losses was largely offset by net investment gains and lower impairments. A few comments on our financial position. Our balance sheet remains very strong, our MCT stands at 215%, 3 points higher than at the end of Q2. The improvement reflects capital generated from our operations, favorable equity markets and the phase-in of MCT guidelines, less dividends and investments made.

Our total excess capital amounted to CAD 881 million at the end of the quarter, while our debt to total capital was 19%. Our investment portfolio's unrealized gained position increased materially from Q2 to CAD 258 million. We executed on our buyback during the quarter purchasing some 52,000 shares for a total cash outlay of CAD 5 million between the launch of the program and the end of Q3, we spent CAD 37 million on the buyback with an average price per share of CAD 87.84.

Our capital deployment strategy remains unchanged and while our priority is to invest in growth opportunities, buying back shares at times when the market price may not fully reflect the intrinsic value is irresponsible use of our capital.

In conclusion, with strong underlying results in property lines and commercial auto, we continue to focus our efforts on improving results in personal auto with our usual discipline in energy. We believe the actions we are taking in personal auto combined with the favorable conditions in other lines will drive improved results in the next 12 months.

We still believe there will be continued consolidation of the domestic P&C industry both in manufacturing and distribution, and we will be active participants.

Our balance sheet is in great shape, and we are ready to tackle opportunities as they arise. Our earnings have proven their resilience to adversity. Thanks to our business and regional mix, the contribution of our distribution and investment activities and the strength of our insurance operations across the country.

With that, I'll return the call back to Samantha.

Samantha Cheung {BIO 19462616 <GO>}

Thank you, Louis. Tiffany, we're now ready to take questions. In order to give everyone a chance to participate kindly limit your questions to two per person. And if there is time, you may (16:26) a follow-up. Thank you.

Q&A

Operator

Your first question comes from the line of Kai Pan with Morgan Stanley. Your line is open.

A - Charles Brindamour {BIO 7012323 <GO>}

Good morning, Kai.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning. Thank you. So, first question on the personal auto side, you mentioned there are 2-point deterioration because of moderate increase in frequency in severity as a result of non-CAT weather as well as some cost inflation. Can you give a little bit more color on that to say breakdown between what do you think is kind of one-off non-CAT weather and the sort of underlying attrition loss inflation? And also what pricing action you're taking right now? You mentioned that you expect will fully offset by early next year. I just wonder what gave you that confidence.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. Thanks for your question. I think Kai, maybe what we could do is give you a full perspective of the automobile performance, not just on frequency and severity, but what we've seen at the CAT level, what we've seen in prior-year development, and give you a little more color on some of the actions we're taking because at 104% combined ratio, for me, that warrants color. So, I'll ask Darren to give you his perspective on that, and we'll address specifically your question in the exercise.

A - Darren Godfrey {BIO 19791482 <GO>}

Thanks, Charles. So, yeah, as Charles and Louis both mentioned in their opening remarks, a disappointing quarter to 104.3%. Let me break down some of the components. I'll start with CATs 6.2-point CATs in the quarter, up 2.8 compared to Q3 of last year, mostly attributable to multiple hailstorms in Alberta, clearly exceeded our expectations. It was real tough summer for automobile in Alberta due to hail activity.

In terms of PYD, clearly we see some fluctuations quarter-to-quarter in terms of PYD. We had (18:3) swing in this particular quarter with respect to personal auto, 4 points to that gap is attributable to the favorable PYD that came from pools last year. And also versus some slightly unfavorable PYD in the pools this year, but I should say that the pools for Q3 of 2015 was abnormally high.

Another element of the PYD, is we continue to see development on Alberta BI claims. We're not seeing acceleration, nothing new that's consistent with the trends that we've seen in the past quarters. On a year-to-date basis, PYD is still favorable at 3.7% of net earned premium. So, just to put that in the context of the quarter.

Now when I turn to the current accident year, just over 2 points of deterioration, as you mentioned, a little bit of an impact from claims frequency and also from severity. And this was offset by a slight increase in rates.

So, when I look at the rates in particular, and I'll go into more detail here in a moment in terms of what we're doing for our future rate actions, there's a currently a bit of lag between written and earned right now, as far as rate increases in personal auto. We already have great momentum in the portfolio, as evidenced that the gap between written and earned is higher in the month of September versus the quarter.

So, when I turn to frequency now, largely due to non-CAT weather in Alberta when we exclude the non-CAT weather impact from Alberta, the automobile frequency is relatively flat compared to Q3 of 2015. We did see a slight uptick in the frequency in Ontario from a UBI data when we compared to Q3 of 2015 we have seen an increase in the number of trips that our customers booked in that period. We've also seen an increase in the length of those trips as well.

