Q4 2019 Earnings Call

Company Participants

- Charles Brindamour, Chief Executive Officer
- Darren Godfrey, Senior Vice President, Commercial Lines
- Isabelle Girard, Senior Vice President, Personal Lines
- Ken Anderson, Senior Vice President, Investor Relations and Corporate Development
- Louis Marcotte, Senior Vice President and Chief Financial Officer
- Patrick Barbeau, Senior Vice President - Claims

Other Participants

- Brian Meredith, Analyst
- Geoff Kwan, Analyst
- Jaeme Gloyn, Analyst
- Meny Grauman, Analyst
- Paul Holden, Analyst
- Tom MacKinnon, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Intact Financial Corporation Fourth Quarter 2019 Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session.

(Operator Instructions)

Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Ken Anderson, Senior Vice President, Investor Relations and Corporate Development. Thank you. Please go ahead.

Ken Anderson {BIO 16846692 <GO>}

Thank you, Cheryl. Good morning everyone and thank you for joining the call today. A link to our live webcast and published information for this call is posted on our website at intactfc.com under the Investors tab.

Before we start, please refer to Slide 2 for cautionary language regarding the use of forward-looking statements, which form part of this morning's remarks, and Slide 3 for a note on the use of non-IFRS financial measures, an important note, some adjustments, terms and definitions used in this presentation.

Joining me here in Toronto today are Charles Brindamour, CEO; Louis Marcotte, CFO; Darren Godfrey, SVP of Commercial Lines, Isabelle Girard, SVP of Personal Lines, and Patrick Barbeau, SVP of Claims.

We'll begin with prepared remarks, followed by Q&A.

With that, I'll turn the call to Charles.

Charles Brindamour {BIO 7012323 <GO>}

Good morning, everyone and thanks for joining us today. Last night, we announced strong fourth quarter results with net operating income per share of CAD2.08. That's an increase of 8%, driven by strong underwriting results and growth in distribution earnings. For the full year, net operating income per share was up 7% to CAD6.16 and brought operating ROE to 12.5% with an 11% increase in book value per share.

Top line growth was 12% in the quarter, driven by 13% growth in Canada, and a solid 5% in the US, after exiting Healthcare. The fourth quarter combined ratio was 91.5%, with solid performance on both sides of the border. US commercial posted 88.8%, a good indicator of our progress towards sustainable low-90s performance. The combined ratio in Canada was 92% with strong underlying performance.

In Canada, we continued to see hard market conditions. This comes as no surprise. Weak profitability across all lines remains an industry challenge. Through Q3 2019, the industry posted a 12-month ROE of 4%. As we started to take action over three years ago, our ROE outperformance is running at 790 basis points at the end of Q3, well above our 500 basis points objective. Our focus is on returning operating ROE to the mid-teens.

Let's now look at our results by line of business, starting here in Canada. So it was a good quarter for personal auto. Premiums were up 15%, driven by rates, mix and customer growth. Combined ratio of 96.5% was our best fourth quarter performance in five years, driven by earned rate increases and the success of our claims and segmentation actions. Our auto business is well positioned moving forward. We're growing at double digit with a strong focus on quality and sustaining mid-90s performance.

Personal premiums were up 9%, driven by rate increases as well as customer growth. The combined ratio was solid at 82%, despite CAT losses above historical fourth quarter averages. For the year, the combined ratio was 92.5%. So as we've mentioned before, this segment should be operating sub-95, even in bad years and 2019, we think, was a good example of meeting that objective.

In commercial lines, continued momentum from rate increases and hard market conditions drove 12% premium growth in the quarter. Combined ratio of 93.5% included approximately 7.5 points of losses from catastrophes. Looking at the full year, a 96% combined ratio is not good. Both CATs and large losses were elevated in '19. However, the fundamentals in commercial are strong, and we're maintaining our focus on underwriting quality in favorable market conditions. While there may be some bumps along the road, this business is very well positioned for low-90s performance.

Let's turn to the industry outlook for Canada. So in auto, we expect to see upper single-digit industry growth in the coming year as weak industry profitability continues and capacity remains tight. In personal prop, we expect the challenging weather will continue to drive mid-to-upper single-digit growth. In Canadian commercial lines, growth in the double-digit range can be expected as the industry continues to struggle with underwriting profitability.

