S&P Global
Market Intelligence

Intact Financial Corporation TSX:IFC

Earnings Call

Wednesday, May 8, 2024 4:00 PM GMT

Call Participants

EXECUTIVES

Charles Joseph Gaston Brindamour
CEO & Director

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Guillaume Lamy

Louis Marcotte
Executive VP & CFO

Patrick Barbeau
Chief Operating Officer

Shubha Rahman Khan
Former Vice President of Investor Relations

ANALYSTS

Doug Young
Desjardins Securities Inc., Research Division

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Lemar Persaud
Cormark Securities Inc., Research Division

Mario Mendonca
TD Cowen, Research Division

Nigel R. D'Souza
Veritas Investment Research Corporation

Paul David Holden
CIBC Capital Markets, Research Division

Stephen Boland
Raymond James Ltd., Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Intact Financial Corporation Q1 2024 Results Conference Call. [Operator Instructions] also note that this call is being recorded on May 8, 2024.

And now I would like to turn the conference over to Shubha Khan, Vice President, Investor Relations. Please go ahead.

Shubha Rahman Khan
Former Vice President of Investor Relations

Thank you, Sylvie. Hello, everyone, and thank you for joining the call to discuss our fourth (sic) [first] quarter financial results. A link to our live webcast and materials for this call have been posted on our website at intactfc.com under the Investors tab.

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

To discuss our results today, I have with me our CEO, Charles Brindamour. Our CFO, Louis Marcotte; Patrick Barbeau, Executive Vice President and Chief Operating Officer; Darren Godfrey, Executive Vice President, Global Specialty Lines; Guillaume Lamy, Senior Vice President, Personal Lines; and Ken Anderson, Executive Vice President and CFO, UK&I.

We will begin with prepared remarks followed by Q&A. With that, I will turn the call over to Charles.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Shubha. Good morning, everyone, and thank you for joining us today.

The strength of all of our platforms was evident in the first quarter as we once again delivered strong results and made important progress on the strategic front. It is a good start to '24. Yesterday evening, we announced net operating income per share of $3.63 for the first quarter, up 19% from last year, driven by strong underwriting and investment results. Our undiscounted combined ratio was 91.2%, which reflected solid underlying performance across all geographies. Top line momentum continued to be strong at 6%, driven by favorable conditions across most markets. Overall, we delivered an operating ROE of 15%, and we maintained a strong balance sheet with $2.7 billion of total capital margin, even after significant deleveraging in the quarter.

Let me provide some color on the results and outlook by line of business, starting with Canada. In personal auto, Premiums grew 11% in the quarter, up 6 points from a year ago. Top line momentum was a function of both rate actions in a hard market and customer growth. As the industry further pursues corrective rate measures, we're making the most of our improved competitive position, leading brand awareness and strong digital proposition. The combined ratio was 98.6% in the quarter, which included a 2-point impact from seasonality and 2 points of one-offs from pools and employee compensation driven by strong outperformance in 2023. The underlying performance was otherwise in line with expectation.

Inflation has moderated significantly since peaking in late '22 and has stabilized in the mid-single digit range for the past couple of quarters. At the same time, earn rate and insured values remain at high single digits during the quarter. As a result, we're confident that our strong rate actions will support our sub-95 guidance in the next 12 months. And we're happy to grow at this profitability level. Moving now to Personal Property. Premium growth was 9% in the quarter, driven by our rate actions in a favorable market and continued unit growth. The combined ratio was strong at 82.5% and with no CAT losses reported. We expect weather-related volatility though and inflation to sustain hard market conditions over the next 12 months.

In commercial lines, premium growth was 5% in the quarter as rate actions and strong retention in most lines were tempered by increased competition for large accounts. The combined ratio of 87.3% was strong as a result of our profitability actions over time and favorable prior year development in the quarter. With the market remaining hard across most lines, we expect premium growth in '24 to be in the mid- to high single digits for the industry. As a result, the business remains well placed to deliver sustainable low 90s or better performance going forward.

Moving now to our UK&I business. Premium growth was 29% in the quarter, mainly due to the Direct Line transaction. The overall combined ratio was 94.6%, solid for a first quarter after absorbing 7 points of CAT, more than 2 points higher than expected.

The Direct Line business is generating stronger growth than anticipated when we announced the acquisition. While early, bottom line performance is heading in the right direction. And the integration is progressing very well. We welcome the Direct Line employees on May 1, and processing of policy renewals on the RSA platform will begin in Q2. Synergies are on track to be realized in the coming 24 months, and overall, the UK&I business is positioned to run in the low 90s. In the U.S., our business grew 6% in the quarter, reflecting healthy rate increases across most lines of business. The combined ratio of 88% reflects our continued focus on growing our profitable lines as well as underwriting discipline. In the next 12 months, we expect hard market conditions to remain and continue across most lines.

Overall, the business remains very well positioned to maintain low 90s or better performance. As I mentioned at the outset, we made meaningful progress on strategic initiatives in the past few months across all our business units.

In Canada, BrokerLink continues to consolidate the market and successfully closed 4 acquisitions this quarter, representing roughly $190 million of premium. The business remains well on track to achieve its ambition of $5 billion in annual premiums by 2025. Our distribution business remains an important and growing earnings driver. On the digital front, our investments have resulted in increased web traffic with new business sales up 81% in 2024. We're, therefore, capitalizing on increased shopping activity across personal lines as competitors take corrective rate action.

