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Q4 2018 Earnings Call

Company Participants

- Alain Lessard, Senior Vice President, Commercial Lines
- Charles Brindamour, Chief Executive Officer
- Darren Godfrey, Senior Vice President, Personal Lines
- Ken Anderson, Vice President Investor Relations & Treasurer
- Louis Marcotte, Senior Vice President and Chief Financial Officer
- Patrick Barbeau, Senior Vice President, Claims

Other Participants

- Brenna Phelan, Analyst
- Brian Meredith, Analyst
- Doug Young, Analyst
- Geoffrey Kwan, Analyst
- Jaeme Gloyn, Analyst
- Kai Pan, Analyst
- Mario Mendonca, Analyst
- Meny Grauman, Analyst
- Meyer Shields, Analyst
- Paul Holden, Analyst
- Tom MacKinnon, Analyst

Presentation

Operator

Good morning. My name is Cheryl, and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corporation Fourth Quarter 2018 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions).

Thank you. Ken Anderson, Vice President of Investor Relations and Treasurer, you may begin your conference.

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

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intactfc.com under the Investors tab. Joining me here in Toronto today are Charles Brindamour, CEO; Louis Marcotte, CFO; Darren Godfrey, SVP of Personal Lines; Alain Lessard, SVP of Commercial Lines; and Patrick Barbeau, SVP of Claims. We will begin with prepared remarks followed by Q&A. As a reminder, the slide presentation contains a disclaimer on forward-looking statements which also applies to our discussion on this conference call. Charles remarks will cover Slides 5 to 11 and Louis will cover Slides 13 to 18.

With that, I will turn the call to our CEO, Charles Brindamour.

Charles Brindamour {BIO 7012323 <GO>}

Thanks, Ken. Good morning, everyone, and thanks for joining us today. Last night, we announced strong fourth quarter results with net operating income increasing 19% to CAD1.93 per share driven by broad based improvements across the business. For the full year, net operating income per share of CAD5.74 resulted in an operating ROE of 12.1%. Our balance sheet remains very healthy with over CAD1.3 billion of capital margin despite the recent market volatility. Top line growth was 4% in the quarter, fueled by strong growth in commercial and specialty lines across North America, as well as improving market conditions. Our combined ratio was strong at 91.7% with improvement both in Canada and the US. The Canadian performance at 90.8% reflects significant progress in personal auto and continued excellent performance in personal property.

In the US, our team delivered a combined ratio of 96.7% despite close to 6 points of CAT losses. After nine months, we increased our outperformance versus the industry ROE to 750 basis points well above our 500 points target. And while we are outperforming by a wide margin, we're not satisfied. Our ongoing action plans and improving market conditions should soon return us to a mid-teens operating ROE in line with our historical track record. Let's now look at our results by line of business, starting with Canada. So in personal auto as anticipated, premiums declined slightly as our rate increases remain ahead of the market. However, industry rate increases are catching up and we expect growth to return in the coming quarters.

Our combined ratio improved nearly four points to 97.3% in the quarter driven primarily by our profitability actions, which have helped to lower both claims frequency and severity for the third quarter in a row. While we believe our run rate is in the mid 90s, combined ratio as planned, we remain focused on creating sustainability in that performance. There is strong momentum still on many fronts, including rates, underwriting and claims action.

In personal property, premiums grew 2% in the quarter. So while rates are up, our discipline in auto put some pressure on growth in property. Results in this segment continued to be very strong with a 78.5% combined ratio in the fourth quarter and 88.3% for the full year. Our actions over time have been very successful with an average full year combined ratio below 90% for the past five years that is in good and in bad times. So, market conditions in my view in personal property position us very well to maintain that performance level.

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In commercial lines here in Canada, rate increases in firm market conditions and strong momentum in specialty drove growth to 11% in the quarter. The combined ratio was higher than expected for the full year 2018 due to elevated catastrophe and large losses. The quality of the portfolio remains high and this business is positioned for low 90s performance.

If we turn to the outlook for Canada, we're seeing across all lines firm market conditions and we expect mid-single digit industry growth in the year ahead. In personal auto, the marketplace continues to tighten with capacity constraint and ongoing growth in residual markets. Industry rate increases accelerated in the fourth quarter, and so we think this environment supports our profitability plan and our competitive position is improving. As we anticipated, we are now seeing clear sequential monthly improvement in growth in this line. In personal property, the outlook remains favorable as our auto growth improves, we expect property growth to accelerate. In commercial in Canada, our loss ratio out performance after nine months was north of 10 points. We are surprised by the speed at which this market is hardening and thrilled with our position to capitalize on this new dynamic.

In our US commercial segment premiums grew 2% in the quarter on a constant currency basis. Growth was 7% in segments that we're focusing on for expansion. The fourth quarter combined ratio of 96.7% was heavily impacted by CATs. The full year performance was solid at 94.8%. We are firmly on track to deliver a sustainable low-90s combined ratio within 18 months to 24 months. Market conditions are evolving favorably with modest upward pricing trends continuing in the US. We expect low-to-mid single-digit growth for the US specialty industry over the next 12 months. While short-term performance matters, long-term strategic positioning is key. And on that front, our people have made giant steps in 2018. Beyond building one of the best specialty lines business in North America, we made meaningful advances on our customer-driven transformation, leveraging both digital as well as artificial intelligence.

We launched our new mobile self service app, which incorporates our latest telematics offer. We also continue to roll out our latest rating algorithms, which are grounded in machine learning, and we see strong evidence that our investments in AI will drive growth and margin expansion in the years ahead.

Our focus on people and employee engagement was again recognized in '18. For the fourth year in a row we are named as one of Aon's Best Employer, Glassdoor listed us as one of the 25 best places to work here in Canada. And we were again named as Top Employer in Canada for Young People. This reflects our commitment to providing an environment that our people are proud of and where they can make a difference. This goes straight to our ability to attract the best people in the markets where we operate. I think we have a world-class team and I'd like to thank our people across North America for their dedication to our customers, brokers, as well as our communities.