Overall, we expect the hard market conditions in all segments in Canada to continue until the industry's profitability has evolved closer to its historical 10% ROE level.

We move to our US commercial segment. So despite the exit from the Healthcare business, premiums grew a solid 5%. Our action plans to improve profitability are showing progress. Combined ratio was quite strong at 88.8%, even with favorable seasonality in the quarter. We're executing well in the US, and we're on track for sustainable low-90s performance by end of 2020. The market continues to harden. We expect mid-to-upper single-digit premium growth for the US commercial industry over the next 12 months.

Now if we turn to strategy, so as we outlined at our Investor Day, we've been fairly successful in delivering on our strategies and exceeding our financial objectives over the last 10 years. And '19 was another strong year with progress on many fronts. We have advanced our customer-driven digital transformation, adding many new features and functionalities to our digital and mobile platforms. We continued to bolster our data and risk selection capabilities for meaningful investments in AI. We see strong evidence that these investments will support the achievement of our financial objectives in the next decade.

And with the recent acquisitions, we've advanced many pillars of our strategy. The Guarantee and Frank Cowan added to our scale in Canada, bolstered our North American specialty platform and opened up a new pipeline of distribution earnings. With On Side Restoration, we began a push to go deeper in the supply chain, to improve customer experience, capture margins and expand capacity in that space for all Canadians.

All this progress would not be possible without our greatest asset, our people. For the fifth year in a row, we were named as one of Concentrix best employers and were again recognized as a top employer for young people. Our employees are at the forefront of everything we do, and I want to thank them for another outstanding year. They really make a big difference.

We had a solid year behind us, a strong balance sheet and a favorable outlook for capital generation. We're pleased to increase our quarterly dividend by 9% to CAD0.83 per share, continuing our 15-year track record of annual increases. Moving forward, we're firmly focused on delivering on our strategies and financial objectives in the decade ahead.

And that begins with four near-term priorities; first, we aim to capitalize on the current favorable market conditions on both sides of the border. Second, we'll work to deliver on the opportunities brought by the acquisition of Guarantee and Frank Cowan's platforms. Third, we'll continue to advance our customer-driven digital transformation to deliver best-in-class experience to our customers. And lastly, with the underlying improvements we brought to our North American specialty platform, we can now look to better leverage our distribution capabilities through both organic and inorganic opportunities.

But looking more broadly, climate change continues to shape our industry. Extreme weather events in Canada have increased five-fold over the past 30 years, and events both at home and abroad are clearly demonstrating the need for climate change adaptation. Building resilience is a collective effort. At Intact, we'll continue to remain very active on this front, working with brokers, governments and communities to help Canadians adapt to severe weather, protect the environment around us and make our communities more resilient.

So in conclusion, '19 was a solid year. We head into 2020 with the best team, sustainable competitive advantages and a sharp focus on positioning the business for the long-term while making the most in the short term. There is no doubt in our mind that we are well positioned to beat our objectives of outperformance and operating earnings growth for years to come.

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

Louis Marcotte {BIO 18040440 <GO>}

Thanks, Charles, and good morning, everyone. In the quarter, net operating income was up 8% to CAD303 million. This was driven by a strong 9% growth in underwriting income, driven by top line growth and margin improvement. Strong distribution results also contributed to our earnings growth. In Canada, the combined ratio of 92% was solid, despite 4.8 points of CAT losses. Both weather and non weather-related events drove CAD111 million in CATs on a pre-tax basis, well above expectations, leading to our press release on January 8. In the US, we delivered a solid combined ratio of 88.8%, partly reflecting the seasonality of our operations, but also good progress on profitability improvements.

Net investment income of CAD142 million was down 1% compared to last year as the impact of higher invested assets was offset by lower reinvestment yields. We estimate net investment income in 2020 will grow by approximately 4% compared to 2019. Distribution EBITDA and other income grew 7% to CAD45 million in the quarter, including the results of both On Side and Frank Cowan.

For the full year 2019, distribution EBITDA was up 19%, driven by a strong year for broker revenues as well as M&A activity. We continue to expect 20% growth in distribution income in 2020. There is no doubt our businesses have delivered solid operating results in the second half of the year. Although we measure ROE on a last 12 months basis, the ROE for the second half of 2019 gives us confidence in our near-term mid-teens ROE objectives.