We also continue to leverage data and AI to improve pricing and risk selection. We recently deployed machine learning models in commercial property with commercial liability to follow in the coming months. And the nationwide rollout of our fourth-generation usage-based insurance platform, is on track. In aggregate, our data and AI initiatives have helped deliver north of $120 million in annual run rate earnings benefit so far. Building resilient communities and achieving net zero are 2 important pillars of our strategic road map. In April, we published our 2023 social impact report, which details our progress on both objectives. On the Climate file, we remain on track to achieve our emissions reduction targets. In 2023, for example, the emissions intensity of our investment portfolio was down 35% compared to our 2019 baseline.

And yesterday morning, we announced a new initiative to build resilience monitoring a partnership with Wildfire Defense Systems, a world leader in wildfire prevention and suppression. This offering will provide personal property customers in Western Canada with additional protection at no extra cost. This also contributes to our ability to sustain our long-term sub-90 track record in personal property. Overall, we are well positioned to deliver on our financial and strategic objectives this year. Top line momentum is strong. The business is operating at a low 90s combined ratio and the outlook for investment and distribution income remains positive. With our strong balance sheet and business fundamentals we are on course to grow net operating income per share by 10 percent annually overtime and to outperform the industry ROE by at least 500 basis points every year.

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

Louis Marcotte
Executive VP & CFO

Thanks, Charles, and good morning, everyone.

We had a strong start to 2024 across our business with a solid underwriting performance and continued income growth from our investment portfolio. Our operating ROE rose to 14.7%, including a 2.5 point drag from excess CAT losses in the past year. Good value per share grew 4% in the quarter to nearly $85. That's 9% higher than last year. We experienced fairly mild weather in Q1 in Canada and in the U.S. CAT losses were $97 million and most were attributable to 4 severe weather events impacting our UK&I business. We remain comfortable with our guidance of $900 million of CATs per year.

The weather events in the U.K. had a significant impact on our exited lines, which amounted to $60 million of losses incurred well above expectations. Our exited lines performance was otherwise as expected with limited earnings impact, and that remains our expectation going forward. Favorable prior year development remained strong at 5.7% and improved by 1.4 points compared to last year, projecting higher favorable development on prior year CATs, impacting mainly our personal property and commercial lines in Canada. The level of prior year development continues to reflect our prudent approach to reserving, and we expect it to be in the 2% to 4% range for IFC overall over the medium term.

The expense ratio in Canada was 33.5% (sic) [34.4%] in the quarter, up 140 basis points from last year. This reflects the payment of higher incentive compensation to our Canadian employees to reflect stronger combined ratio outperformance than anticipated and accrued for in 2023. This is a nonrecurring item and affected our 3 lines of business in Canada. I'm happy to note that both our UK&I and U.S. businesses have reported lower expense ratios in the quarter. We continue to expect the full year expense ratio for IFC to land within the range of 33% to 34%, very close to where it was last year.

Operating net investment income increased 29% to $380 million in the quarter driven by higher reinvestment yields and the increased turnover of our portfolio over the last 12 months. For the full year, we continue to expect investment income to reach $1.5 billion. Distribution income decreased 5% to $100 million in the quarter on lower contribution from on-site due to milder weather over the last 2 quarters. Despite a slow start to the year, we continue to expect distribution earnings growth to resume and exceed 10% in 2024, unchanged from prior guidance.

Our operating effective tax rate was lower than expected at 22% as the proposed new tax legislation in Canada on dividends and Pillar 2 have not yet been enacted. Overall, net operating income per share of $3.63 for the quarter was up 19% from prior year on the back of strong underwriting and investment results. In addition, earnings per share was up 79% to $3.68, reflecting investment gains from favorable equity markets as well as the gain on the sale of our U.K. direct personal volumes operations.

Moving on to our balance sheet. Our financial position continues to be strong with total capital margin of $2.7 billion and solid regulatory capital ratios in all jurisdictions. Capital generated during the quarter as well as the gain from the sale of our direct personal lines business in the U.K., easily covered all capital needs and allowed for deleveraging. As a result, the adjusted debt to total capital ratio decreased to 20.5%, largely in line with our long-term target of 20%. Our balance sheet is in top shape to capture growth opportunities as they arise. Book value per share growth of 9% year-over-year and 4% in the quarter reflects the strength of our results. With an operating ROE run rate in the upper teens and supportive capital markets, we expect to deliver solid book value growth going forward.

Overall, the outlook remains favorable, industry conditions are favorable, top line momentum is strong, especially in personal lines. Investment income continues to grow and distribution income is expected to reach double-digit growth. I'm proud of the strength of demonstrated by the business in the first quarter of 2024, given the quality of our platforms and robust execution of our strategic road map, we are well positioned to achieve our growth and outperformance objectives in 2024 and beyond.

With that, I'll give it back to Shubha.

Shubha Rahman Khan
Former Vice President of Investor Relations

Thank you, Louis. [Operator Instructions]
So Sylvie, we're ready to take questions now.