And talking about long-term positioning, we'll be celebrating in the coming weeks, the 10th anniversary of Intact Financial Corporation. As I look back, I think we've had a decade of solid performance on many fronts, but in particular against our financial objectives. Since 2009, we've delivered over 630 basis points of ROE outperformance, beating our

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500 basis points target. We've generated annual net operating income per share growth in excess of our 10% target over the same period and an operating ROE that averaged in the mid-teens. These results and these objectives have translated into an annualized total return for shareholders of about 14% since the Intact Financial journey began, more than double that of the TSX.

On the back of our solid earnings growth track record and our positive outlook for the future, we're increasing our quarterly dividend by 9% to CAD0.76 per share. And by the way, we increased our dividend every year since our IPO and have generated a CAGR of 9% in the last decade. In conclusion, disciplined execution on our action plans and supportive market conditions provide us with momentum for the year ahead. After 10 years of delivering on our financial objectives, I look forward with confidence that our people and strategies position us to continue to deliver into the future.

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

Louis Marcotte {BIO 18040440 <GO>}

Thanks, Charles, and good morning, everyone. Net operating income was up 19% to CAD281 million in the fourth quarter, fueled by significant improvements in underwriting, investment and distribution income. Our insurance businesses delivered a solid quarter with underwriting income of CAD210 million, up 18% from Q4 last year.

In Canada, our combined ratio of 90.8% was the best performance in three years without any material impact from weather. In the US, OneBeacon delivered a combined ratio of 96.7%, despite nearly 6 points of CAT losses, two of which related to Hurricane Michael. Our investment team drove fourth quarter net investment income to CAD140 million, up 16% from Q4 last year, thanks to both our portfolio optimization initiatives and reinvestment at higher yields that took place throughout 2018. We expect full year net investment income in 2019 to grow by approximately 5%.

And finally, our distribution businesses contributed CAD36 million to operating income in the quarter, that's almost 30% better than last year as commission growth and margin improvements were better than anticipated. On an annual basis, our distribution earnings have now reached CAD146 million, nearly twice what they were five years ago. We believe more consolidation will take place in the distribution arena as evidenced by the four acquisitions announced by BrokerLink already this year. However, we expect mid-single digit growth in distribution income in 2019, mainly because of the slower M&A activity last year.

Now let me provide some additional color on our underwriting results, beginning with Canada. Progress on personal auto profitability continued in the fourth quarter with 7 points improvement in the current accident year loss ratio. Q4 year-over-year weather was favorable by 2 points, while the remaining 5 points of improvement is attributable to our action plans. We estimate the combined ratio run rate in auto at approximately 95% by adjusting for 1 point of favorable weather compared to long-term trends, removing prior year development and normalizing for pools, CATs and seasonality. We are focused on

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sustaining this performance level and our actions continue to carry positive momentum. For example, written rates were up 9% and earned rates up 6% in the fourth quarter.

Rate momentum will continue in 2019 with mid single-digit earned rate increases secured through year-end. Results in property continue to be excellent with 78.5% combined ratio in the fourth quarter, despite higher than average weather losses. In commercial lines, the Canadian top line growth in the quarter was robust at 11% and the combined ratio was solid at 91.6%, despite being 4 points above last year due to a higher CAT and non-CAT large losses. We are monitoring closely, but do not see any unusual trends.

Before moving to US commercial, I should note the slight increase in the Canadian quarterly expense ratio due to higher variable commissions. On an annual basis, the expense ratio in Canada remains stable as thoughtful expense management enabled us to increase our investments in digital and artificial intelligence in order to accelerate our customer driven transformation.

Turning to US commercial, we incurred 6 points of CATs in the quarter bringing the combined ratio to 96.7%. This CAT level is clearly well above expectations for a quarter. And we view the full year level to be more indicative of future expectations, albeit at the upper-end. Prior year development was slightly unfavorable, representing mainly our share losses from 2016 and prior accident years that were ceded to the adverse development cover. The US expense ratio improved 3.2 points to 33.7% and included a few points of non-recurring favorable adjustments, including one point of premium taxes.

With expense synergies realized ahead of schedule, we expect the expense ratio in 2019 to be similar to the full year of 2018 expense ratio with some seasonal variations due to business mix. We are now 15 months into the acquisition of OneBeacon and I am pleased to see how much progress we've made. We delivered a full-year combined ratio in 2018 of 94.8% after executing on our plan, exiting unprofitable lines of business, and realizing synergies in excess of CAD25 million. NOIPS accretion was roughly 6% in 2018 and the IRR is north of 15%. But we have more to do and opportunities to capture. Our work on profitability by line of business continues as well as our claims initiatives leading to a low 90s combined ratio within 18 months to 24 months.

Before going to the balance sheet, I want to comment on our expectations for prior year development going forward. In light of the recent increases in interest rates, we are adjusting our favorable prior year development expectations by 100 basis points for IFC as a whole such that the expected future range is now between 1% and 3%. This change does not impact the overall combined ratio, as a reduction in prior year development related to the change is offset by improvement in the current accident year loss ratio.

Now a few words on our balance sheet. We ended the year in a strong capital position with total capital margin of over CAD1.3 billion, Canadian MCT at 201% and US RBC at 377% and our debt to total capital was largely unchanged at 22%. The volatility of capital markets in the fourth quarter impacted our book value per share by less than 3%, thanks to our well diversified balance sheet, losses on our equity portfolios were partly offset by gains from interest rate increases and the strengthening of the US dollar. We are pleased

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with the resilience of our balance sheet in the face of adverse capital market conditions. Since year-end, we have seen a significant rebound in common equities and the strengthening of the Canadian dollar. We estimate that the net impact to January 31st is a gain of CAD0.43 approximately or almost 1% of book value per share.

Our capital allocation priorities remain unchanged. We are deleveraging and remain on track to reach our 20% goal in 2019. 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 CAD0.76 per share, representing an average NOIPS payout ratio of 40% since the IPO, which leaves room to deploy capital on growth opportunities. In closing, our action plans will continue on auto and OneBeacon. We're building on our momentum from last year to take advantage of growth potential we see across our underwriting investment and distribution platforms.

With that, I'll return 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 re-queue for follow-up. So Cheryl, we're now ready to take questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Geoff Kwan of RBC Capital Markets. Please go ahead. Your line is open.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Hi there, good morning. Just had a question with the comments from the Ontario government looking at auto insurance pricing. It seems like the communications have generally focused on the price aspect of that. I was just wondering from discussions you have your understanding of how much they recognize the needs to be efforts done on the cost side given where combined ratios are in the industry.

