S&P Capital IQ

CONTENTS

Intact Financial Corporation TSX:IFC

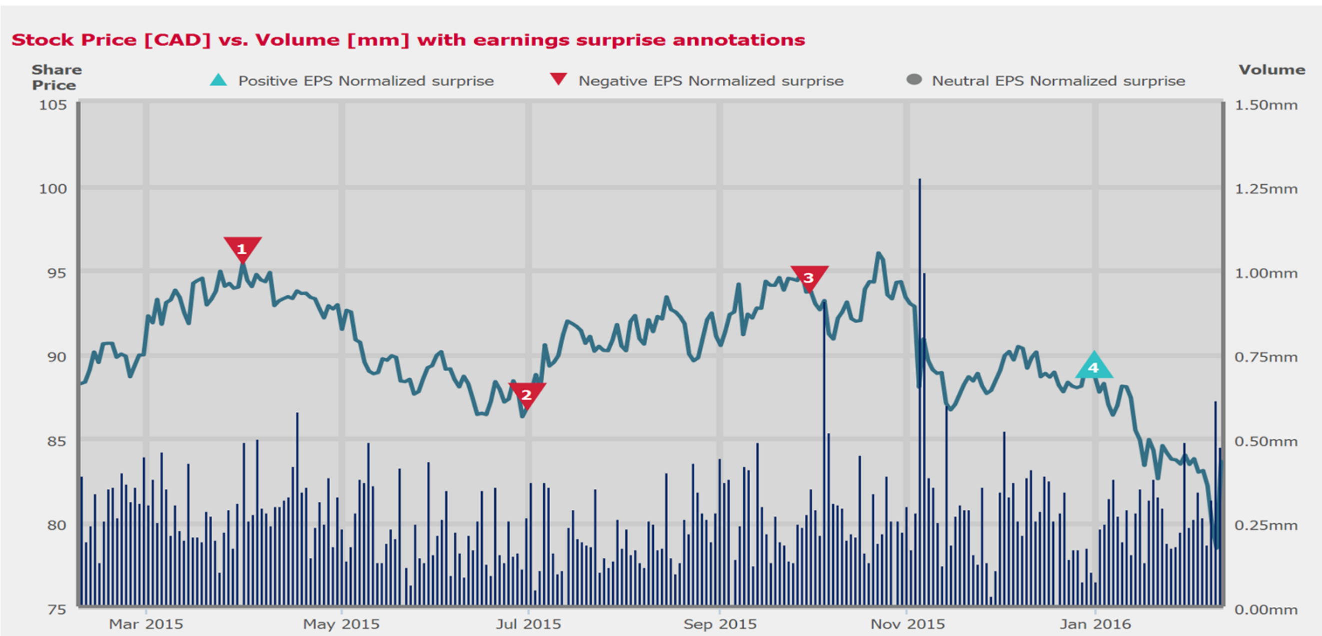
FQ1 2016 Earnings Call Transcripts

Wednesday, May 04, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.48	1.46	▼(1.35 %)	1.50	6.66	7.16
Revenue (mm)	1941.64	1918.00	▼(1.22 %)	1999.53	7954.44	8239.69

Currency: CAD
Consensus as of May-04-2016 2:54 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	1.39	1.37	▼1 (1.44 %)
FQ2 2015	1.66	1.56	▼2 (6.02 %)
FQ3 2015	1.63	1.47	▼3 (9.82 %)
FQ4 2015	1.65	1.97	▲4 19.39 %

Call Participants

EXECUTIVES

Alain Lessard
Senior Vice President of Commercial Lines

Charles Brindamour
Chief Executive Officer and Director

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Mathieu Lamy
Chief Information Officer and Senior Vice President

Patrick Barbeau
Senior Vice President of Claims

Samantha Cheung
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Presentation

Operator

Good day. My name is Steve, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corp. First Quarter 2016 Earnings Call. [Operator Instructions] Samantha Cheung, Vice President, Investor Relations, please go ahead.

Samantha Cheung
Vice President of Investor Relations

Thank you, Steve, 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; Patrick Barbeau, SVP of Personal Lines; Alain Lessard, SVP of Commercial Lines; and Mathieu Lamy, SVP of Claims. We'll begin with prepared remarks followed by a Q&A session.

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

Charles Brindamour
Chief Executive Officer and Director

Good morning, everyone, and thank you for taking the time to join us this morning.

So let me first provide some perspective on the fire events that continue to develop in Northern Alberta. Our thoughts first go out to the people and families at Fort McMurray, including our employees and our customers. Our first concern is with their safety. So we've been monitoring the situation since last weekend and activated our catastrophic response plan yesterday. Additional resources are ready to mobilize should the need arise in the coming hours and days. We continue to assess the situation as we talk. But for now, we're focused on bringing our customers back on track.

Earlier this morning, we announced first quarter net operating income of $1.46 per share, 7% better than last year, on the back of a solid underwriting performance. Our top line grew 7% in the quarter, with double-digit growth in personal lines. Our customer experience innovations and organic growth initiatives have clearly been successful and helped offset the headwinds from the Alberta economy.

We improved our combined ratio to 92.5% as our property lines delivered strong results and our auto performance continues to improve, thanks to milder winter conditions and our initiatives to address cost pressure.

Our operating ROE stood at 16.7%, a healthy level particularly in light of our strong capital position. We ended the year with $904 million of excess capital and our book value per share grew 3% over year to $40.06.

In terms of outperformance, we beat the industry's ROE by 510 basis points in 2015, driven mainly by our underwriting performance, offset by the effect of weaker capital market.