Question and Answer

Operator

[Operator Instructions] First question will be from Paul Holden at CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

First question is related to personal auto. Just wondering if you can give us an update on the written premium rate versus the earned rate in claims inflation trends. I would suspect claims inflation is starting to go trend more positively based on used car prices, probably where parts are trending as well as more modest labor inflation, but wondering if that's the right conclusion or not.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Paul. That's the right conclusion. But let let's ask Guillaume to give a perspective on the results and trajectory of rates. And then Patrick can give us a read on the inflation. So Guillaume?

Guillaume Lamy

So Q1 was good at 98.6%. As we mentioned, there's 4 points that needs to be reflected there 2 for seasonality, 1 point for pool and 1 point for variable compensation. Prospectively, we state again that our confidence to achieve sub 95% with the rate earning double digit now in a single-digit inflation environment. So let me expand a bit, and I'll let Patrick go after. On the cost side, inflation is sustained, but stable at mid-single digit for auto, very similar to the prior 2 quarters. On the premium side, written rates and interest value reached double-digit within Q1 with our earn rate level staying in the high single.

We expect to stay at that similar level of rate throughout the year with most of the rate change already approved by regulators where it's needed. Overall, profitability outlooks remained unchanged. If inflation was to drop from current level, it would obviously be good news, but we're not banking on that. So we're very comfortable with our profitability position in PA and happy to grow in this environment, and the growth at 11% is a proof point of that. So maybe, Patrick, you can give more color on inflation.

Patrick Barbeau
Chief Operating Officer

Paul, on the inflation side, it has been sustained, but stable in personal auto overall for 2, 3 quarters now in the mid-single-digit range. If I zoom in on physical damage, both car repairs and total losses continued to show inflation in the mid-single-digits range. Market values for used car, as you pointed out, and new cars have been stable for over 6 months, but it's still slightly up compared to a year ago, creating some inflation still. The availability of the parts is close to pre-pandemic level, but we still see around 5% inflation on parts. And from a labor perspective, it's just below in the 3% to 4% range, the inflation on labor itself.

Test is still high, but similar to a year ago, so no impact on the inflation on the severity year-on-year this quarter. We've seen also a bit more total losses as a proportion of PD claims, which is contributing to the fact that inflation is sustained despite some improvement in the cost of parts and market values. On the injury side, we still observed mid-single-digit inflation as well, similar to prior at least 2 quarters. It is mainly coming from third-party liability claims in Alberta and Atlantic, due to an increased level in legal representation. And on the accident benefit claims, we still see no severity increase at all, which has been the case for a couple of years.

Charles Joseph Gaston Brindamour
CEO & Director

So Paul, I think overall, we like what we're seeing from a competitive landscape point of view as competitors take corrective actions. Our competitive position naturally improves, but the rate trajectory is good. It's approved by regulators. The inflation is in the zone of what we expected, and we feel good about that plan of business.

Paul David Holden
CIBC Capital Markets, Research Division

Great. And then second question is just related to investment income, and I guess probably for Louis, just I would have thought maybe with higher for longer interest rates and bond yields what they have in recent months, maybe there were being some upside to prior guidance on investment income, but you're clearly sticking with your prior guide. So just wondering again, if there's any kind of offsets there additional items we need to think about.

Louis Marcotte
Executive VP & CFO

Listen, we've kept our guidance. It's in the $1.5 billion range. It moves a bit because rates have not changed as quickly as we thought they would last year, but it's marginal in the total. And we've accelerated deleveraging. So that goal was a bit the other way. So net-net, we're in the same ballpark, and that's why the guidance has not been changed. So we are very close to current interest rate movements but it doesn't have a material impact on the overall investment income. So that's why we're sticking to the same level. I will note that the turnover that we've accelerated over the past probably 2 years slows down a bit because we've captured as much of the upside as we could there.

And what's left are essentially bonds where the book yield and the reinvestment deals are the largest are bonds that are in the fair value to OCI and to capture more yield, we'd have to sell the metal loss. And at that point, the equation is not as attractive as it was for fair value to P&L bonds. That's why the acceleration is sort of slower than last year. But still, when you look at the overall growth for the year, it's 15%. That's $1.5 billion will be 15% higher than the prior year. So it's still a meaningful tailwind on our results.

Operator

Next question will be from Doug Young at Desjardins.

Doug Young
Desjardins Securities Inc., Research Division

Wanted to dig into just the competition in Canadian commercial market. And I think you highlighted large case, you're seeing increased competition, hoping you can dig a little into that. And then what are you also seeing in the SME and specialty lines? And I guess where I'm trying to go is like we've seen investment returns increasing. We've seen pretty good results across the Canadian commercial market. Are we starting to see any signs of the cycle kind of turning or improper irrational competitive forces in any of the lines of business.

Charles Joseph Gaston Brindamour
CEO & Director

Doug, your question is specifically focused on Canada. I'd say it's -- what we're observing here compares, I think, to what we're observing in other countries where we operate, hard market environment, uneven across lines. And here, as we pointed out, large accounts is where we've seen a change and that's put a bit of pressure on the top line. Just keep in mind, the bulk of our business in Canada is SME and mid-market where the environment is still quite good.

Darren, do you want to provide a bit of color?

