

Intact Financial Corporation TSX:IFC

FQ4 2016 Earnings Call Transcripts

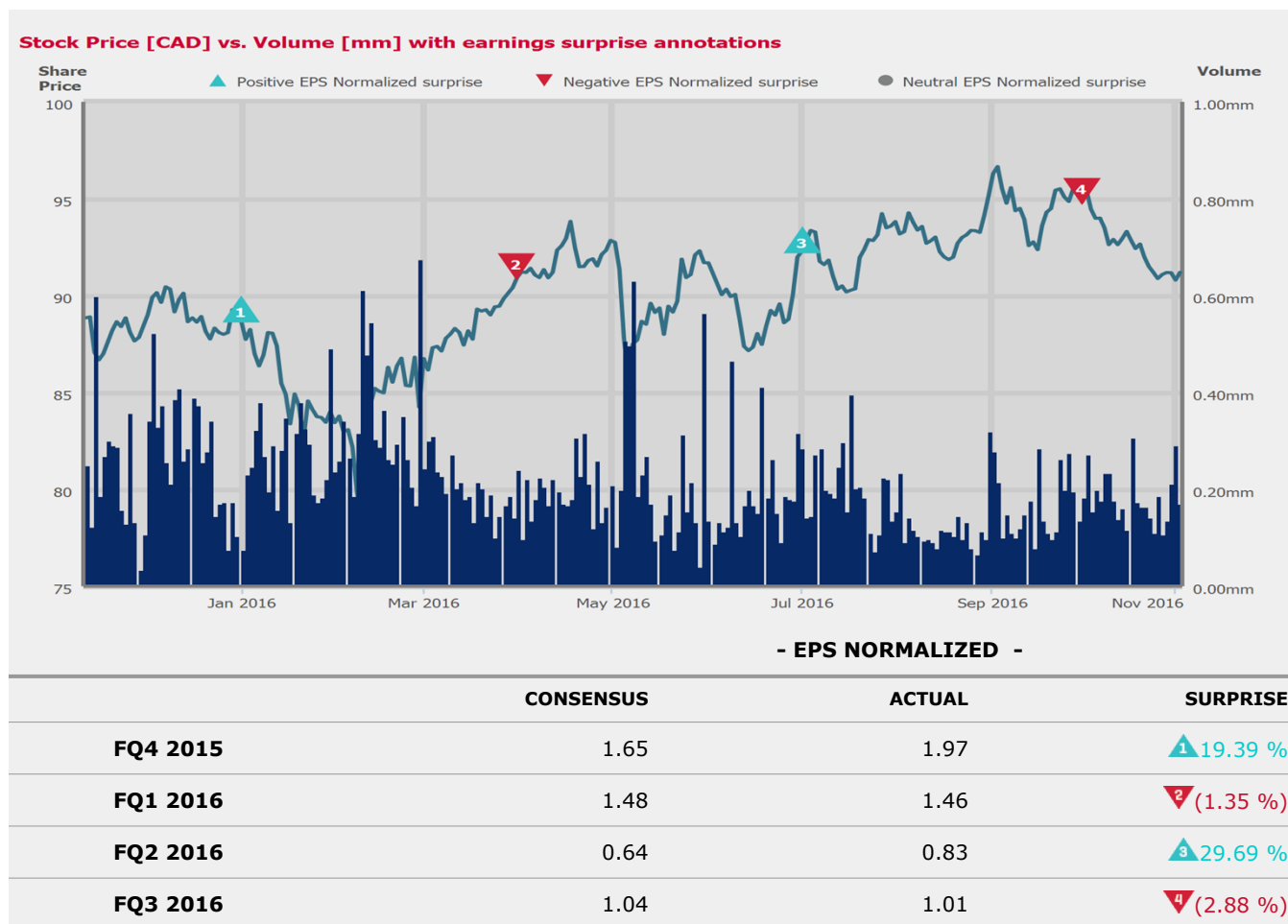
Wednesday, February 08, 2017 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2016-			-FQ1 2017-	-FY 2016-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.75	1.58	▼ (9.71 %)	1.54	5.02	4.88	
Revenue (mm)	2043.26	2043.00	▼ (0.01 %)	2089.00	7941.59	7946.00	

Currency: CAD

Consensus as of Feb-07-2017 2:31 PM GMT



Call Participants

EXECUTIVES

Alain Lessard

Senior Vice President of
Commercial Lines

Charles Brindamour

Chief Executive Officer and
Director

Darren Christopher Godfrey

Senior Vice President of Personal
Lines

Louis Marcotte

Chief Financial Officer and Senior
Vice President of Finance

Meny Grauman

Cormark Securities Inc., Research
Division

Patrick Barbeau

Senior Vice President of Claims

Meyer Shields

Keefe, Bruyette, & Woods, Inc.,
Research Division

Samantha Cheung

Vice President of Investor
Relations

Paul David Holden

CIBC World Markets Inc., Research
Division

ANALYSTS

Brian Robert Meredith

UBS Investment Bank, Research
Division

Tom MacKinnon

BMO Capital Markets Equity
Research

Geoffrey Kwan

RBC Capital Markets, LLC,
Research Division

Jaeme Gloyn

National Bank Financial, Inc.,
Research Division

Kai Pan

Morgan Stanley, Research Division

Mario Mendonca

TD Securities Equity Research

Presentation

Operator

Good morning, my name is Jodi, and I will be your conference operator today. At this time, I would like to welcome everyone to Intact Financial Corporation's Fourth Quarter Results. [Operator Instructions] Thank you. Vice President of Investor Relations, Samantha Cheung, you may begin your conference.

Samantha Cheung

Vice President of Investor Relations

Thank you, and good morning, everyone. Thank you for joining the call today. A link to our live webcast and background information for the call is posted on our website at www.intactfc.com under the Investor Relations tab. As a reminder, the slide presentation contains a disclaimer on forward-looking statements, which also apply to our discussion on this conference call. Joining me today are Charles Brindamour, CEO; Louis Marcotte, CFO; Darren Godfrey, SVP of Personal Lines; Alain Lessard, SVP of Commercial Lines; and Patrick Barbeau, SVP of Claims. We'll begin our -- with our prepared remarks followed by Q&A.