A - Charles Brindamour {BIO 7012323 <GO>}

Darren, why don't you take this one.

A - Darren Godfrey {BIO 19791482 <GO>}

Yeah, thanks, Geoff. I mean I think that discussions that we've had to date, both at the political level, but also at the staff level have been very encouraging. They are very open to learning, understanding the issues that the industry is facing, but also the impact that has on Ontario drivers. So they have a clear willingness to reduce fraud, to reduce red

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tape and doing what's right for Ontario drivers. They recognize the cost pressures within the system and looking for a balanced view as far as Ontario drivers.

I think what is also maybe encouraging in those discussions is it's supported by FSRA which is the new regulator coming in Ontario to replace FSCO. They have recently published their priorities for 2019-2020 and it's very much in sync around streamlining right regulation, supporting auto reform strategy, developing fraud reduction strategies. So, both from a government level and also from a regulator level, we firmly believe they're focused on the right areas and we're encouraged by that. So we're very optimistic in terms of the process.

A - Louis Marcotte {BIO 18040440 <GO>}

Yeah, I think these guys are trying to get nonsense out of the system and they're focused on the right thing.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Okay, thank you. And just the other question I had was, you talked about the OneBeacon and the integration seems to be going quite well. From an M&A standpoint in a sense that Canada's -- when something comes up you guys probably have interest, but wanted to get a sense as to how you feel about doing something in the US if there is a preference towards manufacturing over distribution or how you're thinking about that?

A - Charles Brindamour {BIO 7012323 <GO>}

Overall when we look at priorities for capital deployment today, number one is Canada and we are equally happy to deploy capital in manufacturing or in distribution in Canada, and I think that this is actually a good time with the out performance at the level it is and the industries performance being low, we feel like this is the right environment to deploy capital and hence priority number one. When it comes to the US, I think we're gaining confidence in our ability to generate sustainable low 90's performance. We're not there yet. There is 18 months to 24 months, but we've gained enough confidence to be opportunistic in that marketplace and strengthen the platform we have.

We have lots to learn. We're doing lot of work to understand the opportunities in distribution indeed in the US and we'll be open to deploy capital, but in our mind the priority is very clear. Our teams here and in the US are keeping an eye on the opportunities in the marketplace, but there is a priority today.

Q - Geoffrey Kwan {BIO 7413168 <GO>}

Okay, thank you.

Operator

Your next question comes from the line of Kai Pan of Morgan Stanley. Please go ahead. Your line is open.

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Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning. So on the auto margin, you reached your target mid-90's and you said you're going to focus on sustaining that total margin. Are you declaring like mission accomplished. I just wonder because the more you can do that to improve this further, for example, your region [ph] price up 9%, still above the earned price 6%, so is there more interim improvements below that 95% even if you don't do anything else?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes. So, Kai, I think we've found out over the past few years that declaring mission accomplished is a tricky thing to do. So we're certainly not there. I think that we think we're in the zone indeed of the mid 90s kind of performance. We'll take advantage of market conditions as they are firming up. And look, there is inflation in the system, Kai, this is a longer-term type or longer-tail type product. And so, we remain and keep a degree of caution in terms of making statement, but we're in the zone and we'll take advantage of the markets in which we're moving into, which will be quite favorable we think for the next 24 months. Darren, anything to add?

A - Darren Godfrey {BIO 19791482 <GO>}

No, I think the other thing that I would add there, just in terms of the, not just from a margin standpoint, but the market definitely is moving now. So that's helping as far as our own action plan is concerned. We're seeing some momentum in Q4 in some provinces so that's encouraging. Industry obviously, given the fact that we've been at this for a good 18 months, 24 months, still has a couple of years ahead of it in our view from an adequacy achievement standpoint. So, we're well placed, but our focus remains on sustainability. As Charles alluded to before, we do see a pivot in our growth profile, so that's encouraging as well too. So, focus remains on sustainability, but expectations around the pivot on the growth side as well in 2019.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, I think Kai, if we can do better and grow, we will, trust us on that. But at this stage, we want to make sure that the inflation is indeed broken and that we can see that sort of mid-90s performance on a sustainable basis.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. Just follow-up on top line growth and how do you pricing now comparing with the market pricing? I just wonder how big the delta is there. At what point do you think there will be a tipping point that the environment will be more favorable to you and you could a start to regain market share. Do you see that in the next like by the year end or you think is probably more in 2020?

A - Charles Brindamour {BIO 7012323 <GO>}

Kai, you're talking about personal auto, just to be clear?

Q - Kai Pan {BIO 18669701 <GO>}

Yes.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, we'll let Darren give his perspective on that.

A - Darren Godfrey {BIO 19791482 <GO>}

I think in terms of gap relative to the industry as I mentioned, quite a bit of activity in Q4 in Ontario in particular. Now one of those rate approvals are effective Q1, Q2 so we haven't seen yet the impact in terms of our competitive position on those rate approvals. If I look at over the last sort of 36 months, we still have a good one rate increase ahead of the industry. We've got a six point gap. When I look at Alberta in particular, we've got 11 point gap between industries. So there still is gap there relative to the competition. However, as I said, that is beginning to close in particular in Ontario.

So when I look at growth, as you can see in the premium side, we were down two points for the full year of '18, roughly down a point in Q4. And actually if I look at the month of December, we were flat. So, we are starting to see a little bit of that pivot, now that is premium growth. So we're continuing to be remained focused on that. As far as the growth profile, I would say, it's earlier than year-end. I would say towards the latter part of 2019. We would hope to see us changing that curve from a unit standpoint in the latter half of '19.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, I think Darren's comment is bang on. In the past three, four months, we have seen a clear change, not in all markets, but a number of markets where either growth has picked up, I take Quebec, for instance, which is in the mid-single digit growth range now. We've seen provinces that have been shrinking. We've seen deceleration in the negative growth, and I think that as Darren is saying in the second half of '19 we should be in the quite a different place than we were in Q4.

Q - Kai Pan {BIO 18669701 <GO>}

That's perfect. Thank you so much and good luck.

A - Charles Brindamour {BIO 7012323 <GO>}

Thank you.