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Yes, sure. So just some context around the large account space for us in Canada between CL and SL, that's less 10% of our portfolio. That did create a drag on growth about 0.5 point in the quarter, so not overly significant. And then I'd also highlight another 0.5 point drag following our rate segmentation strategy where we're losing a higher degree of unprofitable accounts versus past years. So that's favorable from a loss ratio standpoint and mix going forward, but obviously has a 0.5 point impact on the quarter. So on average, about 5 points of rate flowed through pretty even across both P&C and auto. You add on amounts of insurance increases, that's about 8% on the P&C side. So again, it continues to be a favorable market and looking to grow there.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Darren. And I think Doug, our perspective is definitely investment income has been better for the industry. It's not a new phenomenon. At this stage, there's been inflation in the system. We're keeping our eyes on the liability side of the equation, natural disasters, cost of reinsurance. You've got plenty of factors here to sustain rational competitive behavior, and that's really what we're seeing and making the most out of that environment. That being said, it's not because the performance is really good in our portfolio that we start looking for opportunities to improve the quality of the portfolio.

Deploying machine learning and commercial prop is one example of that. And our strategy in commercial lines is super segmented. And in fact, we have a very clear view of which customers are the worst 10% performing customers, and we work on those extremes throughout the cycle. And I think that's what Darren has just alluded to, that had a 0.5 point drag. But overall, this environment plays to our strength.

Doug Young
Desjardins Securities Inc., Research Division

I appreciate the color. And then just on personal auto, and I won't ask about industry pools, I promise. But I guess one of my question is, what gives you the confidence about the low double-digit growth because you did increase your outlook is -- and this might just be a simple math in terms of what's in the system, or is there more to it? How are you feeling of the discussions with the regulator and maybe you can kind of weave in there, any updates in terms of your thoughts on the Alberta market?

Charles Joseph Gaston Brindamour
CEO & Director

So that was 6 questions into 1, Doug, but -- pretty good. I'll go to question. I mean, first, from a rate point of view, as Guillaume said, when we say we're close to 10-ish percent, it's approved by regulators. Second, there's still a delta between what's written, and what's earned at this stage. And third, while inflation has been stable for a couple of quarters, the trajectory is definitely downward. We need to keep an eye on liability. No doubt about it. And there's a lot of action from a competitive point of view where people are taking corrective measures. So you put all that together, you strip the noise out, and we like what we see. I'll let Guillaume give a bit of perspective on part of Doug's question.

Guillaume Lamy

Yes, thanks, Charles. So I can maybe tackle the Alberta portion of that question. Our book is in good shape in Alberta. Let's not forget that it's 5% of IFC, even in personal auto, we have 70% of our book that's in Ontario, Quebec, Quebec not being regulated. Ontario being a good market to operate in right now. So we're comfortable. In January, we've been fast out of the gate to take rates allowed under the rate cap and protect rate adequacy there. So we'll be able to continue to navigate that environment in the foreseeable future. But we continue to believe recap is not the right approach to control premium. It's really just creating and stability in the market with some competitors reducing appetite or even withdrawing capacity.

So for the government to really reduce auto premium for Alberta and you really need to find a way to take the out of the system. And I think they understand that. That's why they recently launched a public consultation around the teams of affordability, simplicity and care for Albertans. So we're happy to see that. We engage with them to discuss actions like a product reform. And we've shared a reform plan with the government focused on access to care and removing legal costs out of the system in effort to find a viable solution for the sustainability of the industry in the province.

I mentioned legal cost. We've seen over the last couple of years, legal representation nearly double in the 24 months after a claim is open. I think Patrick was referring a bit to it. The severity of litigated claim is about 8x higher than non-litigated, so the combination of that put pressure on cost, and that's what we need to take out of the system. So really looking forward to the next step following that consultation there.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Guillaume. And I think you talked about being quick out of the gate in January. But I'd say on Alberta and the inflation we've seen in that system, we've been pretty quick on rates like a few years back, and I think that's an important differentiator. On the inflation side of things, we've put in a fair bit of emphasis when we exchange with you guys and in previous earnings call on the supply chain and the body shops and the intact body shops, et cetera. I mean one of the strategy we've been working on for a couple of decades is in-sourcing the legal work to be much better equipped to deal with pressure and liability in provinces like Alberta. And today, it is close to 80% of legal work that is done by our own legal team in-house close to Patrick. Is it 700?

Patrick Barbeau
Chief Operating Officer

Yes, 700 lawyers and professionals.

Charles Joseph Gaston Brindamour
CEO & Director

So which is good both from the loss adjustment point of view as well as from an indemnity point of view. I don't know if we missed part of your question, Doug?

Doug Young
Desjardins Securities Inc., Research Division

I'll leave it here.

Operator

Next question will be from Tom MacKinnon at BMO Capital Markets.

Tom MacKinnon
BMO Capital Markets Equity Research

Just a bit of a follow-on with respect to the commercial lines and the increased competition you're seeing in the large accounts. I mean, what in your opinion, is driving this increase in competition at that level? Is it broker-driven, company-driven. And why wouldn't that eventually trend down into the SME. What makes you feel comfortable that you're not going to be seeing any increased competition in more of the commercial lines that you deal with? And perhaps any color as to what lines you're seeing this increased competition in within commercial and specialty.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Tom. I'll ask Darren to give a bit of color on where in the large account space we've seen bumps and why? And then I'll provide you a perspective afterwards of why large versus the rest of the market?