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

Charles Brindamour

Chief Executive Officer and Director

Good morning, everyone, and thanks for joining us today. Earlier this morning, we announced fourth quarter net operating income of \$1.58 per share with strong results in both property lines, while personal auto saw weather and pool losses impact its performance. Our financial position is very strong with \$970 million of total excess capital, while our book value was up 7% to \$42.72 over last year.

Top line was up 3% in the fourth quarter despite us taking another early lead in pricing across all lines and provinces. On an annual basis, premiums grew 5% on the back of growth initiatives, including bolstering our brands, launching new product offerings and making leaps on the digital front. We see more of the same in 2017 from a growth point of view. While commercial lines were impacted by continued difficult conditions in the West, we benefited from the introduction of new sharing economy products, the expansion of our specialty lines division and a favorable rate environment.

We delivered a combined ratio of 92.5% in the quarter, thanks to very strong results in property. Personal auto results were disappointing with a combined ratio just above 100%. We experienced some choppiness in this segment in part because of industry pool and early onset of winter. Regardless of these factors, we find this performance unacceptable. And as we said last quarter, they do not yet fully reflect the impact of rate increases in the pipeline and the reforms implemented last year. Going forward, these benefits combined with our action plans in auto, including more rates, should bring significant improvements in 2017.

Our operating return on equity was 12% in 2016 despite significant capacity losses. When comparing ourselves to the industry as of the third quarter, we outperformed by a margin of 670 basis points on ROE, above our target of 500 basis points.

So let's now look at our fourth quarter results in a bit more detail. So personal auto grew 3% on a combination of customer experience improvements and recent freight actions. The combined ratio deteriorated 4 points to 100.9% as we experienced higher frequency from early winter conditions, losses from industry pools and lower prior year development. We continue to address costs pressures in this segment with rate increases across the country. In Ontario, we raised rates another 4% effective this March on top of the 3% applied last September. This rate momentum, combined with our claims action plans, tighter risk selection and continued benefits from reforms, are expected to drive mid-single digits improvement as these actions are earned throughout the year.

When it comes to the industry outlook for personal auto, we continue to anticipate a rational competitive environment with low to mid-single digit growth in the coming 12 months as rate increases are implemented to address cost inflation.

In personal prop, premiums grew 7% as new products and continued rate increases were deployed in favorable market conditions. Our profitability remains very strong with a combined ratio of 75.6% in Q4 and 91% for the full year after absorbing our country's costliest natural disaster on top of severe summer storms. With healthy top and bottom lines, this segment is very well-positioned for 2017.

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

In commercial P&C, difficult conditions in Western Canada, a robust rate actions taken in competitive markets, led to a decline of 3% in premiums. That said, this business continues to deliver solid profitability with a combined ratio of 89.4% for the quarter despite catastrophes and fire-related losses well above last years. On a full year basis, our combined ratio of 90.2%, even with elevated catastrophes, was in line with our low 90s target.

Commercial auto premiums grew 8% in the quarter, mainly from our sharing economy products. Although the combined ratio of 101.9% was driven by prior year large losses, I'm encouraged by the underlying performance improvement, which improved by 5.2 points in the quarter as we continued to implement corrective rate actions. On a full year basis, our combined ratio was 94.6%, 4.4 points better than last year, another sign that we're on the right path to reach our low 90s target in this segment.

With respect to the outlook for commercial lines, markets remain competitive across Canada and particularly difficult in the West. Therefore, we expect low single-digit growth in the coming year.

In summary, overall, we delivered 92.5% combined ratio in the quarter, a decent result for a fourth quarter on the back of a very strong results in our property lines. Personal auto was a drag on our performance in Q4, clearly, but I'm confident that the actions we're taking will have a positive impact over the next few quarters. We're also making very good progress on several of our strategic initiatives.

In distribution, for instance, we expanded our direct-to-consumer business with the acquisition of our partnership with National Bank. Under the agreement, belairdirect will underwrite all policies distributed under the National Bank's brand, representing approximately \$50 million in additional premiums or 0.5 points of growth.

On the digital front, we enhanced our telematics offering with the new mobile application that improves customer experience but also adds to our data collection capabilities. Now speaking of data, we expanded our industry-leading data analytics capabilities with the launch of the data lab. The mission of the lab is to expand our competitive advantage by doubling down on our focus on artificial intelligence and machine learning while expanding our massive proprietary data sets with external data sources, including those from telematics.

Our claims team was busy as well with the launch of our Toronto service center in the fall. We now have 3 locations across Canada, with the fourth in Montréal scheduled to open in April. Results so far are positive with higher customer satisfaction level and an estimated 15% reduction in cycle times.

And finally, we continue to do well in the people front. We were named the platinum level best employer by Aon for a second year in a row and a Top Employer for Young People by Mediacorp. We believe that building engaged teams with a customer-focused mindset is key to maintaining our competitive advantage.

So in conclusion, while Q4 results were below expectation, our overall performance for 2016 was solid, in light of the elevated catastrophe losses. Our property lines performed well, our commercial auto is improving, and we've already introduced significant profitability measures to address our personal automobile business in the near term. We expect growth momentum to continue in 2017 as we pursue our investments in customer experience and distribution.

And finally, our balance sheet is solid with \$970 million of total excess capital. So with that in mind, we increased our quarterly dividends by 10% to \$0.64 per share, the 12th annual increase since our IPO. So I'm confident that our actions and discipline will continue to help us outperform the industry's ROE by 500 basis points and grow net operating income per share by 10% per year over time.

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

Louis Marcotte

Chief Financial Officer and Senior Vice President of Finance

Thank you, Charles. Good morning, everyone. For the fourth quarter, net operating income was \$212 million, driven by the strength of our property lines, stable investment income and growing distribution activities. The auto lines were a source of pressure on our underwriting results, though actions are underway to deliver material improvements in 2017.

Our operating ROE was 12%, despite 2.5 points from cat loss above our expected run rate. We closed the year with \$970 million of excess capital, and our book value per share grew 7% from Q4 last year. Our combined ratio for the quarter was 92.5%, a 4-point increase compared to last year's stellar results. We attribute the increase as follows: 3 points from weather-driven frequency and cats; 1 point from industry pool losses; 1 point from large losses in commercial property, mostly fire-related; and 1.5 points of expense savings. The remainder is prior year developments, which was a bit lower than last year but in line with historical levels.