Let's now look at our first quarter results by line of business. Personal auto grew 10%, including 3 points from CDI, driven by our customer experience improvements as well as other growth initiatives. The combined ratio improved 4 points to 96.4%, helped by milder winter conditions and profitability actions.

We seek further improvements in the combined ratio by taking actions to offset cost pressure. In Alberta specifically, we're increasing rates and optimizing our claims strategy to address pressure in bodily injury claims.

When it comes to the industry in personal auto, we continue to anticipate low single-digit growth in the coming 12 months. Our view in Ontario auto has not changed as we still expect rate reductions from reforms to be largely in line with government cost-reduction measures. Given the irrational competitive environment across the land, we anticipate that claims cost inflation will lead to moderate rate increases in the coming 12 months.

In personal property, we grew our premium by 12%, including 3 points from CDI, as rate increases and growth initiatives were deployed in favorable market conditions. Our combined ratio of 82.9% reflects a very strong performance, with normal cat activity and elevated large losses, suggesting that our improvement plan remains quite effective.

We continue to see hard market conditions in this line of business leading to upper single-digit growth over 12 months for the industry. With new products on the shelves, including both our Lifestyle Advantage and Enhanced Water Damage Package, we're very well-positioned to capture further growth opportunities in this segment.

In commercial P&C, we shrank by 2% year-over-year as headwinds from a slowing Alberta economy offset growth in other regions. This line delivered a solid combined ratio of 92.4% as the underlying current year loss ratio improved by 2.4 points, demonstrating that our profitability actions continue to pay off. We believe industry conditions should support low single-digit growth in the coming year.

Commercial auto premiums grew 3.4% in the quarter as the impact of corrective measures and rate increases were offset partly by economic conditions in Alberta. The combined ratio remains elevated in our view at 97.5%, but the improvement in the underlying loss ratio is a positive sign, further strengthened by milder winter conditions.

That said, we're continuing with our corrective measures, aiming for a low 90s combined ratio within 12 to 18 months. In terms of industry outlook, we believe the market, while still competitive, is firmer, leading to mid-single-digit premium growth in that segment.

While growing and improving our businesses in the quarter, we also deployed a number of strategic initiatives. On April 19, we announced the partnership with Turo Inc., a peer-to-peer car rental company, concurrent with its first expansion outside the U.S. into Canada. This represents another concrete example of our strategy to develop products that meet evolving customer needs. Actively participating in the emerging sharing economy provides potential new growth streams and an opportunity to accelerate our learning, while leveraging our core competencies.

We also introduced our Intact Service Centre in Calgary, the first to be launched in urban areas across Canada. Our customers can now enjoy a simpler, faster and more convenient auto claims experience.

I'm also pleased to announce some executive changes, enabling us to accelerate our strategic initiatives. Jack Ott, currently Chief Information Officer, will become Senior Vice President of Innovation Partnerships. Jack will bring his knowledge of technology in helping our venture team advance a number of partnerships and investments in disruptors.

Mathieu Lamy, currently Senior Vice President of Claims, will take on the role of Chief Information Officer. Mathieu's focus will be on continuing our software engineering transformation and advancing our enterprise-wide data strategy. The Intact Lab will also report to Mathieu to bring our research and design unit closer to our development team.

Patrick Barbeau, currently Senior Vice President of Personal Lines, will now bring his depth of experience to the role of Senior Vice President, Claims.

But I'm also pleased to introduce Darren Godfrey as our new Senior Vice President, Personal Lines. Darren brings a wealth of experience across actuarial, claims and personal lines since he joined Intact 15 years ago. You'll hear from Darren at our next earnings call.

Finally, to accelerate our drive to become the Canadian leader in specialty lines and surety, we're creating a national unit solely focused on excelling in this segment. To make that happen, I'm pleased to announce the appointment of Joe D'Annunzio as Senior Vice President of Specialty Solutions and Surety. Joe's leadership over the years gives me confidence that Intact will be second to none in talent, expertise and product in this segment.

I think we really have the privilege of having a world-class team in place, and changes like these speak to the depth of our talent pool and our ongoing commitment to people development.

So in conclusion, 2016 is off to a good start, with strong momentum in both top and bottom line and a solid balance sheet to support our growth ambition. Our customer-driven strategies such as our online experience improvements, new products and service excellence support our strong organic growth momentum. Our property lines are performing very well in terms of combined ratios and we're improving our auto results.

We're confident that our expanded leadership team, combined with our actions, will continue to help us outperform the industry's ROE by 500 basis points and grow our net operating income per share by 10% over time. We believe our focus on the customer experience, our employees and financial performance places us in a very strong position to benefit from the environment in which we compete.

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

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Thanks, Charles. Good morning, everyone. Q1 2016 has clearly been a strong quarter for Intact, with top line growth of 7%, a combined ratio of 92.5% and an operating ROE of 16.7%. These results were delivered while maintaining a strong balance sheet, with $904 million of total excess capital and an MCT of 215%.

I was pleased to see our underwriting income grow 23% compared to last year, driven by 8% higher earned premiums and a 1 point improvement in our combined ratio. This is well-aligned with our strategic roadmap to grow earnings through organic growth, margin improvements and capital management initiatives.

When looking at our core underwriting results, we see a 4-point improvement in the underlying current year loss ratio, with contributions from our auto lines and commercial P&C.

In personal property, we incurred non-cat weather events and large losses which were 5 points higher than last year. Despite these losses, the underlying current year loss ratio remains stable at 55% in this line of business.