Now let me provide some additional color on the underwriting results beginning with Canada. Personal auto written premium growth of 15% was fueled by rate increases of 7%, unit growth of 2% and the remainder to mix. With such levels of growth, we continue to focus on the quality of the portfolio. Written rate changes in the system will drive earned rate growth north of 7% into the second half of 2020.

Auto profitability was solid in the fourth quarter at 96.5% with a 1.4 point improvement in the underlying current year loss ratio. Although Q4 is generally impacted by unfavorable seasonality, 2019 Q4 performance was driven by our continued profitability actions. Prior year development was muted in the quarter, as expected, and we expect it to remain muted in the near term.

In commercial lines, premium written growth was robust at 12% with contributions from all segments, led by rate increases. The combined ratio of 93.5% included CAD36 million on -- of non-weather catastrophes. The Canadian expense ratio of 27.8% for the quarter improved across all lines, mainly driven by rigorous expense management and the benefit of growing premiums.

Turning to US commercial, top line growth of 5% was largely impacted by the exit of Healthcare business. However, excluding exited lines, this segment had solid growth of 13%. The underlying loss ratio of 53.4% in the quarter improved 2.2 points, which was driven by the exit of Healthcare and a positive impact from business mix.

Favorable prior year reserve development of 1.6% was better than expected with strengths across all ongoing businesses. We continue to expect little impact from prior year development in the near term. The US expense ratio of 36% was 2.3 points higher than Q4 last year, largely driven by variable compensation and mix. For the full year, the expense ratio of 37.6% was in line with our expectations.

While we delivered a solid quarterly performance in US at 88.8%, results in this segment can be volatile quarter-to-quarter, and one should not extrapolate our Q4 results to all future quarters. We remain committed to delivering a sustainable low-90s combined ratio from our US business on an annual basis, and I think we are well on our way. Focus is now on sustainability, and we'll need a few more quarters before declaring victory.

Exiting Healthcare was one key step we took earlier this year to improve our future results. At year end, we took a further step to protect our results by reinsuring the runoff Healthcare business. In short, we transferred most of our current and unearned exposure to a third-party for a fee. The net result of the transaction is included in the results from exited lines.

Now a few words on our balance sheet. We ended the year in a strong financial position, with total capital margin in excess of CAD1.2 billion. In Canada, our MCT was 198% and in the US, the RBC regulatory capital stood at an estimated 457%, both well above minimum required levels. Our debt-to-total capital ratio was 21.3%, slightly above our 20% target level, following the acquisition of The Guarantee and Frank Cowan. This strong position provides us flexibility to capture future growth opportunities.

During the quarter, we grew book value per share by 5% sequentially to CAD53.97. This was mainly driven by earnings and the share issuance to partly finance the acquisitions of The Guarantee and Frank Cowan. With a strong balance sheet and confidence in our outlook for growth and profitability, we are pleased to raise our quarterly dividend by 9% to CAD0.83 per share. This represents an 11% annual dividend growth rate since our IPO in 2004.

In closing, with a talented team, robust operating platforms and solid fundamentals, we're well positioned to execute on our financial objectives to outperform the industry ROE by 500 basis points and grow net operating income per share by 10% over time.

With that, I'll turn the call back to Ken.

Ken Anderson {BIO 16846692 <GO>}

Thank you, Louis. In order to give everyone a chance to participate in the Q&A, we would ask that you kindly limit yourselves to two questions per person. If there is time at the end, you can certainly requeue for follow-ups. So Cheryl, we're ready to take questions.

Questions And Answers

Operator

(Operator Instructions) The first question comes from Tom MacKinnon of BMO Capital Markets. Please go ahead. Your line is open.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah. Thanks very much. Good morning. Questions about the exited lines. The CAD34 million charge you took in the exited lines, it sort of -- it doubled quarter-over-quarter, just kind of curious as to what the outlook of this should -- what we should be modeling this to be going forward? I see that you bought some new coverage for the health. And maybe you can talk about what prompted that? Was that covered in the old 200 coverage you had and how much of that 200 coverage is left? Thanks.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. To your question, I mean the double impact is very much driven by the protection that we bought and charged in the quarter. I'll let Louis give a bit of color on that. Louis?