Operator

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

Q - Meny Grauman {BIO 15238080 <GO>}

Hi, good morning. Question on distribution and some bullish comments on distribution and you noted the recent deals. Just wondering if you could update us on valuations for

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brokers, what are they transacting and how have multiples changed, are they are still climbing higher over time?

A - Charles Brindamour {BIO 7012323 <GO>}

You know, there is a lot of talk and anecdotes about multiples in distribution, and we are doing tens of deals every year. And we have not really in the past 24 months seen inflation in the multiple of smaller transactions, quite frankly. And so, my own view despite some anecdotes here and there is that, our opportunities to acquire distribution and still generate mid teens IRR and plus on these transactions is very good because valuations have not changed dramatically in the past 12 months, 24 months. What has changed in the past 12 months, 24 months is our margin in distribution, which we've seen go up the sort of core distribution margin has gone up for profit sharing, which means that the opportunity for synergies in consolidation in my mind is up.

Q - Meny Grauman {BIO 15238080 <GO>}

Thanks for that. And just maybe a follow-up from the competitive standpoint, if you could talk about how much competition there is when you head into these negotiations. It would seem from evaluation comments maybe there is not that much competition for these brokers.

A - Charles Brindamour {BIO 7012323 <GO>}

I think there is competition for these brokers for sure. And I think it varies across the land, it varies on the business they're in, it varies based on the margins that they're operating at. Many of these transactions are often relationship driven though. And we're not big on auctions and processes in general, you know that. And it's certainly true in distribution.

Now the fact that we have an unmatched local presence across the land with Intact Insurance, the fact that we have with BrokerLink a very deep regional footprint in over 100 communities, and the fact that we're there in good times and in bad times and it's many of the same people that have been around for the past decade or two, our relationships for opportunities in my mind is very, very strong and these are the best conditions in which to transact and that's what we'll keep doing in the next decade.

Q - Meny Grauman {BIO 15238080 <GO>}

Thank you.

Operator

Your next question comes from the line of Brenna Phelan of Raymond James. Please go ahead. Your line is open.

Q - Brenna Phelan {BIO 20108118 <GO>}

Hi, good morning.

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A - Charles Brindamour {BIO 7012323 <GO>}

Good morning.

Q - Brenna Phelan {BIO 20108118 <GO>}

So, I wanted to ask one more on personal auto and related to rates and unit growth. So, is your view that the industry ultimately has to take more rate than you have or will generally have to given the other levers your scale affords you to pull.

A - Charles Brindamour {BIO 7012323 <GO>}

That's a good question because we might be shooting for higher performance right, and so, it's hard to figure out exactly what the industry needs, but when we look at it high level, Brenna, it's about 10-ish points we think. Darren?

A - Darren Godfrey {BIO 19791482 <GO>}

Yeah, no, I think if you look at year-to-date nine months industry is running coast-to-coast at around about 75 loss ratio, around 30 points of expenses so we get to roughly 105. Now obviously we know that there was inflation in the system, they've been fighting it for 18, 24 months. We continue to fight it. We've been successful at abating on inflation, but we recognize that it's still there. So, I think when you look at inflation in the system, you look at industries running at 105, now I should point out, that is supported by some strong favorable prior year development in the industry as well.

So that's sort of how we come up with the rough 10 points, but given the inflation environment, that's going to take a couple of years in our opinion. We have been going at it for close to two years. We started probably two years ahead of the industry. So it's fair to assume that the industry is at least two years. Now that timeline could look very different province-to-province, but genuinely on (technical difficulty) Canada, I would suggest that our view today is that we're at a two-year window of the industry still got a fair bit of work ahead of it.

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A - Charles Brindamour {BIO 7012323 <GO>}

Good.

Q - Brenna Phelan {BIO 20108118 <GO>}

Okay. So I guess what I'm trying to get at, is it conceivable in your outlook that once your unit growth kind of bottoms out pivots back to growth that it could accelerate quite meaningfully because the industry is also moving very quickly.

A - Charles Brindamour {BIO 7012323 <GO>}

It could. Yeah, I mean, I wouldn't make it the central forecast quite frankly, but it very well could. I think it's one thing to look at auto, you got to look at the whole industry dynamic. And I think the industry's performance has been sub-mid single digit and we're seeing now across all markets. And I think there will be meaningful potential for unit growth, but the speed at which you can turn the dial on in automobile insurance is not the same as in

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the other lines of business, we need to keep that in mind. And we've seen a shift in commercial lines that's pretty abrupt I would say in the past six months, in auto, that is not the case. So, hard to tell, but what is clear is, we think, it will be a favorable environment for us in the next 24 months. We're seeing sequential growth picking up and I think we'll be in growth territory very high likelihood in the second half of '19.

Q - Brenna Phelan {BIO 20108118 <GO>}

Great. Very helpful. And then just quickly, could you give a breakdown of the premium growth in Canadian commercial, how much of that is coming from your specialty initiatives versus commercial auto and commercial property?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, Alain.

A - Alain Lessard {BIO 17592535 <GO>}

Okay. Well, if I look to give you a bit of color on the growth, when we look at the growth of 12% in the fourth quarter, I would split that 50-50 between regular commercial and specialty lines. What I mean by that is, if you look at the dollar growth of direct written premium between 2017 and '18, 50% of the dollar growth is coming from regular line and 50% from specialty lines.

If I go a bit deeper on the regular line, that's all driven by rates. Rates were up by 4% in P&C in the fourth quarter, 6.7% in regular auto in the quarter. So when you add to that a bit of inflation of insured value and car basically that explains the full growth in regular commercial lines. There is really no unit growth overall and the segmentation of that growth when you look at it, we're growing profitable segment and we're shrinking least profitable segments. So really well segmented.

The specialty line growth, which is the other 50%, considering the size of the portfolio translate in a growth just north of 20% for our specialty line portfolio in Q4. And I would say that growth is really driven by our action plan. Basically we have a bed of rates and property, lots more rate in trucking. But overall, if I go back two years ago, we established our specialty lines division with the idea of growing and becoming specialty line -- key specialty line player in Canada. And basically the idea was to expand our product suite, make it available across the provinces, makes our expertise available across Canada and become really considered by a broker increasing the awareness.