On a core underwriting basis, our property lines continue to perform well, and we are pleased to see improvements in our auto lines. Favorable prior year development amounted to 8.4 points in the quarter, very much in line with historical levels for Q1 despite being 2 points lower than last year's elevated level.

Finally, the expense ratio was 0.3 points higher than Q1 of last year, essentially due to growth initiatives and premium taxes.

Our distribution activities delivered pretax earnings of $14 million, in line with expectations, but below last year when we recorded higher variable commissions. This income source should deliver earnings north of $110 million in 2016.

With regards to other operating items, we reported stable investment income in the quarter and still expect a mild erosion over the next 12 months as the low yield environment continues to be challenging.

Moving on to nonoperating items. We reported nonoperating losses of $58 million in the quarter, $44 million more than last year. The year-over-year change relates primarily to weaker capital markets, differences in interest rate movements and gains recorded last year related to broker transactions. Despite the recovery of the TSX this quarter, we recorded $22 million in impairments, a similar level to last year.

Our Q1 2016 effective income tax rate of 21.6% is in line with our expectations. It is 3 points higher than last year, essentially due to the tax treatment of nonoperating gains recorded last year.

In summary, our net operating income per share grew 7% year-over-year, but lower nonoperating results led to a reduction of earnings per share to $1.11.

Finally, a few comments on our financial position. Our MCT increased 12 points this quarter to 215% on the back of strong earnings and 4 points from the phase-in of the 2015 and 2016 MCT guidelines. Our total excess capital amounted to $904 million at the end of the quarter, including the proceeds from our $250 million debt issue earlier in March.

We issued this debt to capture low interest rates and optimize our capital structure, bringing us close to our target debt to capital ratio of 20%. The notes bear an interest rate of 3.77% and mature in 10 years.

Our balance sheet remains strong. During the quarter, our investment portfolio moved into an unrealized gain position of $35 million. This was driven by a strong recovery in the common share portfolio offset in part by a decline in the price of rate reset preferred shares.

We executed on our buyback during the quarter, purchasing some 230,000 shares for a total cash outlay of $20 million. This is aligned with our capital management framework and our stated intention to use the buyback opportunistically, preferring to deploy capital on growth initiatives. In this respect, we invested some $84 million in brokerages and ventures during the quarter.

In conclusion, our profitability measures in the property lines continue to be effective and we have clear action plans to further improve results in auto. We firmly believe consolidation in the domestic P&C industry will continue, both in manufacturing and distribution, and we will continue to be active participants. We are patient and disciplined in our approach and have been rewarded for investing in organic growth in this environment. With a solid operating position, a strong balance sheet and a deep talent pool, we are well-poised to capture emerging opportunities.

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

Samantha Cheung
Vice President of Investor Relations
Thank you, Louis. Steve, we are now ready to take your questions. [Operator Instructions]

Question and Answer

Operator

[Operator Instructions] Your first question comes from Tom MacKinnon with BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

One quick question and then a follow-up. I guess, the quick question would be on the distribution income. I think it was only $14 million in the first quarter, but, Louis, you think it's going to be north of $110 million for 2016?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

That's right.

Tom MacKinnon
BMO Capital Markets Equity Research

So obviously, we're not in that kind of run rate. What happened in the first quarter that made it kind of lower than that run rate? And why would you anticipate it would pick up in the ensuing quarters this year?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

So these income sources tend to be seasonal. And our expectation, in fact, is to get roughly 15% of the annual income in the first quarter. And that's really driven by the seasonality of the written premiums as well.

So to what is normal, it's a variation to last year because last year we actually recorded higher variable commissions in the first quarter, simply because brokerages were recording the benefits of the previous year into Q1, a true-up of the previous year into Q1. But that's really -- it adds a bit of volatility, but when we plan our income throughout the year, there's about 15% of the annual run rate that is booked in the first quarter.

Tom MacKinnon
BMO Capital Markets Equity Research

And I think you guided to that number to be $100 million in 2015, and you actually exceeded that a little bit. Is that correct?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

That's right. So we did $104 million last year and we were guiding towards 10% growth. And I just stated we would expect that to be north of $110 million this year.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And then, Charles, maybe if there is any more context you can give with respect to Fort McMurray. If we look back to Slave Lake, which was the second largest insurable disaster in Canada after the ice storm in Quebec, I think that was -- you had preannounced then in the area of $45 million to $55 million after tax, and that was predominantly personal property, maybe a lesser extent commercial and some auto-related coverages.

Is there any way that Fort McMurray is similar to Slave Lake with respect to the -- maybe not necessarily the potential losses because that's certainly something you're trying to assess, but in terms of the breakdown of where those losses could potentially be?

Charles Brindamour
Chief Executive Officer and Director

So Tom, I think it is a bit early to comment. I would say that there are lots of similarities between Fort McMurray and Slave Lake. One big difference is that our market share in Slave Lake was much higher than our market share in Fort McMurray.

We'll, I think, quickly get a picture of what the ultimate will look like. And as we did last time, I think we'll probably inform the market of that once -- a, if it's material, and b, once we have a good grasp on what it is.

I'll ask Mathieu Lamy, our SVP of Claims for a few days now or still, to give you his perspective on Fort McMurray.

Mathieu Lamy
Chief Information Officer and Senior Vice President

Yes. So, like you said, Charles, it's very early. So the effort right now or the focus is preparing our response for when we get access to the site, the field operation. At this point, we have beefed up our phone resources to be able to accommodate the calls that we think are coming.