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Yes. As we said, the impact in Q1 was in commercial lines. If you remember...

Charles Joseph Gaston Brindamour
CEO & Director

Large commercial lines.

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Large commercial line, sorry. If you go back actually to Q1 of '23, we saw the same thing in specialty lines in large accounts. That did not continue beyond Q1. So the market is still, I would say, lumpy, for lack of a better term. It is relatively broad. It's not consistent across different pieces of the portfolio in the large account space. It is very much account by account driven. So I wouldn't say, Tom, some significant underlying trends here in particular verticals. It's a little bit different in the U.S., where it's clearly a financial lines story in the U.S. The remainder of our lines are mostly hard. We see a little bit of that pressure in financial lines in Canada. But as I said, it's relatively sort of here and there account-by-account, so no material trends that we're concerned about at this point in time.

Charles Joseph Gaston Brindamour
CEO & Director

So Tom if I just come back on the context of large versus mid versus SME, of course, in the large segment account, when you lose an account, it's a large account. And therefore, it moves the needle from a top line point of view. It's a market that is more lumpy, as Darren said, because there's a lot of delegation authority on the front line. And the behaviors that you see in hard and soft market are far more pronounced in large segments. That's why our strategy when it comes to building commercial lines, which is 55% of IFC today, is one that is focused on mid-market and SME. That's the space, 90% of our business in Canada, that's the space we're focused on in the U.S., and that's the space we're focused on in the U.K. And the NIG/Direct Line acquisition is a testament to that strategy. Why do we like that space.

First of all, the large numbers to work much better. Second of all, you can use a lot of large numbers in advancing sophisticated pricing and risk selection strategies. Third of all, there's less delegation of authority on the frontline. And fourth, that's a business we know really well. And that's why strategically, we -- that's the place we've been doubling down on and we'll continue to do so. And I think if you look at IFC's global footprint in commercial lines, it's pretty unique to be solely focused on the mid-market business.

Operator

Next question will be from Mario Mendonca at TD Securities.

Mario Mendonca
TD Cowen, Research Division

First, a detailed question on auto and then something more broad in nature. There have been recent reports about increased incidence of impaired driving. I think this is mostly Ontario. What I can't tell from what I'm reading is whether this is just a social issue or whether it could rise to the level where it starts to affect profitability for companies like Intact. Firstly, is that something you've seen? And does it matter at this point?

Charles Joseph Gaston Brindamour
CEO & Director

Not something we've seen, doesn't matter in aggregate at this point, but we'll keep a close eye on that, Mario. But not something that has surfaced in our operations.

Mario Mendonca
TD Cowen, Research Division

Okay. Something a little more broadband in nature. It's been my observations over the years, the companies that once they are operating at this level, which is a compliment, of course, the company is running at a pretty robust level right now and everything seems to be working as planned. when companies find themselves in situations like this, they often step out of their lane and maybe get a little bit more aggressive beyond their more traditional operations. We saw that when the company went to the

U.S. and again in the U.K. As you sit there today, do you see any room for the company to depart from its more typical operations either geographically or perhaps strategically? Is there any room for this, or is there an appetite for this?

Charles Joseph Gaston Brindamour
CEO & Director

We don't need to. There's no appetite for this. I think, Mario, if we run with that point, the size of the opportunity of Intact in 2017 was $40 billion, and the size of the opportunity of Intact today is $400 million (sic) [$400 billion].

Louis Marcotte
Executive VP & CFO

Billion.

Charles Joseph Gaston Brindamour
CEO & Director

Billion, sorry. Good point. I'm glad the CFO is there. So 10x, Mario, and I think if you look at '23, you'll see that Canada outperforms in all segments. If you look at the U.S., we outperform. And if you look in the U.K., we also outperformed, and I expect the U.K.'s outperformance to actually expand in the coming period. So for me, macro, you have a 10x opportunity without performance pretty much everywhere. So I see absolutely no reason to step out of that sandbox, quite frankly. And I think, as Darren highlighted, even where we have outperformance, even in a hard market, we're still working on improving the quality of our portfolio. And that's why I think when I look at our 2 financial objectives, whether it is outperformance and expanding that or just fueling earnings growth, I feel pretty good about the next decade.

Operator

Next question will be from Jaeme Gloyn at National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First, on the commercial. Just a quick clarification, in Canada is the delegated underwriting authority, are they competing on price or terms or both? And then maybe some more commentary around the U.S. commercial business in terms of where you're being disciplined in pricing and some more outlook commentary on that.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks. I think when you say delegated authority, to be clear, I assume you mean what we referred to in commercial lines because we don't dedicate authority to brokers as a principle. Others do and might, this is not really our strategy. And I think it's important to make that distinction. We do have a delegated authority portfolio in the U.K. But otherwise, that's not something we do. In the large commercial lines, I think if we then go there I think your question is coverage limits, price conditions, maybe, Darren, you can provide your perspective then maybe a perspective on the U.S. as well, broadly speaking.