A year later we acquired OneBeacon, that increased our credibility with the broker. We've brought new product from OneBeacon through technology and entertainment. And over that period of time, we've probably increased our staff by close to 80 people in Canada, and those staff are daily working on improving our product, building relationship with brokers and everything. And I would say, lot of the growth we see in specialty line is coming from those people, so I want to thank them for their daily hard work. This is really achieving our strategy. So overall, the growth is basically coming exactly where we want it to come.

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Q - Brenna Phelan {BIO 20108118 <GO>}

And you think those, those trends can continue into 2019?

A - Charles Brindamour {BIO 7012323 <GO>}

I would say yes, because when you look at the industry, why the market is firm when we look at the industry, we mentioned our outperformance of about 11 point in P&C and 6 points in commercial auto at the end of Q3. So when you throw that on the top of our combined ratio, that puts the industry north of 100% for both line and in fact combined you're probably close to 110% which is unsustainable. So that will continue and our effort on specialty line will continue.

Q - Brenna Phelan {BIO 20108118 <GO>}

Very helpful. Thank you very much.

A - Charles Brindamour {BIO 7012323 <GO>}

Thanks, Brenna.

Operator

Your next question comes from the line of Doug Young of Desjardins Capital Markets. Please go ahead. Your line is open.

Q - Doug Young {BIO 5640851 <GO>}

So, I wanted to go back to OneBeacon and the prior year reserve developments were negative, just wanted to get a sense of, in what areas were they negative? And as well, just wanted to get a sense of the coverage -- because I know this -- what you're showing is only your proportional stake of the prior reserve developments. So I think you had $200 million was the max coverage for those adverse developments. Just wanted to know how much of that has been used. And then I have a follow up.

A - Charles Brindamour {BIO 7012323 <GO>}

So on the amount of coverage used, Doug, there is plenty of room left is what I will say not a concern of mine. In terms of where the adverse development has been coming from, I'll let Alain give his perspective.

A - Alain Lessard {BIO 17592535 <GO>}

Okay. Well, when you look at the PYD for OneBeacon you have to understand that this can be very lumpy because of the nature of the business. We're looking at large losses in prior years, sometimes they take time to develop. So it's relatively lumpy and you can see that, during the quarter, it was plus 1.5, but it's favorable 0.3 for the year. Overall, when we look at where it comes in this quarter, it came from a few losses and 80% of that PYD is coming from line of business which are under a profit improvement plan, okay. And basically a lot of those are in area on those profit improvement plan where we are no longer writing that type of business within those business units.

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A - Charles Brindamour {BIO 7012323 <GO>}

And a big chunk of it, Alain, is not just for profitability improvement plan, it's also the two lines we've shut down upon closing, which represent probably more than that of the PYD there, which gives us a very good sense that closing those lines were the right calls.

Q - Doug Young {BIO 5640851 <GO>}

I guess just on that, Charles. I thought would the PY, or the prior year reserve developments for the exited business lines not go through your non-operating results or does that -- so the exited lines would go through the prior years' reserve developments you show in the existing business or?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, just to clarify that, you're absolutely right. So the prior year development on exited lines is affected to non-operating, but it does consume some of the adverse development cover. So, Alain was raising in the lines that are ongoing, where those have been used for the continuing lines. But you're right, a portion of them have been used for the exited lines.

Q - Doug Young {BIO 5640851 <GO>}

And that's the two lines that you shut down I guess over...

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, that's right.

Q - Doug Young {BIO 5640851 <GO>}

Yeah, okay. So you're not going to give me a dollar figure, but you're not like in terms of what's left in the coverage. I guess I can try to do the math, but you seem pretty confident, Charles, that this isn't going to be an issue?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, there's plenty of room left in that cover.

Q - Doug Young {BIO 5640851 <GO>}

And I'm right, it's $200 million. That's correct?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes.

Q - Doug Young {BIO 5640851 <GO>}

And then, Charles just, you mentioned some that peak my interest, just on the US -- because in Canada, you've been acquiring distribution and I get why and what the strategy is there, and then if I heard you correctly you're thinking potentially of doing

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acquisitions in the US distribution, but you're just trying to understand the marketplaces. Did I get that right?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, I think that when you look at our footprint in the US, we have 14 business lines spread across the land. And there is a number of ways you can grow our presence. You can grow it organically that is add products. You can add geographies to those segments and you can add brokerage relationships to those segments. And that's the sort of work we're doing at the organic level in the US operation. Then when it comes to scaling it up through non-organic measures, I mean, you can look at companies or you can look at distribution. And in distribution in the US, I mean, if you slice it, it is a different ecosystem in specialty lines than it is in the context of Canada.

You have what they call independent agents, you have MGAs, who are specialized in certain segments, you have MGUs, who are involved to an even greater degree. Some of these players sometimes retain a portion of the underwriting risk, you have wholesalers, and the opportunities to expand our footprint, fortify our position and build scale in those 14 products or 14 lines of business in my mind could very well go through distribution tuck-in acquisitions, which is different than our distribution strategy in Canada, which consists in building a massive, largely personal lines distribution operation. So it's two different strategies, but we do have distribution expertise as you can see from the numbers and from how long we've been active in it.

And therefore, when we look at the US marketplace, this is not in our mind for specialty lines just a manufacturing play. There might be distribution opportunities and we're open to those and studying where they are and being proactive at this stage. So I don't know if it helps, Doug.

Q - Doug Young {BIO 5640851 <GO>}

No, that helps with each of them. I'm just wondering what makes you -- what gets you to the point where you're comfortable that's I guess where I'm just curious like?

A - Charles Brindamour {BIO 7012323 <GO>}

Gets me to the point where I'm comfortable meaning?

Q - Doug Young {BIO 5640851 <GO>}

In terms of transacting and purchasing distribution, because it sounded like you're not there yet, but you're almost there?

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, I think we look at opportunities. These are much smaller capital deployment steps as well and as I'm saying, we're gaining confidence, we're not yet at the low-90s performance level in the US. We're therefore not at the level of big capital deployments in the US. Hence our priority for capital deployment is Canada, but we're certainly starting to explore smaller mid-tier capital deployment opportunities in the US and that very much includes distribution.

Q - Doug Young {BIO 5640851 <GO>}

Perfect. Thank you.