So far in terms of losses reported since last night, we have about 40 losses reported. Some are evacuations, some are total losses, at least reported by the insured. 40 losses reported, probably 25 fires at this point, very early to assess where this is going to end up.

In terms of exposure, it's difficult to know where the damages are at this point. But in the area, we know we insure about 1,500 houses, 1,300 tenants in condo, some 300 businesses, maybe a bit more, and obviously there is an auto risk that I don't have the numbers, but it's probably similar to those numbers on the auto side.

Charles Brindamour
Chief Executive Officer and Director

And that's the -- let's call this the greater Fort McMurray area.

Mathieu Lamy
Chief Information Officer and Senior Vice President

That's it. What we don't know is what is damaged, what proportion of it will be damaged. This is way too early to know at this point.

Charles Brindamour
Chief Executive Officer and Director

Yes.

Mathieu Lamy
Chief Information Officer and Senior Vice President

And so -- but like you said, Charles, like, focusing on the response right now. And in the coming days, we'll be able to have an assessment of that.

Charles Brindamour
Chief Executive Officer and Director

Yes. No, exactly. Troops, resource, backup plans are in place. We had the people on the ground yesterday actually. And so it's a matter of getting access and hearing and responding to our customers at this stage.

Operator

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

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

My first question was just the wording that you guys have been talking about on the auto, the claims inflation. I know that you guys talked about last quarter looking at more Alberta and the bodily injury stuff. It seemed like the wording seemed a little bit more widespread. I'm just trying to get a sense as to -- are there kind of commonalities or specifics that you can kind of talk about, what's driving it?

And then, I know you've also talked about the pricing increases. Is -- the implementation of the timing, is that going to be kind of simultaneous with it or there might be a delayed impact in terms of when thinking about the combined ratio?

Charles Brindamour
Chief Executive Officer and Director

All right. Geoff, I think -- good observation. I would say that if you go back past few years, we were in a net rate decrease environment in automobile insurance. In fact, if you look at the earned premium in the first quarter, the average earned rate is minus 0.8%. If you look at the written premium in the quarter, you see that it's shifting now in positive territory. And it is a matter of just markets across the land for different reasons moving in a world where you will likely see rate increases. It can be normal inflation; it can be a reversal after years of flat rates or slightly decreasing rates in markets like Quebec, for instance; or it could be markets like Alberta where, as we've talked about last quarter, we're in a corrective mode. Bottom line is we're seeing, certainly, an environment where rates will pick up across the land, as one would expect over time with inflation materializing in the system.

I will leave Patrick to provide additional color and we'll take your next question after.

Patrick Barbeau
Senior Vice President of Claims

So exactly, Charles. We -- as you might recall, in the past 2 years, we've seen a bit of increase in frequency on auto in different parts of the country. Part of it was driven by a couple of tough winters in a row. So that was part of the inflation overall, pretty much affecting mostly the east part of the country.

We talked about the BI claims pressure. We have a robust action plan on both claims and rates that we have started to implement about a year ago. We're starting to see some benefits from that.

And on -- overall, maybe what I could add on the rate increase or the rate actions we're anticipating from the industry, while on our side we have started already to increase a bit more of the rates in different parts of the country, namely the eastern and, obviously, Alberta.

On Ontario, obviously we are now through the reforms. There is a final rate decrease for the industry that's coming up, but there is also normal inflation outside of the reforms that is affecting that line as well, a bit similar to what I just said for the others. And we're at a point where we are also trying to reflect this inflation in our rate number.

Charles Brindamour
Chief Executive Officer and Director

Yes. So I think, in general, reasons vary by province, but our perspective is that if you look at the next 6 to 12 months from a written rate point of view, that will look a bit different from the past 6 to 12 months. In a rational competitive environment, we're -- I think we're not behind the curve on any of these things. I think we're trying to be proactive to make sure that we maintain and improve our margins in that environment.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Okay. And then, just the other question I had was on the commercial P&C side, the DPW was down 4% year-over-year. I mean, units were down 1%. You've talked about some -- the price increase in Alberta was weaker. Just wanted to get, I guess, some color on the year-over-year change, then also how you think that year-over-year change kind of trends as we look over the next couple of quarters.

Charles Brindamour
Chief Executive Officer and Director

Yes, not just for Alberta, I guess, Geoff. You're talking about the line of business in its -- holistically, right?

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Correct. Yes. On looking forward, but just generally speaking in what happened with Q1, just maybe a little bit more color around what drove the year-over-year change.

Alain Lessard
Senior Vice President of Commercial Lines

Well, Geoff, I think the 4.3% you're quoting is the total premium. But there is a bit of 2 years policy in our portfolio, so we look at it more on the net written, if you want, basis, and the decrease is 2.3% basically. So there's a bit, and with the number you quote, a 2-year policy effect. So the net decrease is in fact more around 2%.

There is a few elements coming into that. The first one is we believe that the impact of the economy in Alberta has been a drag of about a point. Okay? We also saw some elements on the surety side. Surety gets to be very lumpy on a quarter-to-quarter basis because there is no renewal. And in fact, surety has affected our growth in the quarter by about another point.

And overall, we have a bit of timing issue. And depending on the prices, the account in commercial lines can vary between $2,000 and up to a multimillion-dollar account, so there's a lot of variation depending on the number of large accounts that you write or we may lose. And we know that there has been an impact in -- from a handful of large accounts in the quarter. So overall...

Charles Brindamour
Chief Executive Officer and Director

In fact, Alain, on that very point, the mix created a mid-single-digit drag on the top line as well.