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Yes, sure, Jaeme. I mean, you're right, in terms of in that large account space, you will see a number of competitors, who will delegate as you say, terms, conditions and price. We have next to none of that at all. The only place we would have that is in our owned MGAs. But again, they really are an extension and a function of us. So we don't really call that true delegated authority, or where there's really high-end expertise at the MGA, for example, resilience when it comes to cyber, wouldn't be another place as well, too. But again, highly defined expertise with a well-defined underwriting box and pricing box. So from a U.S. standpoint, market conditions really have not changed materially since 2023.

And it's really defined in sort of 2 different boxes, so to speak. We have long hard market conditions in most lines, and you can think about commercial auto, property, marine, whether it's ocean or inland, general liability umbrella, consistent trends that we've seen over the last few quarters. We're getting there over 7% in rate, growing nearly at double-digit rates there in the U.S. in those particular business units. When I think about areas of weakness in the U.S., again, no real change in story. It's financial lines. Think about public D&O, think about cyber. And there, we're playing defense. And in fact, in Q1, we actually shrunk the book by 10 points. So then -- it does illustrate how we're managing the market environment, how we're managing the cycle. But broadly speaking, we see the market is still, continues to be favorable and -- but hasn't materially changed since 2023.

I would suggest that the focus also on casualty inflation as well, too, in the U.S. will be another tailwind, so to speak, of those market conditions continuing very much throughout 2024 as well too. So I don't expect material changes in the U.S., at least within our particular portfolio.

Charles Joseph Gaston Brindamour
CEO & Director

So your question on is it price, is it condition, et cetera. When we see irrational behavior in large commercial lines it's primarily price.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. That's clear. And then second question is going back to the announcement from yesterday with Wildfire Defense Systems. And just hoping to get a little bit more granular on this in terms of, I guess, how did the relationship come about? Was it you approaching them, them approaching you? And then maybe add a little context in terms of what you're expecting that relationship to deliver perhaps from like a financial standpoint, like thinking, okay, wildfire catastrophe losses were x in 2023. And the defense systems in those provinces could reduce that by a percentage of percent something along those lines? Is that something you've worked through and can share with us?

Charles Joseph Gaston Brindamour
CEO & Director

Guillaume, you, I think, work with your team and your colleague on that relationship. Maybe you want to provide some color?

Guillaume Lamy

Yes. So basically last year was a heavy CAT season. As you know, we paid more than $1 billion in natural disaster. So we took a pause and analyzed in depth what effect the global warming scenario would have on our business. We talked to you guys about that last year, and that's basically a concrete actions that's coming out of it. Part of that $1 billion was wildfire in Alberta and BC, that was very intense last year and the winter condition warm and dry this year are conducive to what could be another challenging wildfire season So that's why we want to act now on that. And we negotiated for the past few months with WDS to launch that pilot project. to help customers in BC and Alberta protect their own from wildfire. So it's widely available to pretty much every homeowners in Alberta and BC outside of maybe BC coast, the islands there and really the northern end of the province...

Charles Joseph Gaston Brindamour
CEO & Director

Insured by Intact.

Guillaume Lamy

Insured by Intact definitely. And benefits are twofold. So first, financially, we expect that it's going to reduce the frequency and severity of wildfires. So I won't get into quantification, but it's going to reduce volatility as well. In years where there's no wildfire, it's not a meaningful cost and there's going to be no CAT to offset that. And in years where there's a lot of wildfires then that's where it's going to really reduce the volatility. So that's the financial part.

And secondly, I think it sits with our purpose and trying to build resilient communities. So overall, that's really the objective, the story there, and it builds into our track record of a strong sub-90 combined ratio over the last 10 years, and we're doing what is necessary to keep it that way.

Charles Joseph Gaston Brindamour
CEO & Director

Thank you, Guillaume. And I think it is also a continuation of our strategy to in-source supply chain, but also help customers get back on track with the experience we provide on-site is a good example of that, which now almost 70% of our claims in home insurance are done by Reliant partners, half of that is with our own provider on site. And so all that is consistent with that thought process.

Operator

Next question will be from Stephen Boland at Raymond James.

Stephen Boland
Raymond James Ltd., Research Division

First, just a short numbers question. Just in personal property and commercial, you mentioned the PYD is elevated. Can you just maybe highlight what years that you're seeing that positive that favorable development coming from? Is it COVID? Or is it pre-COVID just maybe a little bit of color there.

Louis Marcotte
Executive VP & CFO

Sure. So maybe I can take this one. So overall, the PYD in Canada is up 1.6% to 6.3%, so very healthy. A reminder that Q1 is typically the quarter that we have, most PYD activities. So that's not unusual. And I will say, in 2022, looking back at history, the percentage was 6.5%. I would call out 2023 as a bit of an anomaly because we had unfavorable developments in our personal property business, so that hurt, a bit, the ratio. But I think we're back to some -- close -- something closer to historical averages. So it's not really surprising for us given Q1 and our historical performance. Of the 1.6 points of increase, we attribute about 1.1 to prior year CATs. And one should not be surprised given the volume of CATs we've had over the past 6 quarters, to have more development when time passes and we see the files develop.