A - Louis Marcotte {BIO 18040440 <GO>}

Yeah. So at the very end of the year, we decided to acquire a reinsurance to protect ourselves against any development in healthcare going forward. This basically covers us from 20 -- for the years -- accident years 2017 to 2019. And the cost -- the net cost of the coverage of '13 is included in the exited lines results. So that's really the jump, I would say, that you've seen in the quarter compared to previous quarters.

A - Charles Brindamour {BIO 7012323 <GO>}

Going forward, to your question, Tom, our expectation is that this should be immaterial to our -- to the overall economics of the business because I think we're reserved and protected properly for these things. The other thing is, the exited lines are becoming more mature now. I mean we've exited two of the three lines pretty much at closing and so healthcare is the latest one. And we think we've got good protection anyways.

Q - Tom MacKinnon {BIO 2430137 <GO>}

So the 34 in the quarter, should we look at that kind of as a run rate for 2020 or running at something less than that?

A - Charles Brindamour {BIO 7012323 <GO>}

No, I think you should think about that as less, if not much less than that because a big chunk of the 34 is driven by the exit of Healthcare and the protection we bought and the premium we paid for the protection is in that number. And that's a one-time, obviously.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. And how much of the cover -- of the 200 coverage is left?

A - Charles Brindamour {BIO 7012323 <GO>}

I think at this stage, I would say, three years in, we've used a good chunk of it, but given the maturity of the exposure, we feel that we're in good shape.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. And just if I can just squeeze another one. With respect to integration and restructuring costs, I mean, they jumped in the quarter. Should these come back down again? And same thing about the amortization of intangibles?

A - Louis Marcotte {BIO 18040440 <GO>}

So on the integration costs, obviously, they fluctuate with acquisitions. So it should not come as a surprise right after an acquisition that the numbers jump as we take actions to integrate. So that will fluctuate with our transactions, And as the integration process goes on, you'll -- we had in the past, the OneBeacon integration that drove some of those numbers. Now it's the GCNA transaction. So there is some drag driven by these elements.

In terms of the amortization of goodwill, that number depends effectively on the transaction. So new transaction, we had a bit of goodwill, we'll drive some increase in the amortization for the portion that's amortized. And that's what you've seen in Q4 essentially.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks very much.

Operator

Your next question comes from Meny Grauman of Cormark Securities. Please go ahead. Your line is open.

Q - Meny Grauman {BIO 15238080 <GO>}

Hi, good morning. Just going back to the exit lines and specifically the reinsurance coverage on the Healthcare. I'm just wondering what surprised you in the Healthcare business that pushed you to take on this reinsurance coverage?

A - Charles Brindamour {BIO 7012323 <GO>}

Well, I think that there's two issues when it comes to the Healthcare business as you might recall, we have put it under a profitability improvement plan at closing basically. And I think that there's two dynamics in that space that we felt were problematic. One was inflation, but the other one is the fact that because of healthcare reforms in the US, services being provided in various types of healthcare facilities have shifted. And as such, the exposure that one takes in writing those facilities has changed in the past few years, and we felt that pricing for that business was too complex for our capability and decided to exit.

Q - Meny Grauman {BIO 15238080 <GO>}

So was the reinsurance coverage, sort of, the plan all along? Or is it more of a recent development?

A - Charles Brindamour {BIO 7012323 <GO>}

The reinsurance coverage comes from the fact that we've decided to exit that segment, and we wanted to make sure that the year '17 to '19 would not be a drag on results going forward. Wanted to close the door and move on to running our continuing businesses as best we could.

Q - Meny Grauman {BIO 15238080 <GO>}

Thank you. And then just a broader question. Definitely, a lot of -- has been discussed and written about just the rise of social inflation in the US. It's come up a lot. So Charles, I'm just wondering your views on the risk or on this phenomenon? And especially just in terms of the frequency and magnitude of verdict, especially in the United States, but if you could touch on Canada as well?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. I mean, we've been focused on this for many years. We have talked about the sources of inflation in liability for many years. And therefore, we're not really surprised that a number of the moves we have made in terms of exiting lines in the US were very much driven by the fact that we felt that pricing for the sort of liability exposure that we took in areas like architects and engineers and healthcare and programs really hard to do.

So I'll let Patrick, who runs our claims operation, as you know, share his perspective on that, but I think it's -- these are words we use -- that are being used in the industry more frequently, but certainly not a new phenomenon as far as we're concerned.