Alain Lessard
Senior Vice President of Commercial Lines

Exactly. Okay. So this explained pretty much the growth in the quarter. I have looked at the historical growth in our quarter and, in fact, it's been an average for the last 9 quarters roughly about 2.5%. But when you look at the standard deviation, it's about 3 points, varying from minus 3 to plus 7. So that, I think, illustrates the fact that depending on what happens on the timing and large accounts, it has a really impact on the growth overall. So that make me -- looking at one quarter, not necessarily the right trend to look at it. In fact, we don't think there is anything structurally right now preventing us to have a growth that would be necessarily different than what we see in the industry, which would be low single-digit growth.

Maybe more on the market because you were hinting on the rate increase. Basically, we think the market is still experiencing some rate increase. In fact, in the last quarter, our rate increases were about 3.7%. And that is like the 11th quarter in a row with rate increase above 3%, on top -- over the last 3 years, we've increased by basically 13%. So we still -- we think we're still operating in a market that's conducive to having some rate increase. Not everywhere, but mostly targeted on more difficult segments such as condo, realty, restaurant, things like this.

Operator

Your next question comes from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question on the underlying current year loss ratio improvement of 4 points. Could you break down between the mild winter as well as the pricing and underwriting actions you've taken?

Charles Brindamour
Chief Executive Officer and Director

Patrick will give you his perspective. It's a little bit -- I guess, there's a bit of science and art here in terms of removing the impact of mild winter condition. But we'll share with you our perspective.

Patrick Barbeau
Senior Vice President of Claims

Yes. I can share a few comments on the personal lines. When we look at weather, there are single events that can or not reach the cat definition, our internal cat definition. And there's the general winter temperature or accumulation of precipitation that can have access on the different lines, so it's hard to separate the 2.

I think if I look in the 2 personal lines, on the auto side, we've seen an 8% decrease in frequency year-on-year when you compare the first quarter to last year. So a decrease in frequency can be also caused by different things, but we know that a good portion of that was probably driven by milder or better winter conditions.

We have to remember also that the year-on-year comparison is not an easy one because last year was a winter at the other end maybe of the spectrum, or was very difficult winter conditions in many parts of the country. So when we compare this year to the average of the past few years or to last year, that might make a difference.

On the personal property side, not much on the weather -- weather last year or this year. There was about 2 points of cats in 2016 in Q1 and we had none in the Q1 of 2015. So that's an indication.

So it's not all going in the same direction. But for personal lines overall, I think it helps our results in auto, not necessarily part of the equation for personal property.

Kai Pan
Morgan Stanley, Research Division

Okay. That's great. Then, my second question, on the capital management side, it looks like your excess capital, $900 million, and that's about 15% of your shareholders' equity. If you take that one out, your ROE could be 2 points higher.

So just wonder how -- my question really is how big of the excess capital you're willing to hold and for how long before you consider other capital management activities outside investment and acquisitions?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

At this point, we raised the debt and that rose the excess capital. Our view that we should raise the debt now because the interest rates were attractive, so we were willing to carry a bit more capital because we think there's going to be opportunities to deploy them in the short to midterm.

So at this point, this is probably a level we're comfortable at. But we are obviously looking at deploying it as soon as possible, but comfortable to carry it temporarily to deploy it on a growth opportunity.

Charles Brindamour
Chief Executive Officer and Director

I think, Kai, there is visibility of opportunities that goes one way. The other thing that matters to us is the impact of the excess capital on the ROE and our ability to reinvest in the business in relationship with what the industry's ROE is. And with an operating ROE north of 16%, despite the excess capital position, I think this leads us to be patient holding the capital, given we think that there are growth opportunities with some visibility in the market here.

Operator

Your next question comes from Meny Grauman with Cormark Securities.

Meny Grauman
Cormark Securities Inc., Research Division

The question is on the purchase of brokerages and other ventures, $84 million in Q1, already surpassing what you did last year. So I'm wondering if that's just lumpiness in terms of just opportunities coming to you or are you seeing anything different in the environment that would lead you to believe that you could sustain a sort of a robust pace going forward with these kinds of equity investments?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

So this is clearly lumpy. We're off to a good start this year compared to last year, but it is lumpy and difficult to predict. So we're working hard to invest in brokerages, but that -- the timing depends on the brokers and our ability to close those sales.

So we expect lumpiness over time. But again, I think the run rate last year was a bit low. We had higher deployment the year before. I would think in between the 2 would be a reasonable...

Charles Brindamour
Chief Executive Officer and Director

How much did we deploy last year?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

$77 million.

Charles Brindamour
Chief Executive Officer and Director

$77 million?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Yes.

Charles Brindamour
Chief Executive Officer and Director

Clearly, the environment for consolidation and distribution is very healthy. I think in building BrokerLink and helping entrepreneurs in the marketplace consolidate is a key strategy, and I think more and more people in distribution understand the importance of scale.

So if I look at the opportunities in consolidating distribution, I would say very strong at the moment. And given these transactions are meeting our threshold of return as a distributor, clearly we'll put as much capital as we can find opportunities in that space, so long as we can generate those sorts of returns.

And I think the entrepreneurs with whom we partner with and the team at BrokerLink have done a phenomenal job of integrating and rapidly turning a double-digit return and margins of EBITDA to revenues in the 20% to 30% range very quickly. So very attractive for us, and we'll certainly capture the opportunities that exist in the marketplace.