So that should not be a total surprise. But it is 1.1 of the 1.6 increase. And then it splits out unevenly between lines of business. Personal property is capturing about 1.7 impact from those prior year CATs, while commercial lines is about 1.3. So that gives you a bit of a -- bit more precision and granularity on the impact of the lines of business. If I push it down one level by line of business, in commercial lines, it was elevated in the quarter at 11.5, I will refer again to historical averages here. When I look back 5, 10 years, in Q1, you would expect 8 to 9 points of PYD. So adding 11.5 with prior year CATs, going back to close to historical averages for us is not totally unexpected. And given our general prudence on reserving, you would expect favorable PYD, particularly in Q1. So there is a bit of movement there. I think there's good reasons. But otherwise, feel very good about where we're standing.

Charles Joseph Gaston Brindamour
CEO & Director

And you only have to go back 2 years to find 11% PYD in Q1 and commercial lines. So it's not like it's wildly out of the range.

Stephen Boland
Raymond James Ltd., Research Division

My second question is about Alberta. And obviously, you mentioned the public consultation. I'm wondering if you have any comments on the reports that were commissioned by the regulators. The IBC has come out and said they're definitely flawed. Maybe you could just talk about the reports themselves, what your thoughts are? And is there -- is this a real risk that Alberta does this based on your conversations with the regulators.

Charles Joseph Gaston Brindamour
CEO & Director

I'll ask Guillaume to provide his perspective and then I'll throw my perspective afterwards. Go ahead, Guillaume.

Guillaume Lamy

Yes. So there were 2 reports that were commissioned by the government of Alberta that's where we think to release comparing different insurance regime to the Alberta one, contain 1 actual analysis and 1 economic report. So the actual analysis is deeply flawed and overstates the benefit of moving to various regime, especially a public no fall regime, which is showcased as having the greatest benefit. For instance, it totally ignores onetime investments like IT, which any insurer would have to make even if it's a public one. It also used an industry premium that is 27% higher than the average premium in Alberta today as a starting point, which obviously then overstates benefits when compared to other regimes.

That being said, the report also clearly outlines the negative consequences of moving to a governor and to run insurance monopoly, killing thousands of jobs in the private sectors, forcing tax payers to pay billions to subsidize to insurance. So that's kind of the report. Overall, we're looking, as I said, to share reform plan with the government focused on access to care and remove legal costs, and we're waiting to see what the consultation will give.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. It's pretty clear, in fact, that the Alberta marketplace is best served by the private industry, and I think everybody recognizes that. So I'm not concerned about that myself. I don't need to add much. I think Guillaume is exactly right. We looked at the report together and a bit of a joke from an actuarial point of view. But I think there are pressure points in the system. We've made them very clear, and I think we have very concrete recommendation looking forward to work with the government on that.

Operator

Next question will be from Lemar Persaud at Cormark.

Lemar Persaud
Cormark Securities Inc., Research Division

I just want to close the loop on this Alberta auto discussion. So it seems to me like there's no clear silver bullet to auto firms in the province and profitability could be challenged for quite some time. Is that kind of the bottom line assumption we should be taking away on Alberta? And then Finally, would it be fair to suggest that there's no real downside risk here to the sub-95% combined ratio outlook in personal auto, if the user reforms do you kind of get dragged out into the future?

Charles Joseph Gaston Brindamour
CEO & Director

So I think the good news is that inflation is coming down. And it's not that far from the cap that currently exists in Alberta. We don't think the cap is sustainable. We think the cap is a bad idea. That's why you're seeing capacity issues in the Alberta marketplace. But we think that we're in a very good position from a rate point of view to navigate this environment and potentially grow as there is pressure in the system. So in terms of upside and downside around the sub-95 guidance. We spend a lot of time at mapping the range around that. But I would say that if you're earning close to 10-ish percent, and the inflation is in the mid-single-digit zone, you have room to absorb downside and maintain the guidance. And that's why we expressed confidence around the guidance that we're providing. Guillaume, would you agree with that?

Guillaume Lamy

Totally agree. Nothing to add.

Lemar Persaud
Cormark Securities Inc., Research Division

Great. And then maybe just on distribution income. I'm just curious what gives you guys the confidence in this 10% growth range for 2024 despite the, I guess, tough start to the year. Like does this assume more normalized weather conditions? What if weather conditions remain favorable, like could the lag from on-site be enough to pull down distribution income from that 10% growth range?

Charles Joseph Gaston Brindamour
CEO & Director

I think the -- what gives me confidence is the strength of the team at BrokerLink, and what they have in the pipeline, both organically and from a consolidation point of view. But I'll let Louis provide his perspective.

Louis Marcotte
Executive VP & CFO

Well, that's absolutely true. And I will say all of our other brokers in the network as well. So the result's here, we were not totally surprised. We weren't expecting growth in Q1. So the -- that's why the only shortfall is really the on-site shortfall. Now on side of the total earnings from distribution is a small portion of it. So the fact that there's a bit of a lack of earnings in Q1 doesn't really take a huge weight over our overall expectations. So Q1, we weren't expecting a lot of growth overall. And there's 2 trends opposing each other. One, declining CPCs, as you know, over time and following the pandemic. That's a bit of a headwind, but we're offsetting it with growth -- organic growth and acquisition growth.