Our expense ratio improvement in the quarter was due to lower profit-sharing commissions on the back of softer underwriting results and lower general expenses due to cost management.

Our distribution income grew 9% in the quarter to \$24 million and reached \$111 million for the year, in line with our latest guidance. As we said on the last earnings call, we expect distribution income to grow north of 15% in 2017 with the usual seasonal variations.

Our investment portfolio continues to deliver consistent investment income, \$104 million in the quarter, slightly below last year as expected. Although average net investments increased 6% to \$14 billion from operating cash flows and mark-to-market gains, this was offset by a lower reinvestment yield. We continue to expect investment income to decline marginally in dollar terms over the next 12 months.

Our Q4 nonoperating results improved \$47 million, thanks to realized gains on our common share portfolio reflecting the rebound in equity markets. Rising interest rates led to unrealized losses on our fair value to P&L bond portfolio, which were largely offset by the favorable impact of a higher discount rates on our claims liabilities. Our effective tax rate was 23.7% in the quarter, 6 points higher than last year, due mainly to the reversal of a tax provision recorded in Q4 2015.

In summary, we reported quarterly earnings per share of \$1.27, 13% lower than last year as our operating results decline mostly on the back of weather and pools, while our nonoperating results improved materially as equity markets rebounded.

Finally, a few comments on a financial position. Our balance sheet remains very strong. Our MCT stands at 218%, 3 points higher than at the end of Q3, driven mainly by capital generated from operations and the phasing of new MCT guidelines. Our total excess capital amounted to \$970 million at the end of the quarter and our debt-to-total capital ratio was 19%. Our investment portfolio was unrealized gain position improved \$11 million in the quarter to \$269 million, driven by significant improvements in our common and preferred share positions, offset by unrealized losses on our AFS bond portfolio.

Our capital deployment strategy remains unchanged, prioritizing regular dividend increases, investing in growth opportunities and using share buybacks as an additional capital management tool. This morning, we announced a 10% dividend increase to \$0.64 per share per quarter, our 12th consecutive annual increase. This represents a 12% annual growth rate since we IPO-ed in 2004.

During the year, we deployed nearly \$300 million of capital towards growth opportunities, including broker acquisitions, investment in ventures and the acquisition of the partnership with National Bank. With this

latest acquisition, combined with the integration of CDI acquired in 2015, belairdirect has materially grown its footprint and is capable of serving customers from coast to coast. We believe consolidation of the P&C industry will continue, both in manufacturing and distribution, here and abroad. Our troops are experienced and ready to tackle opportunities as they arise, so is our balance sheet.

On buybacks, we launched our program 1 year ago and repurchased nearly 0.5 million shares for approximately \$44 million at an average price of \$88.54. While our priority is to invest in growth opportunities, we feel that buying back shares at times when the market price may not fully intrinsic value is a responsible use of our capital. Therefore, we plan to renew the normal course issuer bid upon our expiry later this week. This renewal does not signal any change in our perception of the opportunities for market consolidation.

In conclusion, with strong underlying results in property lines, we continue to focus our efforts on improving results in personal auto with our usual discipline and energy. We believe the actions we are taking in our auto lines combined with the strength of our property lines will drive improved results over the next 12 months. Our earnings have proven the resilience to adversity during the year, thanks to the strength of our insurance operations across the country, the contribution of our distribution and investment activities and our investments in growth, innovation and technology. With these advantages in mind, we are looking forward to 2017.

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

Samantha Cheung

Vice President of Investor Relations

Thank you, Louis. Jodi, please, open the lines for questions. [Operator Instructions]

Question and Answer

Operator

[Operator Instructions] Your first question comes the line of Geoff Kwan of RBC Capital Markets.

Geoffrey Kwan

RBC Capital Markets, LLC, Research Division

I was just -- I know this is more of a short-term type question, but thinking about Q1 results, can you kind of talk about what you're seeing across Canada, maybe even just kind of general comment? Because I think from a weather perspective, at least out here in Vancouver, the weather's been pretty brutal, unless you'd like to speed skate on the side streets. And Toronto, though, has been relatively mild. Calgary, I think, has been a little bit mixed. But just wanted to get any comments you have on what you've seen so far this quarter.

Charles Brindamour

Chief Executive Officer and Director

So in fact, being the lead sponsor of the national speed skating team, we do like to speed skate on side street, but prudently. Patrick, who's sort of overseeing our claims -- well, not sort of -- he's overseeing our claims operation, can give you maybe perspective on the level of activity we've seen so far in the quarter.

Patrick Barbeau

Senior Vice President of Claims

Yes. So in January, we've seen, as any January, some variations in weather but no big event so far. We've had a few ice storms. We've seen some in Atlantic, a good example yesterday here in Toronto, but none of those events -- single events have reached what we consider a cat. So -- but it has had some impact on general frequency but nothing unusual for January.

Charles Brindamour

Chief Executive Officer and Director

No. Nothing of concern there. And I think service is pretty good as well, so no important concerns on our part there.

Geoffrey Kwan

RBC Capital Markets, LLC, Research Division

Okay, okay. And just my other question was, you had I think it was about \$19 million in restructuring-related costs. Can you just maybe provide a little bit of color because you also mentioned some expense management initiatives. Maybe some color as to what you're doing on that front and kind of some color around the size of the booking in Q4.

Charles Brindamour

Chief Executive Officer and Director

Yes. Geoff, we -- we're really focused in terms of building an advantage when it comes to segmentation and claims management. It's been our big focus. We don't talk about expense as much, but there's a fair bit of focus inside to run the operation as lean as we can and constantly sort of challenge ourselves on the status quo. And I think there's been a fair bit of that in the past few months. I'll ask Louis to give you a perspective. So we do outperform meaningfully from a combined ratio and from an ROE point of view. And if you think of the numbers, in particular by channel for the broker distributor business as well as the direct business, the thing you'll notice is we also outperform on expenses meaningfully in each of the channel. And I think that's the way to look at this because of mix-related issues. That being said, Louis, why don't you give us some color on some of the moves we've made to remain agile and effective as a shop.