Meny Grauman

Cormark Securities Inc., Research Division

And then, if I could just follow-up with a question about the impact of the economy on your business, specifically in Alberta, I wonder if there is any updated thinking on that. I think last time you mentioned specifically for commercial P&C that you expected a reduction in growth of about half a point. I'm wondering how you see the environment developing a quarter later.

Alain Lessard
Senior Vice President of Commercial Lines

So like I said, Meny, this quarter we estimate that the impact of the economy in Alberta was about a point on commercial P&C. And, in fact, it's probably deteriorated from what we saw the last quarter.

It's coming basically from the 2 same areas, which is the oil and gas sector and the contractor sector. Last year, we had seen a fairly stable drop in the oil and gas sector to the tone of 10% to 15%. This spiked to about 25% in the first quarter of 2016, okay? And on the contractor, this was an emerging trend we saw at the last quarter in 2015. And it continued in 2016 and, in fact, accelerated because we saw a drop of about 17% on the contractor business.

So these are the 2 segments that are really affected by the economy in Alberta. So the impact we were expecting is about half a point. In the quarter, it translated to something closer to 1 point on the overall P&C growth in the market.

Charles Brindamour
Chief Executive Officer and Director

Thanks, Alain. Yes, those 2 sectors represent about 27% of our commercial lines portfolio in Alberta and, therefore, are influential to our performance.

I think if we take a higher-level perspective, Alberta is an important province for us. We insure almost one in 4 Albertans, same thing at the business level. This represents about 15-ish percent of our portfolio, with $1.4 billion of business. So the interesting thing is that the areas that are affected are meaningfully affected. But then, when I look at our personal lines performance, this is the market in which we're growing the fastest. It's not to say that the industry is growing the fastest, but this is the market in which shopping is taking place and our value proposition is actually working very well.

In personal lines, you have to keep in mind that there are not necessarily meaningfully less houses or meaningfully less cars on the road. I think what you see, though, is that the value of the insurer car pool is not increasing as fast as it would normally, and it's driven by the fact that new motor vehicle sales are down 10% and, therefore, the average age of the cars on the road in Alberta is increasing.

So overall, a province which is going through a tough time, and we're seeing that very clearly in commercial lines. But I think our value proposition, our product range, service we're providing and the technology solutions we have in place certainly seem to drive our growth in that market.

Operator

Your next question comes from Doug Young with Desjardins Capital Markets.

Doug Young
Desjardins Securities Inc., Research Division

First, Ontario auto, obviously there is indication of cost inflation. And just wondering if there's anything concerning in that for you.

And I know -- I think there is a new dispute resolution process that's been adopted. And is there any relationship between the 2? And is there any concerns you have around that new dispute resolution process?

Charles Brindamour
Chief Executive Officer and Director

Okay. Good. Why don't we start with Mathieu on the dispute resolution and maybe a comment on the upcoming June reforms, and then we'll let Patrick take the rest of your question. Go ahead, Mathieu.

Mathieu Lamy
Chief Information Officer and Senior Vice President

Okay. First, on the dispute resolution system, the new system has been implemented as of April 1. That followed the Judge Cunningham report about 1.5 years ago, and the idea there was to streamline the process, make it more predictable, more cost-effective for Ontarians. And so far so good. We don't have any decisions from the new tribunal, but it has been implemented and we have every reason to think that it's going to be successful at this point.

In terms of reform, we have some new product effective as of June 1, basically in accident benefit. There is 3 types of claims in accident benefit: the MIG claims, the basic claims and the cat claims. On the MIG -- on the basic claims and on the cat claims, basically what's going into effect is a reduction of coverage with an option to buy up.

And also, as of June 1, for every effective policy, there will be a new cat definition, which we think is progress because it will probably alleviate some of the problems we have with the older definition, with the stacking of physical and psychological impairment. So I think, overall, we are positive with those coverage changes.

Patrick Barbeau
Senior Vice President of Claims

And yes, I agree. I think our view on the effectiveness of those reforms has not changed. Of course, we'll see when they are all implemented. But the way it's heading is still, we think, in line with what we expect in terms of the benefits from those reforms. So when I -- when we quote cost pressure for this line of business in Ontario, it does not link to the reforms per se. It's more normal inflation.

As you might recall, this process of implementing the reforms and the different filings that we had to go through started at the end of 2013, and we're now in the beginning of 2016. So over a 2.5 year period, there is normal cost inflation in all markets, including Ontario. And we think now that we're through the reforms, it's time to be proactive and reflect that in our rates.

Doug Young
Desjardins Securities Inc., Research Division

So that takes me to my second kind of inquiry is that -- so you think that post reducing rates, I guess, by roughly 15% come, I guess, mid-June, that you'll be able to turn around and start pushing through rate increases? And is that something you've had discussions with the regulator about and there's a comfort with that?

Patrick Barbeau
Senior Vice President of Claims

Yes. Look, we're in that process right now. We're already started and that's what we expect will happen in the market. It's not necessarily that the trends are concerning. It's just normal inflation that, at one point, we need to also reflect in our rates.

Doug Young
Desjardins Securities Inc., Research Division

Okay. And then, just secondly, I know, Charles, I've asked this many times and I still get confused by this. But the prior year reserve development is running double what you've historically have run at. And it seems to consistently be up there, and so much so that I kind of forget what the historical average is, but I think it's 3% to 5%.

Is this -- are we in a new paradigm, that 6% to 9% is what we should be thinking about on this line item?

Charles Brindamour

Chief Executive Officer and Director

No. I think, Doug, one of the things you need to keep in mind is that the first quarter tends to be higher than other quarters, and the reason is very simple. The prior year is much closer in the first quarter than in the other quarters.