A - Patrick Barbeau {BIO 18476397 <GO>}

Right. The -- no, we can't define, broadly speaking, social inflation as tendency of court decisions to become more favorable to plaintiffs over time. Either because of new types of liabilities, just an increased amount of litigation in our products over time or a few adverse decisions that sometimes can open door for more similar cases to be brought in front of the courts going forward.

You might recall a few years back, when we're talking about Western Canada, there were decisions around chronic pain that created cost inflation in that line of business, and we reacted with some response from a claims perspective as well as reflecting proactively in our pricing and reserving assumptions those trends.

So clearly, not new. As Charles mentioned, even before the acquisition in the past with OneBeacon because of volatility caused by such trends, we exited some lines of business. So we will be proactive in managing our risk appetite to reflect where this cost pressure is more significant in the states. Here in Canada, it's really around personal lines mostly that this is -- and we've kept out eyes very close to it.

One last point I would mention is our strategy to internalize the claims, legal work is probably an asset that helps us understand more even before many others, how this is developing. We have more than 400 lawyers internally and legal professionals, and we internalize 70% of our defense costs. So that allows us to be one proactive, but also understand well those trends in our lines of business.

A - Charles Brindamour {BIO 7012323 <GO>}

Exactly. And I think the fact that we bought protection for the past -- when we entered the US as a first step in the US is a reflection that there is inherent volatility in liability in the US that is not new over the last six months that's very much been a core part of doing business in the US and social inflation is something I think Warren Buffett was talking about in the 80s. And so I don't think people should be overly surprised by the trends there.

Q - Meny Grauman {BIO 15238080 <GO>}

Thank you.

Operator

Your next question is from Brian Meredith of UBS. Please go ahead. Your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thanks. Two questions, I guess the first one, Charles, I'm looking at the improvement that you saw in your Canadian commercial line's underlying loss ratios. You described it as kind of the earn rate coming through tempered by higher losses. That was a pretty meaningful improvement. Is that something that we can kind of expect going forward that magnitude of improvement?

A - Charles Brindamour {BIO 7012323 <GO>}

I'll let Darren, who's been one month of the -- on the job comment on that.

A - Darren Godfrey {BIO 19791482 <GO>}

Thanks. Brian. Yeah. I mean, as you say, I mean, nearly 5 points of underlying improvement, supported slightly by a more favorable weather year-over-year in Q4. But as you highlight, rate increases continue to flow through the portfolio. We definitely have good momentum there. So we're encouraged in terms of the improvement that we are seeing. Obviously, as you could tell in our results, a little bit of large loss activity as well too, so that's a little bit of a counter to some of the underlying improvement that we're keeping a very close eye on. But with the fundamentals remain strong in the commercial lines portfolio, obviously, the 96% combined for the full year is disappointing. But as I said, the fundamentals remain strong, and we still believe that the portfolio is well positioned for low-90s performance.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. And so if you look -- if you take a year-over-year approach, you should see, we expect underlying improvement to take us in a zone that's closer to low-90s.

Q - Brian Meredith {BIO 3108204 <GO>}

The low-90s, great. And then the second question, just looking at the personal auto business, it looks like we're about to see some year-over-year policies force growth. Do you think that's going to happen next year? Or should we see kind of a good acceleration there given your competitive positioning right now in the marketplace?

A - Charles Brindamour {BIO 7012323 <GO>}

The market is quite hard in personal automobile. You know that we have started to take action three years ago. And I think now there's momentum in that space. It's been, I shouldn't say surprising, but the speedup change is certainly impressive. I will let Isabelle give her perspective on top line and how she feels about quality of the growth. Go ahead, Isabelle.

A - Isabelle Girard {BIO 21256467 <GO>}

Thanks, Charles. Yes, we're seeing growth in personal auto in the second half of 2019, and we feel that we're well positioned in the market. And given that now competitors are catching up on rates to improve their profitability. So our focus now is really to make sure that the quality is there. So that's something we monitor closely on a regular basis and to make sure that we're comfortable with what we see. Of course, that's a line that we'll keep a close eye on, and we'll continue to take trades when needed, and that's our forecast for the coming months.

A - Charles Brindamour {BIO 7012323 <GO>}

I think Isabelle it would be helpful if you unpack the 15% for Brian.