Louis Marcotte*Chief Financial Officer and Senior Vice President of Finance*

Sure. Thanks for the introduction, Charles, on this topic. So we are continuously managing expenses, of course. And as part of our usual process, we did take a few actions back in the fall and essentially driven that streamlining some of the management structures in-house. So we did take some action that led to a bit of a restructuring cost. It's in the \$10 million, \$13 million range, and that's what you see in the nonoperating results, Geoffrey. So that was booked in Q4, executed in Q4 and will have a slight positive impact in 2017.

Operator

Your next question comes from the line of Kai Pan of Morgan Stanley.

Kai Pan*Morgan Stanley, Research Division*

So first question on personal auto. In recent year, you've seen some of the U.S. players basically recording higher frequency and some high severity. I just wonder from your perspective, do you see any underlying trends. What's your assumption the loss cost trend going forward, and what pricing have you taken -- planning to take in and what's the -- when do you expect the margin will see meaningful improvements? How soon will we see that?

Charles Brindamour*Chief Executive Officer and Director*

Yes. If you think a full year perspective, Kai, the frequency in personal automobile is down 0.4%. So there's not meaningful pressure on that front. If you look at the severity for the full year, it's up close to 2%. And we've been talking about general inflation starting in '15 across the land, which has led to us firming up our view on the path as well as taking rate actions. I'll ask Darren to give a bit of flavor on the full year perspective in automobile insurance. Then I'll ask him to give you a sense of what's in the pipeline in terms of improving what we think is not a good performance in that line and sort of time line of improvements. And probably worthwhile hearing Patrick as well on some of the things we're doing in claims. Because when we look at performance, pricing and the rate levels is one thing. Implementation is something else. Risk selection is another part of it. Claims, prevention and so on. So Darren, why don't you give us a sort of 2016 perspective?

Darren Christopher Godfrey*Senior Vice President of Personal Lines*

Sure. Thanks, Charles. So as Charles mentioned from a frequency standpoint, down slightly in the year versus the prior year. Obviously, as we saw in Q4, we get a bit of noise from quarter-to-quarter. So literally, essentially, the increase we saw in frequency in Q4 was totally weather-driven. So other quarters, obviously, we're seeing a favorable impact from a weather standpoint relative to the year-on-year quarter. So frequency relatively flat. We still see, as Charles mentioned, the 2 points in severity. So it still leaves a little bit of inflation within the system. It varies very much from coast-to-coast. We've taken and we've mentioned, obviously, on the Q3 call in terms of some of the actions we're taking from a rate standpoint, we are continuing to push further on that front. We received approval, as Charles mentioned, in his opening remarks for further increases in Ontario. To give you a sense of the rate momentum that we have currently within the portfolio, and I'll quote some January 2017 numbers here, we had a 3.9% rate increase in the month of January just gone. And this compares to a written, and I should say that's a written rate increase. This compares to a written rate increase in Q4 impacting our results of 2.2% and an earned rate increases of just 1% in Q4. So this illustrates the current rate momentum that is building within the portfolio in 2017. Now in addition to that, as I mentioned, we have rates coming -- rate increases coming in Ontario. And we also have a number of other rate increases that are being currently filed with the many rate approval authorities across the country. So when we look at the rate momentum that's building, obviously, there is a little bit of a lag between the written and the earned, and that will narrow through 2017. So in combined with the rate increases, the segmentation, our advancements in UBI, et cetera, together with the claims action plans, obviously, we'll continue to see impacts and

benefits from the Ontario reform also into 2017. We're confident that even though we may see a little bit of choppiness early in the year, we're confident that we'll see improvement in our results in the mid-single digit range in 2017. We'll see a little bit of choppiness as our action plan are solidly baked in towards the second half of the year.

Charles Brindamour

Chief Executive Officer and Director

And just in rates, we expect to earn a good 4 points. Just in rates. So there's more actions taking place. Maybe a good opportunity to ask Patrick to give us a very brief window into what's in the pipeline in claims.

Patrick Barbeau

Senior Vice President of Claims

Sure. So the claims action plan that we've started to build over, I would say, the past 6 months with some actions already in place in March 2017, is expected to produce also another 2 points roughly of improvements on the bottom line for personal auto specifically. It involves 4 main themes. The first one is tighter indemnity control. This is enabled by our new national IT platform, so better controls within the system on a national basis to reduce indemnity. The second one is accelerated leverage of our data analytics in the fields of subrogation, fraud detection and supply chain management. There's quite a few initiatives there but that will also help us reduce our cost. And then we have specific action plan by coverage for longer tail lines, so on bodily injury. We are increasing staffing to address some of the trends we're seeing specifically in Alberta that involves a higher, more surveillance and more proactive settlements of claims early on in the process. And finally, on accident benefit, it involves a lot around the management of our Rely Network. We see a good benefits from a customer's perspective when our clients elect to go to our [indiscernible] and this -- we have additional initiatives to help on that front as well for big areas.

Kai Pan

Morgan Stanley, Research Division

Okay, that's great. Very comprehensive. Then my follow-up question is on the industry pool. Because this piece is probably less of your control, I just wonder, will that getting worse before getting better. Basically, there continue to be a point of drag on your combined ratio into 2017.

Darren Christopher Godfrey

Senior Vice President of Personal Lines

So I mean, from a pool standpoint, maybe a little background, there's 2 element to the pool. There's one element, which is the Facility Association, now FAS as we like to refer to it, is the market of last choices for the industry. We assume back from the Facility Association our market share proportion of their underlying performance. The other element of pools is what we call the resharing pools. So this is we're the industry and individual companies, it's a mechanism whereby we have the ability to seed underpriced risks, what we deem to be underpriced risks to this industry pool, and then we issue back a portion of the total pool. Now those 2 pools do represent a very small portion of the total industry. So not too sure we could sort of say that they are reflective of overall performance. Now we definitely do see noise in the pools from quarter-to-quarter as you've seen in our results over the last few years. We will have some quarters like this year -- sorry, this quarter in Q4, where we've had some unfavorable developments. We've seen in other quarters where we're seeing significant favorable developments. The pools themselves operate, and we get a quarterly update from their actuary with updated reserve valuations. So that, obviously, can generate some of the noise. Sometimes, there's a timing mismatch between maybe where we may recognize something from a PYD or a current accident year development standpoint. It may be a timing mismatch for the pool as well. So we don't see that the pool is sort of a longer-term drag. But definitely, from quarter-to-quarter, we will definitely noise in '17 just like we saw in '16 and prior years as well.