We attribute these mostly to the favorable summer weather experienced in Ontario, with few days of precipitation in Q3 year-over-year. The remaining provinces, however, outside of Alberta offset the increase that we saw in Ontario. On a year-to-date basis, however, I should say is that we don't see this as a longer-term trend as frequency is down year-over-year. I should say though, it is clear though that UBI data continues to provide further additional data points for assisting the earlier identification of potential trends.

In terms of severity, slight increase in the quarter again mostly due to non-CAT weather losses in Alberta similar impact that we saw on frequency. Driven by more comprehensive claims, more hail claims which have a higher severity than other physical damage coverages.

A - Charles Brindamour {BIO 7012323 <GO>}

Darren, why don't we talk about what we have in the pipeline to improve the performance in persona auto?

A - Darren Godfrey {BIO 19791482 <GO>}

Sure, so Charles when I look coast-to-coast, if I can, so let's start with Ontario. We have seen and we continue to see normal claims inflation in the system. The rate increase that we talked about in the last quarterly earnings call is now effective. We continue to file for further rate increases. In addition in terms of the reforms that we saw in July, we expect to see further benefits from them playing out in the coming 12 months. We expect to see from those reforms an additional 2 points of loss ratio improvement in 2017, as some of those reforms are on a policy renewal effective basis as opposed to a loss of current (22:28) basis.

So, in addition to the rate increases that we have flowing plus the reform impact, we have mid-single digits of loss ratio improvement already baked into the portfolio in Ontario. When I look at Alberta, as we've previously mentioned we increased rates by 8% in Q2. Earlier this week, we received approval for an additional 2.4% rate, effective January 1, 2017. And we're also preparing future further filings for the spring of 2017.

Look at all those rate changes in aggregates, we have upper single digits of loss ratio improvement already baked into the Alberta portfolio. Not to leave out the other provinces in the Atlantic consistent with last quarter, we're increasing rates and we also have further rate filings being prepared. And again, in Quebec, we continue to increase rates after a long period of flat or declining prices.

In terms of the rate changes themselves, they're all heavily segmented. In addition, our UBI program performing well, attracting a better quality customer. We have strong new business penetration in Ontario, Quebec, and the Atlantic with UBI. And we'll be introducing our UBI offer in Alberta in Q1 of 2017.

Now, if I look at the auto portfolio now on a year-to-date basis, current accident year is flat compared to 2015 with a slight decrease in frequency, as I mentioned earlier, offsetting a comparable increase in severity together with a flat rate change. When I look at what we see from a frequency, from a severity standpoint, when I look in terms of the rate action that we have, we have strong plans in place. We have strong plans in place also in underwriting and also in claims actions plans as well.

This is what varies very much by province to province, but many of these actions are already in play. So, given the right momentum we currently have, what we know will be flowing through the portfolio in the coming quarters, our segmentation strategy improvements in our risk selection models, together with additional Ontario reform impact due to flow through in 2017, we believe that the actions will provide a positive impact on the coming quarters.

A - Charles Brindamour {BIO 7012323 <GO>}

Thanks. Kai...

Q - Kai Pan {BIO 18669701 <GO>}

That's very comprehensive, thank you so much for that. And as my second question on the capital management side, you have close to CAD 900 million excess capital. And on the merger acquisition front, there are recent press report about you might be looking at especially insurance company in Bermuda. And also on the buyback front, you have CAD 600 million authorization with six buyers in February, and you only bought back CAD 37 million out of that. And you mentioned your book value grow 10% year-over-year, but stock hasn't moved anywhere. So, I just wonder why wouldn't you be more aggressive on the buyback front.

A - Louis Marcotte {BIO 18040440 <GO>}

So Kai, as you know, our main priority is deploying capital on growth opportunities. I don't think we'll comment on rumors. But as you know, we are on the lookout and interested in the consolidation. So, at the first premise in launching the buyback is really doing it opportunistically, but maintaining the priority of (26:08) capital for growth opportunity that would come about. So, our view today remains the same. We still think there's consolidation to be happening. The best use of capital for us is deploying it on growth. And on the buyback, we launched it to take opportunities in the market when the price of our stock is well below intrinsic value, and that's what we're doing. And I don't think our view has changed in that respect.

A - Charles Brindamour {BIO 7012323 <GO>}

No, when I think, Kai – when you think about our two big financial objectives, one is ROE outperformance and the other one is net operating income per share growth, both those financial metrics have an important capital component to it. If you sit on fat capital, this depresses your ability to outperform from an ROE point of view and capital deployment as a lever or income per share growth. So, rest assured that when we feel that the excess capital we have is a burden on our performance in relationship with visibility we have on growth opportunities, we'll be more aggressive from a buyback point of view.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Thank you so much for all the answers.