Operator

Your next question comes from the line of Tom MacKinnon of BMO Capital. Please go ahead. Your line is open.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah, thanks very much. Good morning. It's question really with respect to your outlook in the US and in Canada. In the US in commercial lines, you mentioned pricing remained stable, and this is from a combination of what you viewed as a current favorable economic environment in the United States. And I guess, so my first question here is, what's so favorable about the economic environment in United States especially in light of talk about of a perhaps a coming recession. And then as a follow-on, when you compare the two markets, you talk about US being stable, but Canada is firm. And am I reading then that Canada is better than the US in terms of an insurance market right now. Why is that, maybe you can compare and does Canada generally follow the US market?

A - Charles Brindamour {BIO 7012323 <GO>}

So in aggregate, I'll let Alain talk about the US and I'd be cautious about drawing too many direct relationships with the economy, but when you look at the US market, different parts of the markets are behaving very differently. If you look at commercial automobile, for instance in the US, there is meaningful firming going up, going on. You know there are segments of property as well. But overall the momentum we're seeing there is nowhere near what we're seeing in the context of Canada.

I'll let Alain maybe say a thing or two about the US and then we'll get into Canada.

A - Alain Lessard {BIO 17592535 <GO>}

Okay. So thank you, Tom. So, if I give you -- if I give you a bit of perspective on the US market, when we say stable, it's rate increase are stable and we're seeing modest rate increase to the tone of 2%, okay. Basically if that we compare our OneBeacon environment is operating at a slightly different market, you know, than the overall market, there is very less workers' compensation and our rate increase in the fourth quarter for OneBeacon were 4.4%. So quite -- this situation is one point that makes us positive on the US market.

The second point is the judicial system, okay, where there is a bit more conservatism that has happening in our judicial system. There is a few court case as an example that have increased the burden of proof if you want for people claiming excessive force from law

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enforcement body. And this is really positive in our government risk business unit. And overall what we see is a judicial system that is slightly more favorable to business.

And the third one was more economic, you were talking about the downturn, but basically, when we look at the outlook, we're talking about slightly less GDP growth, but still within 2% to 3% growth inflation below 2%, unemployment rate still going downwards, and again from business point of view, this is a favorable environment. So from an organization like OneBeacon that focus on mid-to-small specialty line of business, the overall judicial system rate environment and economic environment puts us in a nice position right now.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah. So, Canada is far more cost driven at the moment. You've seen inflation in auto, the industry needs to react, you've seen changes in weather patterns, the industry needs to react, then in commercial lines as Alain was saying, the industry is operating above 100%. That is a combination of it being soft in the past decade and a bit of inflation, including changes in weather patterns. So what you're seeing because all these lines at the industry level are not performing very well, the reaction is stronger than what we're seeing in the US. So Tom, hopefully this is helpful.

Q - Tom MacKinnon {BIO 2430137 <GO>}

I mean, just as a follow on though, the weather patterns has been an issue both north and south of the border. Are we just slower to react to them here and presumably inflation driven in terms of auto repairs is, I assume, is a problem both north and south of the border, are we just slower to react here?

A - Charles Brindamour {BIO 7012323 <GO>}

I'm not sure I would draw that conclusion. I think that the industry's performance in Canada over time as compared with the industry's performance in the US over time, if anything it's been about a point above. So it's, I wouldn't draw that conclusion Tom. I'd say, the inflation in auto was not just physical damage as you know. And I think it's a convergence of these factors, which is leading Canada to be firmer at the moment.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thanks for the color.

A - Charles Brindamour {BIO 7012323 <GO>}

Okay. No problem Tom.

Operator

Your next question comes from the line of Brian Meredith of UBS. Please go ahead, your line is open .

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Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thanks. A couple of quick questions for you. First, I'm sort of just curious, down in the US commercial auto continues to be a challenging line, a couple of companies about to take charges for it. It sounds like it's performing pretty well now in Canada. Is there a difference that we should think of as to why it's still performing well over there, is this something you guys are keeping your eyes on?

A - Charles Brindamour {BIO 7012323 <GO>}

Well commercial auto in the context of Canada has had pockets of pressure, trucking being a good example. Half of commercial auto is unregulated in the context of Canada. So your ability to put in place corrective measures quickly is greater. And I would say this makes a difference. Alain, do you want to add anything?

A - Alain Lessard {BIO 17592535 <GO>}

Yes. And I would say, it's quicker in Canada because a lot of it is unregulated. It's bit slower in the US, because it's a bit more regulated. And when it comes to commercial auto, this is a very regulated product. So coverage, accident benefit, liability can vary a lot by states, can vary a lot by province. So I would be cautious in comparing the state of the commercial auto in the US and the commercial auto in Canada.

Q - Brian Meredith {BIO 3108204 <GO>}

One of the things we've also talked about is an increase in legal representation on claims. I'm wondering if that's maybe a difference between Canada and US?

A - Charles Brindamour {BIO 7012323 <GO>}

Not clear to us.

Q - Brian Meredith {BIO 3108204 <GO>}

Not there, okay. Another question. I'm just curious, Charles, if I look back on the last kind of major acquisition you guys did JEVCO, came kind of on the heels of a period where the industry was having some challenging profitability as well. I'm wondering, one do you think that we could potentially see some larger transactions here in the next year or two as the industry continue to struggle from a profit perspective. And then what is your kind of capacity for an acquisition ex issuing equity at this point?

A - Charles Brindamour {BIO 7012323 <GO>}

So I think Brian, I'd go back 20 years here, since I've been involved in the transactions we've done as a team and the best ones came on the heels of tough low single digit ROE environment. I can think of the Zurich acquisition, which we've done in '01, '02, the Allianz acquisition, which we've done in '04, '05. So my view is, this sort of environment is a good one for consolidation and for assets change hands. I think people changed your view on their property in those kind of markets and I think that's good for us, especially given our outperformance, So I'm positive about the environment that we're entering into on that front.

With regards to capacity to issue before or to finance before issuing equity, Louis, do you want to take a perspective on that?

A - Louis Marcotte {BIO 18040440 <GO>}

Sure. That would be a combination of debt excess capital and perhaps and would be about 1 billion of capacity without issuing common equity.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Charles Brindamour {BIO 7012323 <GO>}

Thanks.