Charles Brindamour

Chief Executive Officer and Director

Yes. I think in the fourth quarter, the drag was 3 points roughly when you put current accidents prior year from pool, only year-to-date in personal auto it's 0.7%, and I think Q4 was probably a function of a good pool performance in Q4 last year versus a not-so-good pool performance this year. Not overly worried about the pools being a meaningful drag like we experienced in the quarter for the full year next year, but there might be some choppiness there.

Operator

Your next question comes from the line of Meny Grauman, Cormark Securities.

Meny Grauman

Cormark Securities Inc., Research Division

Just going back to personal auto. Just a broader question in terms of when you see a quarter like we saw in Q4, what gives you confidence that you are taking the right steps to address those problems? I guess another way to ask it is, could you say that maybe the measures are not strong enough, and so how do you gauge that? I know it's probably an art and a science together, but I'm just wondering what your perspective is on that.

Charles Brindamour

Chief Executive Officer and Director

Well, I think that -- I'll take this one, Darren. At a high level, how I do comfort myself that we're being proactive enough. And I would say that I look at what's in the pipeline in 3 different buckets at the high level. The first bucket is what we're doing in terms of pricing, risk selection, claims, improvements and so on, and I think that's what Darren and Patrick have talked about. And these are things that are baked in the system. I think the fact that there's 4 points of earned rates, that's easy to execute upon. I mean, you put it in the machine, it goes out, and then you manage your retention, basically. The claims piece is not as easy to execute upon. But there's a fair bit of things in the pipeline, and the claims guys are really good at executing. So in that first angle, which is what we do, there's more than mid-single digit worth of meat in the system. So that's point number one. The second lever is reforms. So part of the issue now is there have been reforms in the past few years, meaningful reforms in the spring in Ontario, further reforms in June, and we have yet to see the full benefits of those, though we're very confident about the quality and the nature of these reforms, and there might be more this year. How much is that actually worth, I'm not sure, but I know it's worth something. And part of it, we've reflected in pricing earlier in June to work with the government to reflect the impact of what we think is pretty good work on their part. So that's the second bucket that gives me confidence that inflation will be in check in part in Ontario, for sure. And I think the third bucket, and I think this is a much tougher one to assess, is the fact that our teams in the fields are dealing with many changes at the same time, are becoming more efficient, are processing claims faster, and that is also, to a certain extent, reflected in the numbers, which gives me a fair bit of confidence that between the actions we're taking, the impact of the reforms and the fact that our folks in the field are probably processing claims faster and that might point to some deterioration, which is, in fact, process-driven as opposed to ultimate cost-driven, I think it gives me a reasonable degree of confidence that we will see mid-single digit improvements in 2017. It's important to keep in mind in all of this that personal automobile is a long-duration product and that it is a regulated environment, and that there's a lag between the data set you can use to price the product. And the moment at which the product is actually consumed, that is when the claims is paid. That, in itself, in personal automobile is a source of uncertainty and it's certainly, from quarter-to-quarter, it's not surprising to see some noise. Now the better you are at identifying trends, segmenting the business, the more aggressive you are at taking action and being ahead of the market, the more you outperform. That's what we've done in the past 20 years here at Intact, and I think these past few months and the coming year will be very much about that. And we try to overexecute on what we control and beat our competitors in the exercise.

Meny Grauman

Cormark Securities Inc., Research Division

And then just to clarify. You talked about the timing in the previous question but sort of, I guess, an important time mark for you would be sort of the middle of the year. If you were to see a lack of progress

in the middle of the year with -- that would be a time where you would reappraise the situation and not earlier? Is that a fair assessment? Or how would you look at the timing?

Charles Brindamour

Chief Executive Officer and Director

We do that every week, to be honest with you. I mean, we monitor the progress in the field. We monitor the progress in claims, and we reassess weekly, at the latest, on a monthly basis, like this is how we run the business. I think there might be some choppiness in Q1. There might be some choppiness in Q2. But the execution will be monitored very closely on a weekly basis. And there are a number of things that are again like rates for instance, it's just running in the system. And I think Darren's point, which is when you compare the earned of 1 in Q4, the written of a little more than 2 in Q4 and when you look in January with the series of rate increases, the written is close to 4, I mean, this is just happening. So we reassess frequently. I think, for sure, that when we hit June, I'm hoping that those things are well ingrained and have created momentum.

Operator

Your next question comes on the line of Tom MacKinnon of BMO Capital.

Tom MacKinnon

BMO Capital Markets Equity Research

Two questions. One, I think you talked about a reversal of the tax accrual in the quarter. I'm wondering if you could quantify what that was and what we should be the tax rate, which I think the operating tax rate which I think was 23% in the quarter, what we should see that going forward because it's a little bit higher than what we've trended at? And then I have a follow-up.

Louis Marcotte

Chief Financial Officer and Senior Vice President of Finance

Sure. In fact, the reversal occurred in 2015 comparatives. So we have a big jump from '15 to '16, and that's because we had reversed a provision in 2015.

Tom MacKinnon

BMO Capital Markets Equity Research

Okay. I misunderstood. And then my second question -- so you think the 23% that's we're seeing on an operating basis right now seems to be ...

Louis Marcotte

Chief Financial Officer and Senior Vice President of Finance

No, that's a bit high. I would say there's probably 1, 1.5 points that is quarterly fluctuations. So I would not expect that to trend going forward. I'd be much more in the 21.5, 22 range on an ongoing basis.