A - Louis Marcotte {BIO 18040440 <GO>}

Thank you.

A - Charles Brindamour {BIO 7012323 <GO>}

Thank you.

Operator

Your next question comes from the line of Geoff Kwan with RBC Capital Markets. Your line is open.

A - Charles Brindamour {BIO 7012323 <GO>}

Good morning, Geoff.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Hi. Good morning. My first question was, I know we're only kind of month into it, but there's been a number of kind of continuation of wind storms and rainstorms and whatnot, and just wanted to get any color that you have on what Q4 is kind of shaping up like. And then, on a similar note, given what we've seen in the past few quarters, and I know you don't want to necessary react to maybe one or two quarters of data, but do you feel like what you've seen in the past couple of quarters might suggest pricing some of your lines of businesses might need to change from here or is it in line with how you guys think about the business?

A - Charles Brindamour {BIO 7012323 <GO>}

So, I'll ask Patrick to give you his perspective on the start of the quarter. I will then ask Darren and Alain to give perspective on pricing in home insurance as well as in commercial lines. So, Patrick.

A - Patrick Barbeau {BIO 18476397 <GO>}

Yes, fairly simple. So far, we had, after the end of Q3, two events, two main events. One is – sorry.

A - Charles Brindamour {BIO 7012323 <GO>}

Maritimes.

A - Patrick Barbeau {BIO 18476397 <GO>}

Yeah, the one is the Matthew Hurricane, (28:49) of the Matthew Hurricane that's hit the Maritimes. And the other one is another rain event in Quebec in last weekend, not the one that we've had with October 21. Those are the only two events, most of the CATs we expect in Q4 is usually in October. So right now, it's not very different than...

A - Charles Brindamour {BIO 7012323 <GO>}

No.

A - Patrick Barbeau {BIO 18476397 <GO>}

...what we would expect.

A - Charles Brindamour {BIO 7012323 <GO>}

There's not a story there, I think it is – it is, as far as we're concerned, in line with what one would expect at this point in time. That being said, look, we came out of the summer with a view in home insurance that more needed to get done. I think Louis was very clear that we've increased our expectation, and that translates into what we believe will be continued rate increases despite the fact that we're convinced that our offering today at its price is geared to operate sub-95% in bad times, and I would say, 2016 is one of those very bad years from a natural disaster point of view. Nine months into the year, we're at 96% in home insurance. That being said, our view is the industry ought to do some more work. We're growing in that environment, and we will get some more rates in that segment for the foreseeable future. And I think this extends our outlook in home insurance probably from 12 to 24 months of the hard market. Darren, I sort of stole the punch there but maybe you want to add a bit of color.

A - Darren Godfrey {BIO 19791482 <GO>}

Yes, the only thing I would add there, Charles is, in the quarter itself, we had just under 4 points of rate already flowing through our personal property portfolio. So, we do definitely have right momentum within the portfolio, we have the further rate increases planned pretty much coast-to-coast in personal property. In Alberta in particular, probably hitting a little harder in terms of segmented rate increase, we're also looking to further enhance our product to respond to the increase in hail activity as well too, so there're probably some high-level changes that we're looking here.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, I think in home insurance, I will see, despite the natural disaster, this is a segment that we would be very comfortable growing at a faster clip if the market lent itself to faster growth because we're very comfortable with our product. We're very comfortable with our rate position. I think it's been tested in the past year. We're seeing the current accident year improved 8 points, and so we like what we're seeing there and we think the market conditions lend themselves to us continuing the transformation we started in that line of business.

I think we're spending a bit uptime in commercial lines, in particular, property, I think we like what we're seeing there as well. But I'll let Alain talk about that.

A - Alain Lessard {BIO 17592535 <GO>}

Okay. Thank you, Charles. So, Geoff maybe a bit of context, we said we believe the market is in a firm position, not in a fairly firming, but basically remaining firm. We pushed in the last quarter 3% of rate on renewal and our retention is still holding, so that lets us that the market is still in a position to accept rate increase and experience rate increase on that side, that's the 13th quarter in a row that we've been pushing rate. It's slightly lower than it was a year ago, more in the 4%, but it's still continuing on that. And we believe, like we said, what keeps the market firm is low interest rates and there're certainly no sign of interest rate moving upwards and also elevated losses in the market. And the situation like Fort McMurray in the second quarter is another point that leaves the elevated losses very high. So, we think there's an opportunity and a situation where the firm market will continue for a few quarters.