A - Isabelle Girard {BIO 21256467 <GO>}

Yeah. Okay. Let's break down the 15% in the quarter. So main driver of growth in the quarter is coming from rates at about 7%. We also have an impact on -- coming from the written units that are increasing north of 2% in the quarter, and the remainder of the growth is driven by what we call mix. So we're attracting more new businesses, as I said, than last year because our competitive positioning has improved and new businesses has an average premium that is higher than our current book. That's creating a positive mix, and that's contributing to the growth that we see in personal auto.

A - Charles Brindamour {BIO 7012323 <GO>}

So, Brian, when we step back and look at the business, I would say today, we're very focused on the quality of the new business that's coming in because it is in a hard environment. We're comfortable with the adequacy of pricing, but the mix is changing. That's a function of the fact that we're growing in provinces that have higher average premiums, maybe a little faster than the average and then the mix itself as Isabelle was talking about.

Rates in the 7-ish percent range is what we expect to see throughout the year. I think that's good. And then you look at the units per se, and the units are still in the low-single-digit range. So on one hand, there is big focus on quality, which would say -- we're trying to temper some areas to the extent we can, on the other hand, we think there is still room for upside on the units and so we feel good about where we are from a pricing point of view, we feel good about the actions we've taken in relative terms much sooner than the market and we want to make sure that we grow in the right places, but it's good environment given what we've done.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Very helpful. Thank you.

Operator

Your next question comes from Geoff Kwan of RBC Capital Markets. Please go ahead. Your line is open.

Q - Geoff Kwan {BIO 7413168 <GO>}

Hi. First question is on personal auto. You've -- just talking about improvements that we're seeing on the DPW side, and you've generally talked about the mid-90s combined ratio. I'm just wondering in terms of how to look at that based on the crystal ball right now. Obviously, a lot can happen over the course of 2020. But would you say the bias of -- if you're not going to be in that mid-90s, is that given the price increases that you're seeing that it would potentially be better than 95%? Or is there something that you're seeing going on kind of percolating underneath that could result in potentially going the other way?

A - Charles Brindamour {BIO 7012323 <GO>}

I'll let Isabelle share her perspective on where she thinks we are and then I'll add a bit of color on what is percolating one way or another. So Isabelle.

A - Isabelle Girard {BIO 21256467 <GO>}

Yeah. So yeah, that's true. We have seen strong improvement in performance of personal auto in the last 24 and 30 to 36 months following our action plan. But I think there's still volatility in that portfolio given it's a long tail line of business. So far, we've done a successful job at reducing inflation with our action plans, but we know inflation still exist in this portfolio. So that's why we continue to push for rates into 2020. So we're taking a cautious approach, and we think we're in the zone we're shooting for, meaning in the mid-90s combined ratio. And I think that's what we can expect for the future, and we're comfortable growing in that environment.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. No. That's exactly right. We think we're in the zone where we said we'd be, and there's good momentum. There's no doubt about it. The action plans we put in place are gaining traction. There is inflation in the system. Therefore, we remain prudent from an underwriting, from a pricing, from a reserving point of view. And there's a meaningful tailwind of new business coming in. And as you know, you've got to be cautious with new business. We feel really good about where we are in personal automobile, but given where we're coming from, we're taking a cautious stance here and looking forward to grow in that segment.

Q - Geoff Kwan {BIO 7413168 <GO>}

Okay. Thanks. And then just my other question. The industry pools, we've seen elevated activity over the past couple of years by the industry as a whole. Just wanted to get your sense on the outlook in terms of the trend? Do you see this as a bit of the new normal? Or do you see this as more of a cyclical aspect? And then on the net-net, how has the experience been beneficial? Or has it been more negative with respect to the combined ratio?

A - Charles Brindamour {BIO 7012323 <GO>}

Isabelle, do you want to share your perspective on pools?

A - Isabelle Girard {BIO 21256467 <GO>}

Yeah. So yeah, increase in the volume of pools is clearly linked to our hardening markets. So people -- capacity is tightened. So it's more difficult for some risk to get insurance or some interest to be comfortable with some risk. So leading more to the pool. So I think as you said, it's really in line with the cycle we're in. And I think in terms of impact on our combined ratio, it's the pool's impacts are really volatile from quarter-to-quarter. So from an annual basis, it's a limited impact, and it's really volatile from a quarter to the next.