Operator

Your next question comes from the line of Mario Mendonca of TD Securities. Please go ahead, your line is open.

Q - Mario Mendonca {BIO 2450557 <GO>}

Good morning. Just a quick question on investment income. So obviously a good job of increasing the market based yield. Just looking at your MD&A and I see that that's up, the market based yields up 47 basis points year-over-year. This is Q4 versus Q4 '17. Where I'm going with this is, could you help us think through that 47 basis point increase, how much of that would have been just extending duration, how much going out on the risk curve. Is there any way you can break that out with some precision?

A - Louis Marcotte {BIO 18040440 <GO>}

Sure. So I'm careful with using the market based yield because it's also affected by the denominator, which has varied a bit. But if I look at year-over-year, Mario, where we were last year, this year it's 97 million of additional income. We allocate about a third of that to simply the addition of OneBeacon's assets to our portfolio. Then the third to higher yields and so about 30 million related to higher interest rates. Then we have higher dividend yields for about 16 million.

The exchange rate has had a positive impact for about six and then tweaking the OneBeacon portfolio and part of this is interest rates and part of it is the asset mix, but tweaking their assets, the portfolio towards our asset mix. So we took it over last year and the investment team took it on January 1st and then they migrated to our asset mix. And that has contributed to the gap. So I would say, it's not very much a risk play here, very much just adopting our own asset mix and leveraging the fact that rates were rising this year. And because we had to move assets between geographies for example, that gave us an opportunity to trade and capture higher yields on the way. So, favorable market conditions as the rates were going up and the fact that we transition.

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A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, and I think to your point, Mario, when we've done the optimization exercise, the risk envelope itself didn't change. And the optimization exercise is one where all of a sudden you have two capital regime, two tax regime and you want to make sure that you take that into account in establishing the asset mix of your sub in the US and your sub in Canada. And that in itself without playing with the risk envelop has been as Louis saying, an important contributor to the performance you've seen.

Q - Mario Mendonca {BIO 2450557 <GO>}

Okay, so, this sort of leads into the follow-up question then. If you're not taking additional risk and you're essentially just optimizing for the higher yield, I would have expected a little bit more pressure than in terms of realized losses in the bond portfolio, for example, because when you are buying higher yielding assets, you're also selling something else and presumably there'll be a lost there because rates have moved higher. So why is it that we don't see that on Page 21 of the MD&A?

A - Louis Marcotte {BIO 18040440 <GO>}

So I think you would have seen it perhaps earlier in the year when we traded and it was sort of offset with gains on the equity portfolio. But that happened earlier in the earlier part of the year.

Q - Mario Mendonca {BIO 2450557 <GO>}

Okay. So when I look at Page 21 again and I look at 2018, there is about CAD26 million of losses there in the bond portfolio, is that essentially -- that would be what you would point me to in terms of losses associated with the optimization and other factors I guess.

A - Louis Marcotte {BIO 18040440 <GO>}

Yes.

Q - Mario Mendonca {BIO 2450557 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Meyer Shields of KBW. Please go ahead, your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Great, thanks. Two quick questions back on personal auto. First obviously tremendous improvements, but I'm wondering beneath the surface, is marijuana legalization having any impact?

A - Charles Brindamour {BIO 7012323 <GO>}

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We're I don't think seeing it, because we've had you know three quarters of sequential drop in frequency. So it's hard to break it into what might have been an upward pressure point. I don't know Patrick or Darren, if you have a perspective on that?

A - Patrick Barbeau {BIO 18476397 <GO>}

No, Charles, I agree with you on that in the sense that, from the file by file claims handling, we haven't seen cases where there is clear evidence of that, but it's tough to get that information, as you see frequency has been going down overall for the year with no increase in frequency also in three quarters where it was going down. So maybe it's -- there is a bit of influence in there, but was fairly small given the overall frequencies going down and we have no clear signs.

A - Charles Brindamour {BIO 7012323 <GO>}

And I think we -- and we were on high alert in November following the change, I think to identify signs of that. And there's no clear evidence at this stage. Darren, anything to add?

A - Darren Godfrey {BIO 19791482 <GO>}

No, the only thing, it's still very early in terms of the process. I think what I'm encouraged about is the awareness campaigns that have been running from all levels of government as far as the dangers of driving and cannabis consumption. So I think that's encouraging from an education standpoint as well too. But it's still pretty early.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. Very thorough. Second question, I guess, with regard to Louis guidance on distribution, does that assume that as competitors catch up on rate increases, again, predominantly personal auto, that there'll be more contingent commission income or is that upside to the guidance?

A - Louis Marcotte {BIO 18040440 <GO>}

I would say upside at this point. I think right now we're guiding mid single-digit for next year based on the current portfolio. But I would say if there was better outcome on the underwriting side, it would be upside.

A - Charles Brindamour {BIO 7012323 <GO>}

Yeah, for the distribution income per se it's certainly and I think just from the market dynamic point of view, what is interesting from a distribution point of view, is that, when you get into a harder market like the one we're in, the issue for brokers, this is tough for them, because it's not just rates and the reality is that there are capacity issues, where brokers ability to find an insurance company for all their customers is actually constraint. And from our perspective, this is also a pretty good environment for further consolidation in distribution and that in my mind is where the true upside lies.

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah, perfect. Thank you so much.

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Operator

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

Q - Paul Holden {BIO 6328596 <GO>}

Thank you. So question on personal auto given you've hit your margin target now, you have a hard market across the industry. Do you have enough comfort around where cost inflation is that, you can start turning up the dial on market share or do you continue to focus at this point on solidifying that profit margin?

A - Charles Brindamour {BIO 7012323 <GO>}

So, as I said, we're in the zone. When you look at frequency and severity trends, it looked good in the past few quarters. We want to make sure though that there is sustainability there. There is a lot of momentum in terms of action and, Paul, my hope here is that, we don't need to turn the dial, the markets make it happen naturally for us. Meaning we keep doing what we're doing and our relative position improves and growth picks up as a result.