On the commercial auto side, clearly the trucking business was really firming and we're seeing in that market a very firm market. On the regular automobile, although things are very competitive, we see signs that there is a bit momentum on increasing rates. Our rate increase in the third quarter are in the range of about 2.5%, but that's on the top of the product reform in Ontario, so we're talking of an effect of about 4.5% rate increase in total, and that's higher than what we saw in the first and second quarter. And at that level, our retention again is still holding. So, we see a bit of momentum on the automobile, and that is probably on the fact that 2015, we saw the industry combined ratio in commercial auto probably north of 100%. So, there is a need for increase on that market, so we see good momentum on that side.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Okay, thank you for that. And just my second question, just following up on Kai's question around the M&A. I understand you obviously were not going to talk about specifics transactions, but can you maybe talk about kind of the tone in the industry or what you're kind of looking at, is it things are kind of a bit more in a holding pattern or maybe if you can just provide a little bit more insight about what you may be looking at or what may be going on domestically as well as outside of borders?

A - Charles Brindamour {BIO 7012323 <GO>}

I think, if I look domestically, there have been transactions this year. Again, one notable one for sure. And so, our view has not changed. I think domestically, near mid-term 15 points of market share will change hands. I think that there are disconnects, I think, between what people might expect and what the value might be. But we think consolidation will continue to take place in the domestic marketplace, and this is not a long-dated forecast. I think when I look at distribution in the domestic marketplace, that's very active. And we're deploying capital in small chunks, but in businesses that are doing really well, and I think this will help fuel our distribution profit later in 2016, but more importantly in 2017, as we mentioned, we expect to grow our distribution income, north of 10%. And portion of that is driven by the fact that we're able to deploy capital there and could deploy more or would deploy more.

I think in terms of – so, that's priority number, it's to deploy capital here both from a manufacturing and distribution point of view, and I think it's a good environment for that. That being said, there are very clear thresholds that we're using to deploy capital. And so long as we cannot meet those thresholds, we're holding on to our capital.

I think when it comes to abroad, I mean, the risk consolidation at the industry level outside Canada as well, and I think we're still prudent from that point of view. But as we've talked to investor over the past few years where we have an interest in exploring what's going on abroad, and one shouldn't read rumors. And what I just said, as a validation of these rumors at all, I think our thesis has not changed there, there are opportunities, priorities is in Canada.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Okay. Great. Thank you.

Operator

Your next question comes from the line of Jaeme Gloyn with National Bank Financial. Your line is open.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yeah, good morning.

A - Charles Brindamour {BIO 7012323 <GO>}

Good morning.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

First question is related to the commercial auto segment and the onboarding, I guess, of Uber and Turo. It looks like rate increase is up about 15% year-over-year. I was just wondering if you could sort of break out what would be I guess organic rate increase and what's related to Uber and Turo. And then, I guess how you see that evolving as you bring Quebec online for Uber and potentially other sharing economy related sources?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, I think, by the way, we view Uber and Turo as organic as well, but we might give you a perspective if we excluded those numbers. These are big growth levers. I think there is a lot of...

A - Alain Lessard {BIO 17592535 <GO>}

I think without pointing and give you an exact number to tell you how much we collect from Uber and Turo, I can tell you that the majority of the growth you see in commercial auto in the quarter is driven by the sharing economy that was about Uber and Turo. Like I said, this is – we have basically three months of operation with Uber, which is the larger share of that part. And technically, this is usage base of that. So, how much will that grow is very much related to how much it's going to be used with the adding of the automobile piece in Quebec starting on October 2017, we'll have new premium coming in for that size. But as Uber operates in more city, as they become more popular in the city, they're being used, our premium will grow on that side. But being only three months, not having a view on the seasonality of the usage and things like these, I think it's early to say to what extent and to what level it will grow. But clearly, this is a major impact on our volume in the next 12 months.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. And then, second question relating to investment income. I just noticed a tick-up in income from loans and other, is there a shift in strategy from fixed income to potentially other sources of yield? And I guess a follow-up to that is, what are some of the strategies that you're employing to enhance yield either in upcoming quarters or down the road?

A - Charles Brindamour {BIO 7012323 <GO>}

So, yeah, I think, overall, we're not reaching for yield. Our asset mix has not changed meaningfully. We're very much fine-tuning the products we've been operating in for a while. I think, Louis, you might want to give some more color. But look, our thought process here is that we're operating with ROE targets. And when we operate in the low interest rate environment, our troops on the front line know that they have to step up from an underwriting performance point of view. I mean, this is a communicating base and reaching for yield to (40:17) return, that's not how we run the business. I'll let Louis give a bit of his perspective there.