A - Charles Brindamour {BIO 7012323 <GO>}

Maybe we can ask Patrick to share his perspective. He's our representative with the FA. So might want to share your perspective on pricing and --

A - Patrick Barbeau {BIO 18476397 <GO>}

Yeah. So maybe a couple of comments I could had. When we talk about the pools, there's really two main parts. There's the facility association rate, which is really for clients who don't find a room within the private sector. They get written in what we call the farm residual market. And then there's the pools, which is more each company's sending to the pool, some risks where we feel we might be underpriced.

If I take the first portion, we filed rate based on the experience of that pool while [ph] this is not a drag on the industry. Usually, we file for the rate, and it's very close to adequacy. Of course, the other pool that is shared -- where the results are shared with the full industry, It is usually under priced. It's the risk that we feel we are underpriced, all the players going in. But because of our size and some of our models, we feel that in general do a slightly better job than the average at identifying those risks. So if anything, long term, it's slightly positive on our financials.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. Yeah. And the third point I would add is that with regards to the facility association, which in itself is an insurance company, we're one of the companies managing that, and we're getting paid for that. So when you stack our ability to seed well in reassuring pool, the fact that the facility association itself, we think is well-priced and the service fees that we're collecting as an organization. In aggregate, pool shouldn't be a meaningful drag, if anything, on our performance.

Q - Geoff Kwan {BIO 7413168 <GO>}

Okay. Great. Thank you.

Operator

Your next question comes from Paul Holden of CIBC. Please go ahead. Your line is open.

Q - Paul Holden {BIO 6328596 <GO>}

Thank you. Good morning. So first question I want to ask is related to impact capacity to grow premiums relative to regulatory capital. Is there an opportunity here to increase underwriting leverage or will you have to kind of grow in line with the value of your capital?

A - Louis Marcotte {BIO 18040440 <GO>}

So I would say here, I don't see an opportunity necessarily to increase our leverage. I think the capital required to absorb the growth accumulates over time. So there's a transition period between the day you write the business and the day the capital is required for it. And at this point, we're going to be able to absorb it in our current capital projections. We don't see any challenge there. Does it become an opportunity to leverage higher? Not clear to me at this point.

A - Charles Brindamour {BIO 7012323 <GO>}

I think there's very good earnings generation and relationship with the organic growth we can capture in the market. And we feel like there's no need to really increase the underwriting leverage or gearing. But the debt to total cap is 21.4%, and our objective is to get that back to 20%. So that we're in a position to strike if there were inorganic opportunities in the marketplace.

Q - Paul Holden {BIO 6328596 <GO>}

Got it. The second question I ask on something I'm just struggling a bit about is the -- your outlook for the industry ROE and the relative outperformance on the part of Intact, which you say, clearly, is going to be something -- you expect to be something higher than 500 basis points. The part, I guess, I'm struggling about is, why is a Intact analyst or investor should I care about the industry ROE? Like, is there still some kind of interconnection between your capacity to generate an ROE and where the industry sits.

A - Charles Brindamour {BIO 7012323 <GO>}

Well, I think that when we think about creating value and here, I talk in economic terms. It is about finding the right balance between growth and ROE. And the best way to create value in our space is to maximize ROE when the industry's performance is weak. And then make sure that we're comfortably above our cost of capital when the industry is stronger to grab as much growth as possible.

And this -- so that's the first point. I think in economic terms, driving the business to outperform is the best way to have the levers to maximize the economic proposition of the business, first point. Second, ROE outperformance equals moat as far as we're concerned, and moat equal ability to invest and ability to invest equals ability to outperform some more and to outgrow the industry. I mean, it's very much been our practice over time.

So I think, yes, one should absolutely look at and think about the ROE outperformance in assessing an opportunity because it is a sense of how you can take advantage of the market at different points of the cycle. So I don't know Louis, if there's anything you want to add?

A - Louis Marcotte {BIO 18040440 <GO>}

No, the way we structure the strategy is all aimed at outperforming, and we break it down into our claims operations, into our underwriting and capital management. And at the end of the day, we compare ourselves to the industry in those segments and really strive to keep our competitive advantage in those four segments.