There are a number of elements, some of them structural, some of them not structural and, therefore, not necessarily to be there in the long run, that have led us to say that the levels we have seen in the past few years should not necessarily be expected that level going forward.

I'll let Mathieu give his perspective on that.

Mathieu Lamy
Chief Information Officer and Senior Vice President

Yes. Well, you're -- that's exactly right. The first quarter is normally higher because that development of short-tailed claims that close in the next 3 months, in Q2, Q3, and Q4, this is current year development, if you wish. So in Q1, it's prior year because it's from Q4 the preceding year.

We think that the development right now is at the top of the range, 3%, 4%, we expect because of a few factors. First, the AXA acquisition has led to higher prior year development. We think there is still an impact going forward, but that will diminish in time.

We have some assumption for the Ontario reform of 2010, and we executed probably a bit better than the assumption and developed a few points of prior year development because of that.

2015 saw also higher development range because of prior year cats that were reserved a bit higher. So in 2016, that should be lower because there was less year -- less cat losses in 2015.

And there is the structural effect of the 2 impact of the discounting and the PfAD, the provision for adverse development. The discounting being lower doesn't completely neutralize the PfAD. So that structurally generates a PYD.

Doug Young
Desjardins Securities Inc., Research Division

Okay. So, I mean, timing-wise, when I think of all these items, is this -- do we start to see this kind of revert back to the normal range over the next year, 2 years? Or is this kind of a longer-term kind of glide path?

Charles Brindamour
Chief Executive Officer and Director

I would think about that midterm.

Operator

Your next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple questions here for you. First one, going to the commercial P&C business, I wondered if you could talk about where is rate relative to loss trend. And are you kind of done with your corrective actions in the P&C area? Or is there still more to come? And I know, Charles, before you kind of commented about the amount of combined ratio improvement we should continue to expect here going forward as the earned moves in. But could you give us some insight into where that stands right now?

Charles Brindamour
Chief Executive Officer and Director

Sure. We'll let Alain give you his perspective.

Alain Lessard
Senior Vice President of Commercial Lines

Okay. So basically, like as mentioned earlier, last quarter we saw a rate increase at 3.7%. That is probably a bit higher than the loss trends we're doing right now.

So if you look at our corrective action, we think that the corrective action we took, 90% of it right now has been done and earned, okay? We still have some earning coming up in the next 12 to 18 months, and we're still pushing through rate increases right now. So this is where we stand.

On the overall, I think we said we were operating in the low 90s. I think we're getting very close to operating at that level currently. We were beyond that in 2015 and we're very close to that level in Q1 2016.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. But that low 90s also assumes a fairly high reserve releases that are going on right now.

Alain Lessard
Senior Vice President of Commercial Lines

Well, if you look at the prior year development, like right now it's a number that's very volatile. We're 3 points lower than last year, which was the ultimate high. But we're probably a bit higher than our historical average, but not very far from it.

Charles Brindamour
Chief Executive Officer and Director

And the business is priced to generate low 90s. And when you price, you don't sort of anticipate favorable development from the past. Now, if there is some degree of conservatism in how our folks on the frontline reserve, obviously that's baked in your current accident year performance, and it all washes out over time.

Brian, when I look at commercial P&C right now and I think the first quarter, severity and frequency largely offset each other. And the insured value, so to speak, is up 1 point. So when I wash frequency, severity and the -- some insured increases, I get very close to 0. And we're earning 4 points of rates in the system and writing 3.7 point of rates.

So I think if I just look at the average rate increases over the past 3 quarters: in '14, we were 4.4-ish; in '15, we were 4.6-ish; and this year, 3.7%. There has not been 13 points worth of inflation in the system, especially if you take into account that we're also getting a few points of some insured increases to eat that inflation.

So it's -- with some degree of confidence that we say that we see this business running in the low 90s. There is still rate momentum in the system. And, quite frankly, I'm always impressed, despite the performance, to see the commercial lines team being focused on the corners of the portfolio from coast-to-coast that deserve corrective action. I mean, these guys behave as though the combined ratio was 110%, which is what I like to see when the combined is in the low 90s.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then, my second question, I guess, this is kind of for Louis. If I look at your cash flow statement, there's a line item that says purchase at brokerages and other equity investments, and it was the $84 million in the quarter. That's actually in excess of what the total was in 2015. Is that reflective of actually your activity in the first quarter as far as buying brokerages? Or is there something else going into that number?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Well, it is reflective of our activities. It does include both brokers and what we put into -- invest into ventures. We choose not to specifically disclose the venture part because we have confidentiality agreements, but we do put the 2 together there.

Now, the activity, it is reflective of what we are doing in the brokerage. It's off to a good start when I look at the run rate compared to last year in terms of brokerages specifically, but it can be lumpy.

Charles Brindamour
Chief Executive Officer and Director

Yes, I think it is fair to say that, in Q1, a portion of that lump is venture-driven.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Yes.

Charles Brindamour
Chief Executive Officer and Director

And venture is much lumpier, obviously, than brokerage consolidation because there are hundreds of consolidation opportunities right here in Canada. So we have a pipeline, basically, that we're working on. Venture, given sort of our sandbox, is tighter. And we're not as comfortable with our skill set, so to speak, on that front. We're more cautious and it's, therefore, lumpier.

Operator

Your next question comes from Paul Holden with CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

So I want to ask a question related to Fort McMurray. And that question is if you can give us a sense around potential commercial lines exposure there, whether that's property or business disruption-type insurance?