A - Louis Marcotte {BIO 18040440 <GO>}

Well, you're right, so I think we're trying to diversify the portfolio a bit, but it's marginal. It's on the edges. And we're not trying to increase yield through taking more risk, that's very clear. And I would say from another interest income from loans, those are related to our broker investments. So, in some cases, we have loans, some cases we have equity. And the uptick is what you're seeing from the broker loans.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. Great. Thank you.

Operator

Your next question comes from the line of Paul Holden with CIBC. Your line is open.

Q - Paul Holden {BIO 6328596 <GO>}

Thank you. Good morning.

A - Charles Brindamour {BIO 7012323 <GO>}

Good morning, Paul.

Q - Paul Holden {BIO 6328596 <GO>}

First question is related to your reinsurance coverage and understanding you're probably negotiating for January renewals, so it might be a little sensitive there. But want to ask following the Q3, where the CAT losses were a matter of frequency versus severity, if you're giving any thought in terms of changing the structure of how your reinsurance coverage works to give you more protection against these smaller CAT events?

A - Charles Brindamour {BIO 7012323 <GO>}

So, maybe, Alain, you could give a high-level perspective on the reinsurance market conditions.

A - Alain Lessard {BIO 17592535 <GO>}

Yeah. I think like you said, Paul, this is a bit sensitive at this point, so as we're renewing in January 1. But when we look at our price and our situation in the market evolving reinsurance, it's pretty much an international market. So, when you look at what happened in Canada and when you look what happened worldwide, you see probably a different picture as there had been CAT mainly in Q2 and some frequency in Q3 in Canada. So clearly, the Canadian piece of the reinsurance is affected, and there will be maybe some adjustment on some of the bottom layers, but the overall international CAT market have been very good to a reinsurer, and we believe it's still a favorable environment for buyer. So, we'll see probably a different approach on different layer of our program for 2016, and I think that gives you a bit of a picture of internationally.

I think we have to look at Canada, but we also have to look at the international market. And this has been very favorable to reinsurer internationally. So, I think that puts us in a favorable position overall on the program, but clearly, there will be some thinking some adjustments on layers.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, for me, Paul, it's not very sensitive. Let's be very clear. At the top of the program, there's a lot of capacity. There's a lot of option. There's a lot of people who want to participate in our program. At the bottom of the program, it might get a little more expensive, but our attachment points in relative terms is very, very low. So, for reinsurers who might try to get better condition than they deserve, we can easily just not reinsure the bottom of the program. So, it's not very sensitive. We have a bunch of options from a negotiation point of view that we're prepared to act upon. And as such, we're excited about the renewal season.

Your second point is about frequency versus severity of events. I think that, you folks understand well natural disasters, what it means to products, pricing and so on. And there is so much margin that we should pay to the reinsurer to avoid noise because I think if investors understand the noise might as well keep the margin for us and explain it from quarter to quarter. That being said, if there are opportunities and if there is capacity to reorganize around frequency of lower event, we'll explore these as we have with the aggregate cover last year, we thought there was a market opportunity.

So, for us, when it comes to reinsurance, everything is on the table. And we're looking forward to the negotiation that is taking place these days.

Q - Paul Holden {BIO 6328596 <GO>}

Okay. Thanks for that. And then, second question is related to growth and distribution income. So, your guidance for 2016 was 10% or higher, we're running at 5% year-to-date, so does that mean that there is something that hasn't transpired in terms of growth that you would have thought was going to transpire at the beginning of the year or we're just looking for really big Q4 result?

A - Louis Marcotte {BIO 18040440 <GO>}

And also you heard our guidance for the full year, just above CAD 110 million. We gave 10% guidance last year that will take us closer to CAD 115 million, and I would say, the GAAP is really, the actual results of the year and how that impacts the profitability of each of the brokerages. With regards to 2017, when we actually plan the results for individual brokers including past acquisitions, that's the rate of growth we're expecting to see next year. So, it's obviously improved profitability next year and just absorbing past acquisitions and the impact they will have on our results.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, I think, Paul, it's important to keep in mind that the portion of the distribution income is profit sharing from the carrier that are represented in our distribution operation and when the industry's performance diminish a little bit, the profit sharing that a broker gets and that some of the brokers where we're invested including BrokerLink which we own, will diminish a bit and you've got probably a few million dollars below plan there. That also means though that manufacturers like Intact Insurance would end up being less profit sharing, when the performance is less than what we have anticipated in part because of natural disaster.

Q - Paul Holden {BIO 6328596 <GO>}

Understand, that's helpful. Thank you.

A - Charles Brindamour {BIO 7012323 <GO>}

So, directionally no change from a distribution point of view as far as I'm concerned.

A - Louis Marcotte {BIO 18040440 <GO>}

Absolutely.

A - Charles Brindamour {BIO 7012323 <GO>}

Very pleased with the margins there and the return on the capital deployed.