So yes, for us, it's fundamental to outperform the industry. In an environment where the industry is running at four, first hard market conditions, which is a critical market behavior that we work with. And then when they return to historical levels, which were historically closer to 10, which we thought was close to cost of capital. Our performance was a fairly good indicator of how much economic value we were creating. So --

A - Charles Brindamour {BIO 7012323 <GO>}

The other thing, Paul, is that when you invest in P&C, you got to be ready to live with the fact that there is cyclicality in the business. There are natural disasters and so on, certainly true by quarter. And so to come at this thinking, there would be one flat ROE year after year, in my mind, means that you're missing opportunities.

And if you go back 20 years, and you look at the patterns of the industry's performance, it's ranged between 2% and 17%. And I would say, if the industry hits the top of the bracket, you want to make sure that AU outperform and grow in that environment. Not clear to me that running the business flat in a cyclical industry is the best way to create value. But I think you got to be ready to modulate. Our point is, it's got to be at least 500 basis points every year given the nature of the business, and we've built our strategy to do that. And if you look at the last 10 years, we've run at 700 basis points. So I think -- yeah, go ahead.

Q - Paul Holden {BIO 6328596 <GO>}

I was going to say, just to complete that, can you open kind of where you think the industry will be in 2020 and where that opportunity is between maximizing ROE differential and grabbing additional share. Because it's being blurred a bit, right, we're transitioning where we are in the cycle?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. I think that's the key question in my mind. And so we don't think the industry is going back to 10 in 2020. We think the industry should be somewhere in between four and 10, okay?

Now you look at where we are in the cycle, growing at about, let's say, 10% and now we're talking about Canada, and I think the US is probably not that far off, if you remove the noise of exited lines. Quite frankly, our objective is to get back to mid-teens ROE, okay? And once we feel we're there, this is where I think you capture growth and try to maximize margins where you can, depending on the market. We feel like, from a pricing point of view, we're very much in that zone, as we've talked about this morning. And given we're in that zone, we're open to growth. And if the market is hard to a point where we can exceed being in that zone from an ROE point of view, we certainly will do it. But we feel like we're in the zone where units of growth are very accretive from an economic point of view, and we remain focused on those. As you do that, then the units of growth are plentiful, you got to keep your eyes on quality.

And I would say, if you ask people, the people of Intact in the field, quality is the first word they will talk about. And if they don't, give me a call because somebody didn't understand.

Q - Paul Holden {BIO 6328596 <GO>}

All right. That's helpful. Thank you.

A - Charles Brindamour {BIO 7012323 <GO>}

Good.

Operator

There are no further questions at this time. I will turn the call back over to Ken Anderson. We did get one more question. So your next question is from Jaeme Gloyn of National Bank Financial. Please go ahead. Your line is open.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yeah, thanks. Just a real quick one on the investment income and where invested -- or the yield on invested assets might be headed this year. A little bit of a drawdown in Q4. Can you just sort of talk about the evolution of yields earned on that portfolio as we sort of enter a little bit of a lower rate environment here and the progression over the course of 2020?

A - Louis Marcotte {BIO 18040440 <GO>}

Sure. So we guided to almost 4% growth in the investment income. Easier for us to provide clear guidance on the dollar amount rather than the yield because the yield takes into account the market fluctuations of the asset base and sometimes gives unusual results. What we know clearly, the fixed income portfolio gets reinvested at lower yields right now. That's very clear. But it turns over at a pace of about 50% of the portfolio per year. So it takes a couple of years for the entire portfolio to switch over.

And our guidance for next year encompasses the fact that there's growth in assets on one hand. And the declining yields. So they sort of offset each other. And then you add the impact of GCNA, which drives essentially the 4%. So that's how we sort of have guided rather than trying to give a yield, which might fluctuate because of asset movements.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. And I think that when one thinks about how we're running the business, we're not reaching for yield in that sort of environment. I mean, we're -- pricing to achieve certain levels of ROE depending on the line of business. And when interest rates change, the underwriting margin is meant to compensate. And so this means that in practice, we're not expanding the risk envelope to reach for yield, but rather making sure that our prices are adequate across the board to achieve our objectives. Good?

Operator

I will now turn the call over to Ken Anderson for closing remarks.

A - Ken Anderson {BIO 16846692 <GO>}

So thanks, everyone, for joining us today. Following the call, a telephone replay will be available for one week, and the webcast will be archived on our website for one year. A transcript will also be available on our website in the financial reports and filings archive. Our first quarter 2020 results are scheduled to be released after market close on Tuesday, May 5.

So this concludes our call. Thank you, and have a great day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.