We're not in the zone of saying, should we trade a point of ROE for a point of growth, that's not how we're thinking. Not in that zone. This business is not generating upper teens ROE certainly. And that's the zone where you start to ask yourself the question, am I better off, staying closer to mid teen for an additional point of growth. You know, how it kind of make value works. Past that point, it makes sense to have that discussion. I don't feel that's the space we're in yet in automobile.

I do feel that the market dynamic itself will bring growth to the Intact personal automobile platform without us having to make any sacrifices to get that growth. And that's the sort of environment where we have done extremely well in the past.

Q - Paul Holden {BIO 6328596 <GO>}

Got it. That's helpful. And then second question is related to US commercial lines. So you've given an indication of what you expect for industry growth of low to mid single digits, assuming you're targeting something higher than that, maybe you can give a little bit more color and context around sort of the range or idea of what type of growth you are targeting?

A - Louis Marcotte {BIO 18040440 <GO>}

I think we're -- at this point what I would say globally, we're basically focused still on making sure we achieve our low 90 objective. That is the number one priority of the team, but we're seeing opportunity in some of the business unit, especially a few one, 75% of them are doing very, very well. So, I would say right now probably a bit better than the industry. So that would be, let's say, mid to upper single-digit.

Q - Paul Holden {BIO 6328596 <GO>}

Got it. That's helpful. Thank you.

Operator

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

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Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yeah, hi. Quick question on the personal auto side, with the return to the 95% combined ratio level and more normalized profitability levels, let's say, is there any risk that expenses tick back up to where they were historically as well sort of in that 25% range as a percentage of earned premiums or is there enough -- or have enough initiatives been put in place to keep this down in the 22%, 23% range, so that it operated at last two years.

A - Charles Brindamour {BIO 7012323 <GO>}

Louis, do you want to give your perspective on that?

A - Louis Marcotte {BIO 18040440 <GO>}

Yeah. So I would say, I think it's a bit deflated here in auto because due to profitability challenges, the variable items were a bit more limited. So I would expect a part of it to come back to past years, probably lose a point, just slightly north of a point of expense when profitability comes back. So it's going to be good news because we'll have better profitability and there is going to be some of that -- some of that will be shared, but it won't stay at the level it's staying at. If you look in the aggregate expenses, which is really what we manage, that's been -- there is a -- there was a structural decline and I would say, half a point, a bit more than half a point of expenses have been completely shaved. But there is another part that's variable and we'll come back when the profitabilities returns to where we want to be.

A - Charles Brindamour {BIO 7012323 <GO>}

But that's baked in our view that this business is performing in the mid 90s and should continue to do so in the coming year. So I think that's the sort of tactical view on expenses. I think strategically, our business units are focused though on reducing their cost operating base in particular our direct operation has seen its expense ratio drop by close to four points over the past five years. And we'll be shooting for something in that zone over the next five years. So...

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Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. No, that's good. And last one, just quickly, obviously a little bit of a storm activity and cold weather in January, do you have any comments related to the impacts of weather in January to start the first quarter of '19.

A - Charles Brindamour {BIO 7012323 <GO>}

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I think that's the business we're in, just to be clear, but I think seasonality obviously is relevant. I'll ask Patrick, who mans the phone with this team to share his perspective.

A - Patrick Barbeau {BIO 18476397 <GO>}

Yes, winter is always a or mostly a busy time for claims. We expect that, operations are preparing for it. Q1 2018, as you might recall was a proof point of that and if you look at the average of the last three years or five years, all lines combine -- the combine ratio in Q1 is about four points higher than the yearly average. So this is somewhat expected, I would say January so far is in line with...

A - Charles Brindamour {BIO 7012323 <GO>}

This winter.

A - Patrick Barbeau {BIO 18476397 <GO>}

This winter. But it's only a small portion of the quarter.

A - Charles Brindamour {BIO 7012323 <GO>}

And to be clear, Patrick, the four points you're talking about ballpark is for all lines, but -- and in automobile.

A - Patrick Barbeau {BIO 18476397 <GO>}

It's similar at four points as well.

A - Charles Brindamour {BIO 7012323 <GO>}

Exactly.

A - Patrick Barbeau {BIO 18476397 <GO>}

Yeah.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Great. Yeah, nothing out of the ordinary. Thank you very much.

A - Charles Brindamour {BIO 7012323 <GO>}

Thank you.

Operator

Your last question comes from the line of Tom MacKinnon of BMO Capital. Please go ahead. Your line is open.

Q - Tom MacKinnon {BIO 2430137 <GO>}

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Yeah, just a follow-up with respect to the growth in commercial auto year-over-year DPW up 18%. I'm wondering if you can share with us what's happened with respect to some of the products you've been able to offer in terms of sharing economy. And in particular, I think you have some contract with Uber, so has that helped with respect to that growth that we're seeing?

A - Charles Brindamour {BIO 7012323 <GO>}

Yes, so I'm not going to get into specific deals that we have, Tom, but I would say, when I think about commercial automobile, there's sort of three buckets, one is rates per se, there was a lot of rate momentum in commercial automobile and the business seems to be sticking. Trucking in particular, a ton of rates in trucking and that market is very, very firm, if not very hard. And then the specialty lines operation also, the (inaudible) Alain was talking about earlier is filtering into commercial auto and clearly our sharing economy practice in very healthy in the context of Canada, very healthy in the US as well. So we're building a, in my mind, a beautiful franchise on the sharing front. And it goes beyond one specific contract.

Alain, I don't know, if there's anything you want to add?

A - Alain Lessard {BIO 17592535 <GO>}

Well I think we've mentioned that a couple of times over the last few calls, but our sharing economy approach is to basically base premium on usage. The more kilometers driven, the more rental there is, the more usage there is of the sharing economy, the more premium you collect. So clearly there has been a healthy and popularity increase in the sharing economy context and that is fueling our growth in commercial auto growth.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. Thank you.

A - Charles Brindamour {BIO 7012323 <GO>}

Thanks, Tom.

Operator

There are no further questions at this time. I would like to turn the call over to Ken Anderson for closing remarks.

A - Ken Anderson {BIO 16846692 <GO>}

Thank you all for joining us today. Following this 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 & Filings section. Lastly, our first quarter 2019 results are scheduled to be released after market close on Tuesday, May 7th, and our AGM is scheduled for Wednesday, May 8th. Thank you again. And this concludes the call for today.

Operator

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

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