Tom MacKinnon

BMO Capital Markets Equity Research

Okay. And then I really think this pool stuff was causing a lot of noise in the quarter here. Just looking at what it was in the fourth quarter was -- of '15, there was only \$6 million, and all over 2015 there were \$6 million loss in pools. And then the fourth quarter 2016, we had a \$24 million loss from pools, and that was half of the entire 2016 loss. I think, really, this noise from the tax and the pools really caused a lot of the maybe some of the confusion in the quarter. I'm wondering if you could help us model what pools should be going out, you had \$6 million for 2016 \$48 million or for 2016, and as I said, \$6 million for 2015. How should we think about that going forward? Because obviously, this is causing some volatility and it's not necessarily attributable, Charles, to your business.

Charles Brindamour

Chief Executive Officer and Director

Yes. No, fair enough, and I think the pool would look at their provisions, and their financials maybe in a different frequency than we run our own business. I think next week is the Investors Day. And you know what, I will commit to sort of provide better guidance at the Investor Day. We'll devote a specific questions on it, and give us a week to sort of think about '17 in that regard, which is not something we have spent a lot of time on. I think we're -- we totally understand '16. I think we're comfortable with the overall provisioning of the pool at the end of '16, but we'll spend a bit of time and take a prospective view of the pool and put that on the table at the Investors Day. Does that work for you?

Tom MacKinnon

BMO Capital Markets Equity Research

Yes. That's good.

Operator

Your next question comes from the line of Mario Mendonca, TD Securities.

Mario Mendonca

TD Securities Equity Research

Charles, could you just put a like fine point in your guidance are offering a personal auto. You're saying that the improvement could be mid-single digits in 2017 relative to 2016. I think that's the way I've interpreted it. So if I were to use the current year claims ratio in 2016 of about 76.6, I think I'm close to what the actual number is, are you suggesting that could be 500 basis points lower in 2017, full year?

Charles Brindamour

Chief Executive Officer and Director

Pretty much. Yes.

Mario Mendonca

TD Securities Equity Research

That's significant because that would take us back to the levels that we saw, say in 2012 and 2013, which were pretty good years. So you're saying you can reverse pretty much everything, the deterioration we've seen throughout 2015 and '16 in 1 year?

Charles Brindamour

Chief Executive Officer and Director

I think we're certainly have lots in the pipeline Mario, that I feel will create some momentum throughout '17.

Mario Mendonca

TD Securities Equity Research

That's helpful. I just -- the reason I want to clarify, just -- it seemed like a big commitment to take it down back to what we saw in '12 and '13. And I appreciate that a lot of it could be pool-related. It just seemed like a big statement, and I wanted to clarify.

Charles Brindamour

Chief Executive Officer and Director

Yes. I think there are cats and things of that nature that took place, but I think we're closing the year with 100% combined ratio. This is far from the level at which we operate the business. And we think there's mid-single digit improvement, all else being equal.

Mario Mendonca

TD Securities Equity Research

I hear you. I think given your track record, it's important to take these things very seriously that's why I'm clarifying.

Operator

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

Jaeme Gloyn

National Bank Financial, Inc., Research Division

First question is related to the uptick in bond yields that we've seen over the past couple of months here. I'm just wondering, given your forecast that investment income is going to continue to decline in 2017 modestly, if rates were to stay flat, where would the inflection point be for investment income to start picking up given the maturity, maturing bonds reinvesting at a higher yield?

Louis Marcotte

Chief Financial Officer and Senior Vice President of Finance

So at this point, we see it, as I said, moderately decreasing. What we've estimated it would take probably a 35, 30 bps increase for us to have that investment income stable. So we need that level of points to bring it to stability. And in terms of inflection point, assume you were talking about time?

Jaeme Gloyn

National Bank Financial, Inc., Research Division

Yes.

Louis Marcotte

Chief Financial Officer and Senior Vice President of Finance

And given the turnover in the portfolio, we're probably in the, I'll say, north of what, more than 12 months. Probably at least, I would say, 9 to 12 months out.

Jaeme Gloyn

National Bank Financial, Inc., Research Division

Okay. And so just to confirm then, it would be 35 basis points from where we are today or from the, I guess, the average yield of 2016? Or what would be the base for that?

Louis Marcotte

Chief Financial Officer and Senior Vice President of Finance

End of '16, where we closed '16.

Jaeme Gloyn

National Bank Financial, Inc., Research Division

Where we closed '16, okay. And a quick question on the National Bank and Sun Life relationship. What -- how will that be broken down by line, I guess? Could you give a little bit more color on what relationship is going to bring in terms of the \$50 million in premiums written?

Charles Brindamour

Chief Executive Officer and Director

So this was a 50-50 partnership. And so the \$50 million, the incremental premium we're picking up by taking over that partnership, it's a white label agreement. belairdirect is running the business through National Bank it's through of Sun Life. I think the Sun Life sort of a smaller, much smaller impact than this acquisition. It is, of course, a personal lines deal and weighted towards personal automobile, 60% to 70% personal auto. The rest, personal property. And it's Quebec-only in the case of National Bank. We love the business in Quebec and so for us to strengthen belair position in Quebec strategically, really good. And we like to work with National Bank. They're good people.

Jaeme Gloyn

National Bank Financial, Inc., Research Division

Okay. And this commenced, I guess, in 2017? Or is it due to commence soon?

Charles Brindamour

Chief Executive Officer and Director

December was the closing.

Operator

The next question comes the line of Paul Holden, CIBC.

Paul David Holden

CIBC World Markets Inc., Research Division

So first question is related to commercial P&C. So we saw a bit of a downtick in premiums written year-over-year. And as you highlighted that's related to Western Canada. Wondering how we should be thinking about that business in terms of premiums written for 2017 given some of those macro factors versus some initiatives you're doing in specialty lines?

Charles Brindamour

Chief Executive Officer and Director

Go ahead, Alain.