Operator

Your next question comes from the line of Tom MacKinnon with BMO Capital Market. Your line is open.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yes, thanks very much. Good morning.

A - Charles Brindamour {BIO 7012323 <GO>}

Good morning, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Just continuing on that distribution income, did I hear Louis right, looking for north of 20% growth in 2017, was that correct in distribution income?

A - Louis Marcotte {BIO 18040440 <GO>}

No, north of 15% next year.

Q - Tom MacKinnon {BIO 2430137 <GO>}

North of 15%, next year?

A - Louis Marcotte {BIO 18040440 <GO>}

That's right.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay.

A - Louis Marcotte {BIO 18040440 <GO>}

So, it might be above CAD 110 million this year, and then add 15 – a bit more than 15% next year.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay, 15%, is that right? Or north of 15...

A - Louis Marcotte {BIO 18040440 <GO>}

That's right.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay, so, 15% on top of CAD 110 million.

A - Louis Marcotte {BIO 18040440 <GO>}

Yes.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Right? Yes. And then, just with respect to the increase CAT load, help us understand how that translates into pricing in personal property in particular and maybe some of your commercial lines. Like presumably, if you're thinking of a higher CAT load, does that not translate into increase in prices associated with these kind of property.

A - Charles Brindamour {BIO 7012323 <GO>}

No, absolutely. And I think Tom, that's the point I was making a little bit earlier. I mean, we're seeing the current accident year performance and home insurance improved by 8 points. Rates are up in the single-digit rate or -ish percent, and we will increase that in the coming months across the land. And our view is that the firm market environment will continue probably beyond 12 months in the home insurance, and so absolutely baked in our thought process and in our plan. I mean, we wouldn't increase our view on CATs without taking action on rates and product. That being said, I think the product right now is geared to generate sub-95% in real bad times which is 2016 is an example, but we feel the market.

As people come to the realization that natural disasters are more important than they were, we feel the market offers the opportunity to move on rates, and so we think that that will be in a hard market environment for a good 12, 24 months there. To a lesser extent in commercial lines, I would say because a big portion of the natural disasters home insurance driven has had an impact in commercial lines but to a lesser extent.

Q - Tom MacKinnon {BIO 2430137 <GO>}

So, if we were to take up our CAT load in personal property, you anticipate that to the underlying combined ratio, should -or the reported should still some – the underlying combined ratio should adjust accordingly, and then we would sort of come back to the same kind of reported combined ratio we would be thinking of prior to the increase in CAT load, is that what you're sort of projecting (50:13)?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, I think that it fits the – it's not a bad way to read this, Tom. Everybody has a view that defer from one another which is good, but directionally speaking, our actions are very consistent with what you've just described.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks for that.

Operator

Your next question comes from the line of Meny Grauman with Cormark Securities. Your line is open.

Q - Meny Grauman {BIO 15238080 <GO>}

Hi. Good afternoon.

A - Charles Brindamour {BIO 7012323 <GO>}

Good afternoon.

Q - Meny Grauman {BIO 15238080 <GO>}

Good afternoon, Charles. One of your competitors, global competitors recently was quoted as saying something that I thought interesting, and I wanted to get your reaction. He was talking about the underwriting advantage that you could get from a broader insurance model, and he was quoted as given example, he said if you're a pension customer, you're 6% less likely to claim on your home insurance and they had algorithms that can use that to their advantage. I'm just wondering your reaction to that or maybe your thoughts on this issue of a broader product offering and its impact on the ability to underwrite better.

A - Charles Brindamour {BIO 7012323 <GO>}

Well, I think the – so, I'm not sure who you're referring to and that doesn't matter so much, it's an interesting point, there's no doubt about that. I think that we observe – we establish at Intact the expected profit per customer with all the information we have on customers including other product they have with us. And if I look at, the segmentation work that our actuaries and data folks are involved in, and I stack the predictability of variable in order of importance, I would say that having other products such as home insurance and predicting car insurance is interesting, but far and less predictive than the sort of stuff we collect on telematics, for instance and so on.

So, I wouldn't deny that this has some value, but I think in the world of productiveness, I would say other products would be low on the totem pole so to speak compared to other rating variables. And as you might know, we're studying 2.5 billion kilometers driven from that data we've collected from our customers in the past couple of years and observing 15 new raw data points, 30-ish derived data point, and the sort of stuff we find in there in terms of risk selection is probably more powerful than anything we've worked on before.

So, my view is that with, additional data sources, big data in particular, that's where the future is in terms of predictability, more so I think than the other products that one might have. I'm sure that's some predictive value, but there's nothing like focus when it comes to outperforming the market.