And we map out the whole year fairly precisely. And other than on site, the rest is expected to grow and offset the shortfall in Q1. So that's why we're confident it's pretty baked in. It's not relying on weather. We know what's in the pipeline form an acquisition point of view, we know what's in the pipeline in terms CPCs, new CPCs and the ones that are declining. So we have a pretty good visibility on the rest of the year. It is a seasonal business, Keep that in mind. And last year, you'll remember the first half of the year we didn't have as much M&A activity. So now it's sort of picking up and that will go into our results this year. So level of confidence on that front is quite high.

Operator

Next question will be from Nigel D'Souza at Veritas Investment Research.

Nigel R. D'Souza
Veritas Investment Research Corporation

My first question for you, going back to investment results. Just wondering if you could provide some color on what drove the quarter-over-quarter decline in your market-based yield. I wasn't expecting that given that reinvestment yields are still comfortably above your book yield. So any color there? And then also your guidance implies that operating net investment income will remain potentially flat for the remainder of the year. So just wondering if you could elaborate on that.

Louis Marcotte
Executive VP & CFO

Yes. So keep in mind here, just on the second end, we're up 30% in Q1 and will be up 15% for the whole year. So the rate of increase year-over-year remains robust, but just shrinks as quarters passed by, as last year's, we've been accumulating more investment income. So it is a bit stable, but you have to run from a Q4 run rate investment income going forward into this year, and it's fairly even out throughout the year.

It's not perfectly even, but over the year, it's about the same run rate. So -- but that will equate to a 15% and -- increase in investment income in dollars year-over-year. Then from a market yield, market-based deal, you must be comparing sequentially the numbers.

And the only reason I see here is an increase in the portfolio itself that would have declined a bit to market-based yield. And that figure, because there is a denominator that moves because of interest rates and capital markets is a bit less relevant than the actual book yield versus market or reinvestment deal that we use. And so that is where the upside is. We still have a book yield that's probably 90 bps below the reinvestment yield. So as bonds mature, we'll be able to reinvest them at higher yields. The market-based yield is just 2 factors here is the investment in the market value of the assets, and it's a bit less. It's directionally right. but less specific when you compare quarter-over-quarter.

Nigel R. D'Souza
Veritas Investment Research Corporation

That's helpful. And then my second question was on a change in presentation next -- starting next quarter on the net impact of discounting. I want to understand that's going to be excluded from your net operating income. And I was just wondering the rationale behind it because when I think about the prior standard, it was included in net operating income and IFRS 17 just changes the classification, but the unwind of the discount into our investment results. So why now in terms of that change in presentation since it was included in net operating income in the prior standard despite the impact from interest rate volatility.

Louis Marcotte
Executive VP & CFO

Yes. So thanks for the question and pointing it out, we chose to reclassify it following, I will say the publication of all the 2023 earnings from all the players under IFRS 17. You will have known that historically, we try to put us not operating the movements that are driven by capital markets, whether it's interest rate changes or market-based changes because we're trying to isolate the pure operating and underwriting business and not include interest rate changes in that performance. The investment income will pick up interest rate changes, but not the movement within a quarter, we historically have always had that in the non-operating section.

With IFRS 17, we got a bit trapped with some noise from the interest rate movement being captured in operating earnings. In our minds, it would have been evened out, it would level out at zero impact, but the reality is the formula is a bit different than it causes noise. And we think the noise is just causing disturbance. It's not huge numbers. It was $1 million of offset in Q1. So it's not -- that's where we expect it to be. And therefore, I think it's cleaner to put it into nonoperating results. It will be fully disclosed, so you can track the number in any way you want, but we just think it's cleaner to have the operating results, excluding the impacts of market rate changes or capital market impacts but that's very consistent with what we have done in the past, and we're just refining our presentation going forward.

Nigel R. D'Souza
Veritas Investment Research Corporation

I guess just to clarify, that net -- the specific net impact from discounting, that was included in net operating income on IFRS 4. So the rationale makes sense, but why did you not exclude it previously, I guess, is my question because the same rationale...

Louis Marcotte
Executive VP & CFO

The formula in the past was a formula that was symmetric and you could -- there was actually a fairly close correlation between the buildup and unwind. With IFRS 17, they changed the rules, and there is not as close a correlation because we have to use a weighted average in one case and a opening value in the other one, and that creates noise. And therefore, our preference to move it down.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. And keep in mind, this is a 1-year standard. We want to make your job easier, and we want to make sure we talk about the same things we're using to manage the business, and we felt the noise that this created was not very helpful. There's nothing really more to it than that. It's a new standard. We tried it for a year and we want to move to something simpler, and that's why we made the call.

Louis Marcotte
Executive VP & CFO

More comparable to our peers in Canada as well as.

Operator

And at this time, we have no other questions registered. Please proceed.

Shubha Rahman Khan
Former Vice President of Investor Relations

Thanks, everyone, for joining us today. Following the call, a telephone replay will be available for 1 week, and the webcast will be archived on our website for 1 year. Transcript will also be available on our website in the Financial Reports and Filings section. Our 2024 second quarter results are scheduled to be released after market close on Tuesday, July 30, with the earnings call starting at 11:00 a.m. Eastern the following day. Thank you again, and this concludes our call for today.

Operator
Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.