Alain Lessard

Senior Vice President of Commercial Lines

When we look at the growth or the minus 2.9% in the quarter, like we said, some of that is driven -- there's a bit of timing issue but very small, 0.3%. We've got some action coming up from profitability action, where segmentation and risk selection has led to about 25% of the explanation for the reduction there, which is about 0.7 points. And the economy drag, and I think that's the part that's probably the most difficult to predict or see where it's going, the economy drag in the quarter is probably in the 40% to 50% explaining that reduction in growth. And we see the same thing at the industry level. When we compare like the industry -- our performance compared to the industry, we don't have the Q4 results but we have our experience at the end of Q3. At the end of Q3, we were reducing by 1%, but the industry of the same period of it was reducing by 2.3%. And in both cases, that was -- the biggest drag was really coming from economic condition in Western Canada. Our view, when we look at it, and we look at it combining commercial auto and commercial P&C together is really to see that going forward, this will operate at a very low single-digit growth in 2017.

Paul David Holden

CIBC World Markets Inc., Research Division

Okay. And then my second question would be related to belair. So you've invested a lot in new technology, invested a lot in advertising over the last couple of years, particularly targeted at the Ontario market. So just looking for an update on, I guess, realized growth and then also growth appetite for the year ahead.

Charles Brindamour

Chief Executive Officer and Director

Yes. I think the last 2 years in the direct channel with a number of acquisitions the brand being deployed from coast-to-coast. We've just finished the integration of CDI, Canadian Direct Insurance, which improved our position in Alberta. We feel pretty good about the level of that platform and its performance, like it's doing really well. The growth in '16 in the direct channel was 11% and 7% if you were to exclude the impact of CDI. So for me, a business that's doing well from a combined ratio point of view with that growth profile, I think that's pretty good. And quite frankly, I've been happily surprised by how well these guys have established the brand in the new markets they're in. And I've been happily surprised by how much response we've had from customers to the new digital innovation we've launched, new quick quotes and various service platforms where the response has been stronger than what I anticipated. So I think that this is a business unit that is growing North of mid-single digit. I think that the CDI

impact certainly won't be there in 2017 but this is an upper single-digit growing business. That being said, we're thrilled by the progress we're making in Intact Insurance and the progress we're making in BrokerLink, like BrokerLink now is approaching \$1.2 billion. The margins are very strong and you're seeing the distributions profit of \$114 million pretax at the end of 2016. Keep in mind, this is a new business generation machine that feeds Intact Insurance. And the growth in our broker distribution business, Intact Insurance, is also quite good, and we're prepared to support that growth, as much growth as we can in Intact Insurance because these guys are doing well. I mean, Intact Insurance has grown close to 4% in 2016, which is faster than the industry. And I think we -- when I look back at the year, certainly would've loved to have made bigger acquisition. But organic -- from an organic growth point of view, we've grown close at twice the speed of the industry. So when you have close to 20% of the market and you outperformed from an ROE point of view by 670 basis points, if you can grow organically almost twice as fast as the industry, it's a good place to be regardless of the distribution channel you're in. That's sort of how we look at the world.

Paul David Holden

CIBC World Markets Inc., Research Division

And hopefully, at the end of 2017, the message will be a little bit different on the big acquisition. We're glad we did the big acquisition in 2017.

Charles Brindamour

Chief Executive Officer and Director

Yes. I think the message we want to have at the end of '17 is about personal automobile performance.

Operator

Your next question comes from the line of Brian Meredith, UBS.

Brian Robert Meredith

UBS Investment Bank, Research Division

Charles, first question here. I noticed that your language with respect to your outlook on commercial pricing environment is changed. You took out the commentary about firming market or firm market. If you can you give us a little color behind why you believe that you no longer see a firm market?

Charles Brindamour

Chief Executive Officer and Director

Yes. I think as I mentioned earlier, we've been 4 years' worth of rate increases, generated 13% rate increases in what was a firming market to a firm market to a market that is -- been still competitive throughout with pockets where we could take -- or meaningful pockets where we could take action. I'll let Alain give you a bit of color on that market. And Brian, I think it's important to understand that we're in the small to mid-space and a meaningful presence in specialty lines that is doing quite well. Why don't you, Alain...

Alain Lessard

Senior Vice President of Commercial Lines

So if I look at where we see what we see in the market, a little bit like Charles explained. The market was competitive, but we saw throughout the year lots of pockets on places where type of risks where we saw rate increase, more underwriting action, selection from our competitors. This is still continuing, but at the same time, I would say that by the end of the year, this was happening to probably a lower extent than the beginning of the year. Throughout the year, we've continued to basically increase rate. And in fact, when I looked at the rate increase in the fourth quarter, it's about 3% that we've passed through on the renewals. And yet at the same time, our retention as -- almost not dip. We saw a small dip in the last quarter of less than 0.5 point, okay, and that's part of what we're doing in the segmentation and the selection and some corrective measures on ourself on pockets of the risks. So that is what we think the market remains competitive. It's still open to some rate increase, okay, but maybe a little bit less. On our case, we're continuing to pass the 3% rate increase. Our aim is to continue to protect our margin and

improve our portfolio. And basically, if I look at what's happening right now, we're going to be earning -- the rate level of what we'll be earning in the next 18 months will continue to rise.

Charles Brindamour

Chief Executive Officer and Director

I think, Brian, just to put things in perspective, when I look at our retention in December, it's 89.3%. It is a little bit lower than what it was a year before. The industry is still in a rate increase environment. I think there are indices that point to that, but I think we're just being cautious with the words we use. We like what we see in a market. There's always people who do crazy things, and that's fine. That's part of how one outperforms. But at the end of the day, we're focused on growing earnings, and we will see rate increases go through the system even though the performance is getting pretty good. Alain -- the industry's performance in commercial lines is not great. And I think that's important to keep that in mind, Brian. So do you want to comment maybe Alain on the industry?

Alain Lessard

Senior Vice President of Commercial Lines

Well, the industry was -- 2016 was really affected.

Charles Brindamour

Chief Executive Officer and Director

Yes, just 9 months.

Alain Lessard

Senior Vice President of Commercial Lines

Yes, we are just 9 months but we outperformed, in fact, the industry on a loss ratio basis by 15 points. So that would put basically the industry results north of 105%, 106%. That's certainly affected by Fort McMurray, but there is not really -- this will continue as a pressure point on the industry to continue to have some rate increase.

Charles Brindamour

Chief Executive Officer and Director

Yes. So I guess, Brian, I sort of used that as a key data point to say, this is not a soft environment by any means. If anything, if people look at their performance closely, you could expect the industry to take a firmer view. But because we've seen the retention dipped a little bit, we're sort of cautious with our language. In the meantime, you'll see rate increases go through the system.