Q - Meny Grauman {BIO 15238080 <GO>}

Thanks for that. Very helpful.

Operator

Your next question comes from the line Doug Young with Desjardins Capital Market. Your line is open.

A - Charles Brindamour {BIO 7012323 <GO>}

Doug, how are you?

Operator

Doug Young, your line is open.

Q - Doug Young {BIO 5640851 <GO>}

Sorry, I apologize. My mute button was on.

A - Charles Brindamour {BIO 7012323 <GO>}

No problem, Doug.

Q - Doug Young {BIO 5640851 <GO>}

I'll still (54:01) in...

A - Charles Brindamour {BIO 7012323 <GO>}

We didn't get your question though.

Q - Doug Young {BIO 5640851 <GO>}

You didn't hear that?

A - Charles Brindamour {BIO 7012323 <GO>}

No.

A - Louis Marcotte {BIO 18040440 <GO>}

No.

Q - Doug Young {BIO 5640851 <GO>}

Louis, sorry. First, the – you mentioned something about, and I apologize because I missed this, it was an increase to CAD 250 million from CAD 200 million, can you clarify what that was related to again? Sorry.

A - Louis Marcotte {BIO 18040440 <GO>}

Yes, that's the future run rate for CATs. So, we have been indicating that our expectation was CAD 200 million in past, we're raising that to CAD 250 million for the future, but we still maintain that half of that will occur in Q3. So, that's our expectation for CAT loss in the future.

Q - Doug Young {BIO 5640851 <GO>}

Okay. And then, the other item, you mentioned that there is, in personal auto, there is 2.3 points of non-CAT weather losses, what's the comparable number in Q3 of 2015, do you have that handy?

A - Louis Marcotte {BIO 18040440 <GO>}

Yeah. It's...

Q - Doug Young {BIO 5640851 <GO>}

And if not, we can follow up.

A - Louis Marcotte {BIO 18040440 <GO>}

No, but it's about 1 point lower than.

Q - Doug Young {BIO 5640851 <GO>}

Point lower, okay and then just lastly, Charles, and I know you've mentioned this from...

A - Charles Brindamour {BIO 7012323 <GO>}

Doug, I think when explaining the non-CAT frequency numbers, and we're seeing a frequency up mildly in the quarter, that's in large parts where it's coming from.

Q - Doug Young {BIO 5640851 <GO>}

Okay, so even if we back those two items out, you still have the loss ratio deteriorating, but it's just the result of what you just mentioned essentially.

A - Charles Brindamour {BIO 7012323 <GO>}

Right.

Q - Doug Young {BIO 5640851 <GO>}

Okay and then just lastly, it looks like the prior year reserve development as a percent of opening reserves is more in line with what your historical average has been, so 3.6%, is this – and I know I've asked this question before, it feels like a more normal quarter from prior reserve development, is that fair characteristic or is there anything I'm missing either positive or negative that you think this is too low of a number or too high or a number?

A - Charles Brindamour {BIO 7012323 <GO>}

I think directionally you're reading this right, but I would say personal automobile probably has less favorable development than what we would like to see.

Q - Doug Young {BIO 5640851 <GO>}

Okay, perfect. That's all I've got.

A - Charles Brindamour {BIO 7012323 <GO>}

Not favorable, but less than probably what one would expect in auto.

Q - Doug Young {BIO 5640851 <GO>}

Okay, thank you very much.

Operator

Your next question comes from the line of Brian Meredith with UBS. Your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thanks. Charles, a couple of quick questions here. First one just on commercial auto, was there anything unusual happening in the quarter just with respect to premium, written risk was down but premium was up pretty significantly?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, good observation, Brian. Alain, why don't you give our perspective?

A - Alain Lessard {BIO 17592535 <GO>}

I would say, Brian, when it comes to commercial lines we'll always be cautious about the number of risk because there's a lot of noise in going that and in this case, what we see there is probably the biggest impact is on the sharing economy where we see multimillion-dollar premium, but I think for the sharing economy in total we have about six or seven unit. So I think that throws the number completely off and after that, the unit are affected by a near-cap (57:15) policy where we have a single vehicle and it can be CAD 600 or CAD 700 compared to the other side, multiple fleet or where we have lots of premiums, not as many units or anything, so I think the true exposure of what's happening is really measuring the premium and this is how we compare to the market because the unit considering the fact that the risks are far from being homogenous can be really thrown up in either direction with a few little things.

A - Charles Brindamour {BIO 7012323 <GO>}

But I think in general, Brian, fleets tend to skew big time the relationship between risks or units and premiums from quarter-to-quarter.