Charles Brindamour
Chief Executive Officer and Director

Okay. Alain, why don't you give us your perspective?

Alain Lessard
Senior Vice President of Commercial Lines

Well, I think Mathieu mentioned that we have basically 350 policies, somewhat, in the region, and that's the overall region. And we're, right now, in the midst of looking at all of that. That's the sum of property, building content as well as business interruption, okay? So it's the sum of all the 3.

What I would like to say is that this is a number, but it hides a lot of variability because we have policy out there in the $20,000 and probably the biggest policy in the bounds of $10 million, $12 million, which would be like a building or something like this. So the exposure is very variable.

So depending on where it sits and everything, very difficult at this point to call any forecast or anything on that. But that's kind of the color I can give you at this time.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. That's helpful. And then, second question relates to CDI. I guess, it's roughly a year, give or take, since you acquired CDI. So wondering if you can give us a quick update on how that acquisition has progressed, if everything has kind of just fallen in line with your original expectations or if there's been positive or negative deviations relative to expectations?

Charles Brindamour
Chief Executive Officer and Director

So the business is largely integrated. You have to keep in mind here that there's 2 things that happened at the same time. First thing is the integration of Grey Power and belairdirect, and the second thing is the integration of Canadian Direct Insurance and belairdirect. So the team has been managing both integration at the same time, and I would say that the integration is largely finished. We're pleased with that because the timing is largely in line with what we anticipated. The second thing is that the brand of Canadian Direct Insurance has moved in Alberta to belairdirect, and I think there will be further steps in 2017. So, so far so good.

I think the direct-to-consumer platform is now established from coast to coast, with a fair degree of success. We have, in that business unit now, well north of $1 billion and very healthy growth taking place.

When I look at then the core performance of the direct business in the West, which includes both the business that was in belairdirect, Grey Power, and the Canadian Direct Insurance, I would say that on the home insurance front, very good. I think on the commercial -- on the automobile insurance front, we're seeing the pressure we're seeing in the Alberta automobile book.

But I would say the bigger issue for me, Paul, is that there are lots of moving pieces at the moment: new claims seen, new systems, the combination of 2 businesses. So I find that it is hard to know if we are on plan, better or worse than plan. The other thing is that, from a credibility point of view, it is a little bit thin and early in the process.

So there is a lot of efforts to improve our visibility or understanding of the core performance of CDI in Alberta automobile. Overall, going very well.

And then, we're trying to establish our brand in the market and testing ways to generate response and transform response into new business. So there's a lot of activity taking place at the moment, but the integration is largely done.

Operator

Your next question comes from Mario Mendonca with TD Securities.

Mario Mendonca
TD Securities Equity Research

Probably for Louis, could you help me just think through the change in the MCT? The debt issuance, the $250 million, that would have added something. Is that about 13 points? Is that fair?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

So the debt has actually a bigger impact on the excess capital. If you look at the MCT itself, which is up 12 points, it's really 11 points coming from operations and then the 4 points from the phase-in of the guidelines, the guideline phase-ins. And then, a part of that is distributed through upstream dividends. So the MCT per se is really driven by the change in -- or the gains from operations.

Mario Mendonca
TD Securities Equity Research

But why would debt not have added to the MCT?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Because it's not pushed down. So it is not pushed down into the operating company.

Mario Mendonca
TD Securities Equity Research

You left it up at the holdco? I'm sorry. Yes, that's the part I didn't follow.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Yes, we did leave it up where it can impact as the amount of upstream dividends we pull up and -- so that would impact it. But this has been left in the holdco.

Mario Mendonca
TD Securities Equity Research

That makes sense then. Now, just a quick question back to Fort McMurray. The reinsurance, is there any extent to which -- or what is the extent to which reinsurance could limit your exposure there?

Charles Brindamour
Chief Executive Officer and Director

Well, the reinsurance will play its role in this case. Assuming the losses hit or go above our net or our retention, then these are pretty straightforward losses subject to reinsurance. So I think reinsurance will kick in the way it has in Slave Lake and in other losses. I mean, fire is as straightforward as you get.

Mario Mendonca
TD Securities Equity Research

Now, you couldn't give us a limit there, like, $100 million, if it exceeds $100 million then the reinsurance kicks in. Or is it more complex than that?

Charles Brindamour
Chief Executive Officer and Director

No. It's pretty straightforward, Mario. I think that you have the first $100 million for your own account. And then, as you move above $100 million, then it goes down from a 40% cession right up to 95% cession. So the first $50 million above $100 million is 40% ceded, and you quickly get close to 90% ceded after that.

Mario Mendonca
TD Securities Equity Research

So why is it that with Slave Lake, with the charge, I think, ultimately being about $50 million, why would reinsurance have played a role there at all, unless the reinsurance limits were a lot lower then?

Charles Brindamour
Chief Executive Officer and Director

This was, I think, a number of years back where the reinsurance limits and the size of the organization was smaller.

Operator

This concludes today's Q&A session.

I will now turn the call back over to Samantha.

Samantha Cheung
Vice President of Investor Relations

Thank you all for your participation today. Following this call, a telephone replay will be available for a period of one week, while the webcast will be archived on our website for one year. A transcript will also be available on our website in the quarterly financial archive.

We also invite you to listen in to our Annual General Meeting of Shareholders, which will take place today at 11:30 AM Eastern Time at the Montreal Museum of Fine Arts.

Our second quarter 2016 earnings call is scheduled for July 27.

Thanks again for your time today, and this concludes our call.

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