Brian Robert Meredith

UBS Investment Bank, Research Division

Great. My next question, Charles, just curious. In the past, you've kind of mentioned that a possible area of acquisition would be a small commercial in the U.S. Given the changes we've seen in the administration and kind of the political climate here in the U.S. and some of the things that the administration has talked about doing, for economic growth, et cetera, et cetera, has that changed at all to kind of your views with respect to that type of an acquisition?

Charles Brindamour

Chief Executive Officer and Director

No. I think that we're in this for the long run. And we feel that this is an environment where we can bring something to the table, given we have close to a 25% market share in that space in Canada and outperform at least our Canadian competitors. We are not well-positioned to help Canadian businesses who do business in the U.S. for sure, but I think the opportunity set in the U.S. is significant. We've studied it for a long time. And what's happening in the near term in the U.S. is not changing our view of the opportunity there.

Brian Robert Meredith

UBS Investment Bank, Research Division

Got you. Could it make an actually even a better opportunity from your perspective?

Charles Brindamour

Chief Executive Officer and Director

It could, indeed. Yes.

Operator

Your next question comes in the line of Meyer Shields, KBW.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

One quick question. I don't know if you want to address next week, but what are the -- what's the pricing flexibility on the industry pools?

Charles Brindamour

Chief Executive Officer and Director

So there is 2 different setup. One is what we call the risk-sharing pool, which is companies seeding some of their own risks in the pool. That's all done at the companies filed rates, okay? So your question really applies to what we call the Facility Association, which is a separate insurance company. We actually manage half of it, roughly, on behalf of the industry, and we receive a fee to manage that unit. And there -- the facility in those jurisdictions would have to file rates the same way an insurance company would. But regulators understand that the facility has to have the highest rates in the market because it's the market of last resort. If the facility didn't have the highest rate in the market, you'd end up with lots of rates -- risks in the facility, and that would be bad market dynamics. So I would say in general, there is reasonable flexibility. Patrick was running claims. You're involved on the board of the facility association. Maybe you want to give perspective.

Patrick Barbeau

Senior Vice President of Claims

Well, you're absolutely right, Charles. On the FA, which is what we call the last resort, is to ensure availability of auto insurance for everyone. So it's really -- it does -- the idea is not for it to compete with probably insurance results, always the highest rates in the market. And it's based on filing. There's nothing in our jurisdiction that we can fully reflect maybe what would be normal cost of capital in the rates. But besides that small margin globally, we filed the FA5 full indications. And that's not a source longer-term, I would say, of loss because we filed for it. More, the pools, though, is each insurers seeding the risk that they believe that were not able to have enough rates. So the portion of their book. And on that overall, it is deficient. But on the other end, when we count pools, we also have our seeding ourselves, our worst risk, and there's benefit from that pool overall. We'll come back, as you say, Charles, next week with probably more details, but I don't expect long-term the total of those 2 things be significantly deficient.

Charles Brindamour

Chief Executive Officer and Director

Yes, exactly. Okay. Thank you, Patrick.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

That's very helpful. The second question. I guess if you look at the full year personal property results from the perspective of, I guess, underlying attritional non-catastrophe weather losses and major catastrophes, can you talk about how those compare to expectations broadly?

Charles Brindamour

Chief Executive Officer and Director

Yes. So personal prop closing the year at 91 with Fort Mc in there, I would say is probably slightly better than what we would have expected. And we would've not expected Fort Mc. I think we talked about the fact that we want to position ourselves to do well in good and in bad times. And I've told investors for us, that sub-95 in bad times. So when you look at 91 and Fort Mc in there, plus a decent load of cat, what -- I think that this is better than what we had anticipated. Maybe you want to give you some more color, Darren, because while I say that, we're still moving the needle from a rate and risk selection point of view in that line of business.

Darren Christopher Godfrey

Senior Vice President of Personal Lines

No. Absolutely, Charles. So when we look at Q4, top line was up 7.5% in the quarter. And there is some rate in there. It's about 3 points of rate, but we are also still growing units as well close to 5 points of unit growth. So that's a line of business that, yes, we've taken some strong actions in the past, both in terms rate but also in terms of product, but we're continuing to grow and really outgrow the industry within that line of business as well. We have taken further action in particular targeted segments. We have taken a little bit of further action in Alberta with respect to hail and our coverage around hail, again following another tough summer from a hailstorm standpoint. So we're continuing to grow our margins in targeted segments where we feel that we need to create maybe further sustainability in terms of the product.

Charles Brindamour

Chief Executive Officer and Director

Yet. No, exactly. And I think, look, I mean the reality is with personal automobile performance being subpar as far as we're concerned, we're not in the mindset of letting margins go to grow in other lines of business even though those other lines of business are good. I mean this is the practical reality of running an insurance company, at least like ours.

Operator

We have a follow-up question from the line of Kai Pan of Morgan Stanley.

Kai Pan

Morgan Stanley, Research Division

Just a clear follow-up on the PYD commentary in your management discussion and analysis. You said fourth quarter PYD of 3 points is in line with your long-term expectations. For the full year, it was about 5 points, and that's remain consistent with long-term historic levels. So are you expecting 3 points or 5 points going forward?

Charles Brindamour

Chief Executive Officer and Director

We've talked about 3 to 4 points. I've -- every time this question has been asked, I think in a past few years, I said this is how you want to look at the future even though it's been 5, 6, 7 points in the past few years. I think 3 to 4 points is the right way to think about that.

Operator

There are no further questions at this time. I'll turn the call back over to the presenters.

Samantha Cheung

Vice President of Investor Relations

Thank you, all, for your participation today. Following this call, the telephone replay will be available for 1 week, while the webcast will be archived on our website for 1 year. A transcript will also be available in our website in our quarterly financial archive. I should also note that we will host an Investor Day 1 week from today in Toronto on February 15. Please let me know if you would like to attend. As well, we will host our Q1 2017 Earnings Call and AGM on May 3. Thanks, again, and this concludes our call for today.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.

The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.

THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.

© 2017 Capital IQ, Inc.