A - Alain Lessard {BIO 17592535 <GO>}

Yes, and maybe as an add-on on the earn piece, all the volume that is coming from the sharing economy is on a written earned basis because we basically are earning as we write every usage based on every quarter. So there is a bit of disruption also going on between the written and the earned coming from the sharing economy.

Q - Brian Meredith {BIO 3108204 <GO>}

Great and then, Charles, just a quick update. How the speciality growth is going right now, commercial?

A - Charles Brindamour {BIO 7012323 <GO>}

Specialty lines is doing very well. We've announced the creation of a new division in May under the leadership of Joe D'Annunzio. We're making good progress on that front. The combined ratio in that segment is solid. I'll ask Alain to give you a bit of perspective on the growth of that division, but certainly making excellent progress there.

A - Alain Lessard {BIO 17592535 <GO>}

There's a lot of lines of in business in the speciality lines, but the growth in the quarter is about 9.2%. Again, a lot of that is driven by the sharing economy but we're seeing a very good momentum there. I would say not only on the volume but also on the level of expertise and people we attract where the objective was to grow our line of business and grow our expertise, thank you very much. So, I think this is really moving in the right direction. We have probably within that two lines where we're doing remediation. Like we said, trucking is really undergoing a lot of corrective action and some large account in one of our provinces are also undergoing action there and that's put a drag a bit under growth, but at 9.2% in the quarter that's close to our target to reach CAD 1 billion in five years.

And on the combined ratio, results are very good, 80.2% so far in the quarter in 2016 and 85.5% for year-to-date. So results are really in line with where we want them to be.

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, so I think we're trying to grow that business sub-90s and this is a segment of the market where we're under represented so you'll understand our appetite to on one hand not disrupt the market, on the other hand be much bigger in that market.

Q - Brian Meredith {BIO 3108204 <GO>}

Thank you.

Operator

Your next question comes from the line of Mario Mendonca with TD Securities. Your line is open.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Good morning, or afternoon. Charles, you went through a pretty comprehensive list of pricing increases in personal auto and I expect you've done all the work you need to satisfy yourself that you won't be giving much up from a market share perspective but what have you done or is it safe to say that from a political perspective that there is a political will for those price increases and that you satisfied yourself on that front as well?

A - Charles Brindamour {BIO 7012323 <GO>}

So what we've talked about this morning, Mario, is what has been approved, as opposed to some of the other actions we will take, and the issue right now is what has been approved that's not yet rolled through the earnings, but it's in the system being written at the moment. So, in relationship with what we've been talking about today, I'm very comfortable.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

So I may have misinterpreted them? There was no comments about expectations of future filed for rate increases.

A - Charles Brindamour {BIO 7012323 <GO>}

None of the quantification that we've talked about. I think we might have mentioned we will potentially take more in the future, but what we've talked about in terms of concrete actions is in the system.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

So the reference is – thank you for that. The reference is then to low single-digit or perhaps mid-single digit improvements in the underlying claims ratio, those are doable with the already approved rates increases, not future rate increases?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Okay, that's helpful.

A - Charles Brindamour {BIO 7012323 <GO>}

That's exactly right. I will say this ,Mario, though – look the product in automobile insurance is a framework that the government provides. I mean the government designs the products, they establishes the cap on minor injury and so on and they certainly have a role to play. We're very active in all jurisdictions. The Ontario Government is certainly very proactive as well on that front. The last front of reforms that they've ruled out were really looking forward to see their impact in the coming period. I don't think one should assume this will not get political though.

This might, but I think people are fairly proactive and where people are not proactive, we're spending a lot of time with them to show how they can help themselves in the exercise by modifying the product.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

Or year and half away from another election on Ontario, anyway, so this won't be topical for some time I suspect. Let me just sort of drive onto another issue though, and this is very specific and perhaps it's too granular. The reserve development in auto, you made an important there that it's not what you wanted to be, is there any, can you point to anything in Ontario AB or Accident Benefit that may have affected the reserve development this quarter and may perhaps on a go-forward basis?

A - Charles Brindamour {BIO 7012323 <GO>}

No.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

No, nothing there?

A - Charles Brindamour {BIO 7012323 <GO>}

No.

Q - Mario C. Mendonca {BIO 2450557 <GO>}

I appreciate your time. Thank you.

Operator :As we are now out of time for questions, ladies and gentlemen, I will now turn the conference back over to our presenters for closing remarks.

A - Samantha Cheung {BIO 19462616 <GO>}

Thank you all today for your participation. Following this call, the telephone replay will be available for a period of one week, while the webcast will be archived in our website for a period of one year. A transcript will also be available in the quarterly financial archive. Our Q4 and year-end 2016 results will be released on February 8. Thanks again and this concludes our call for today.

Operator

This concludes today's conference call. You may now disconnect.