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Earnings Call

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Call Participants

EXECUTIVES

Charles Joseph Gaston Brindamour
CEO & Director

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Kenneth Anderson
Executive VP & CFO of UK and International

Louis Marcotte
Executive VP & CFO

Patrick Barbeau
Executive VP & COO

Shubha Rahman Khan
Vice President of Investor Relations

ANALYSTS

Doug Young
Desjardins Securities Inc., Research Division

Geoffrey Kwan
RBC Capital Markets, Research Division

Jaeme Gloyn
National Bank Financial, Inc., Research Division

John Aiken
Barclays Bank PLC, Research Division

Lemar Persaud
Cormark Securities Inc., Research Division

Mario Mendonca
TD Securities Equity Research

Nigel R. D'Souza
Veritas Investment Research Corporation

Paul David Holden
CIBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Intact Financial Corporation Q4 2022 Results Conference Call. [Operator Instructions] And I would like to turn the conference over to Shubha Khan, Vice President, Investor Relations. Please go ahead.

Shubha Rahman Khan
Vice President of Investor Relations

Thank you, Sylvie. Good morning, everyone, and thank you for joining the call today. A link to our live webcast and published information for this call is posted on our website at intactfc.com under the Investors tab. As usual, 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 notes on adjustments, terms and definitions used in this presentation. With me today, we have our CEO, Charles Brindamour; our CFO, Louis Marcotte; Patrick Barbeau, Executive Vice President and Chief Operating Officer; Darren Godfrey, Executive Vice President, Global Specialty Alliances; 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 to Charles.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Shubha. Good morning, everyone, and thank you for joining us today. 2022 was an important year in Intact's journey. This was the first full year following completion of the landmark RSA acquisition, and we made big strides towards fully integrating the acquired business. At the same time, we maintain our focus on performance with solid results despite elevated catastrophe losses and inflation pressures. We delivered net operating income per share of $3.34 for the fourth quarter and $11.88 for the full year. Excluding strategic exits, premium growth was 5% in the quarter, 1 point higher than in Q3, a sign of momentum building as markets are firm or firming across most lines of business.

For the full year, premiums increased 23%, primarily on the back of the RSA acquisition. The overall combined ratio for both the quarter and the full year was solid at 91.5%. This reflected strong performance across commercial and specialty lines in all regions and personal lines in Canada. Together with robust investment and distribution income, this drove mid-teams operating return on equity and ROE in 2022. And I expect the full-year outperformance to be well in excess of our objective to outperform by 500 basis points of ROE. Our results are a testament to the resilience of our business. We move into 2023 with positive top and bottom line momentum and a strong balance sheet.

This enables us again to raise our quarterly dividend by $0.10, the 18 consecutive annual increase. Let me now provide a bit of color on the results and outlook by line of business, starting right here in Canada. In personal property, this business continues to demonstrate great resilience in the face of increasingly frequent and severe weather events. The combined ratio was 76.9% in the quarter, 90.1% for the full year and has averaged sub-90 over the last 5 and now 10 years. Weather and sharply higher reinsurance costs are driving hard market conditions. We expect rate increases to remain in the high single-digit range and keep pace with loss cost trends. In personal auto, premiums grew 2% year-over-year, a 3 point improvement compared with the third quarter. The top line momentum was a function of both our early rate actions as well as firming market conditions.

Retention levels were strong and the pressure on new business volume moderated. We expect that our competitive position will further improve as the market continues to reflect inflation in its pricing. Our underwriting discipline resulted in a combined ratio of 95.8% in the quarter. This included nearly 1.5 points of adverse seasonal weather as well as 1 point of nonrecurring loss adjustment expenses. The favorable impact from prior years was solid at 7 points, slightly above what we expected. But as I've mentioned before, prudence from the past is paying off, but the current accident year is also prudent. So we continue to look at both current and prior years combined when we assess the performance of this segment.

There are a number of reasons why we're comfortable with our sub-95 guidance. From a cost perspective, inflation pressures are easing. The increase in claim severity was 11%, 2 points lower than in Q3. We expect the deceleration to continue in the coming months. Then on the frequency front, the number of accident continues to be benign relative to pre-pandemic levels, even though it was up from the prior year.

Our run rate assumes frequency will gradually increase in the coming months. And finally, written rates and insured values increased by close to 9 points in aggregate by December, while only 5 points has been earned in Q4. So when I look at our starting point and integrate these observations, I feel strongly about our sub-95 trajectory. And obviously, we're comfortable growing in this environment. In Commercial Lines, premiums increased 7% in 2022, excluding the impact of the RSA acquisition. Growth continues to be supported by our rate actions in hard market conditions. The combined ratio was solid at 87.9%, reflecting our profitability actions over time. Looking at the industry, we see hard market conditions continuing given rising reinsurance costs, elevated cat level losses and inflation pressures.

Our business remains well positioned to deliver a sustainable low 90s or better performance. Moving now to our UK&I business. The combined ratio was 104% in the quarter and 97% for the full year. In Personal Lines, premium decreased by a modest 3% in Q4 after adjusting for the sale of our Middle Eastern business. The decrease primarily reflects our continued pricing discipline in a competitive market. The full-year combined ratio of 106.2% included 6 points of cats more than anticipated as well as increased subsidence claims following a very dry summer.

Adjusted for elevated weather-related losses, the run rate performance of this business remains in the high 90s despite inflation pressures. Market conditions have started to firm. We expect this to continue in 2023, supporting further rate increases. In Commercial Lines in that region, underlying premium growth was 9% in the quarter, after adjusting for business exits. We continue to benefit from hard market conditions, which are supporting high single-digit rate increases. The full-year combined ratio of 90.4% reflected the underlying strength of the platform and prevailing market conditions. We expect to operate this business in the low 90s over the next 12 months. Despite challenges in the fourth quarter, our U.K. & I business remains on solid footing overall. At closing, we indicated that it would take approximately 2 years to fully evaluate our propositions across the U.K. & I portfolio and take the action necessary to drive outperformance.

And while that timeline remains, we've already taken significant steps by exiting over $500 million of business with a combined ratio above 110%. The earnings power of that business is clearly improving. Our U.S. commercial business delivered premium growth of 18% in 2022, excluding the impact of exhibit lines. This was driven by the Highland acquisition, strong growth in high-performing businesses and rate increases in hard market conditions across most lines. The full-year combined ratio was strong at 88.2%, reflecting our continued profitability actions. The business continues to perform very well with rates tracking ahead of loss cost trends. We are well-positioned to deliver sustainable low 90s performance or better in the U.S.

Turning to our strategic initiatives. The RSA integration remains very much on track. In Canada, policy conversion is progressing well, and retention is tracking in light with RSA's historical experience. On the digital front, our mobile app saw over 4.5 million visits by customers in the fourth quarter. More than half of all online transactions are now completed via our mobile app, which is driving greater UBI uptake and digital engagement. And finally, we continue to enhance our AI capabilities during the year. The Intact data lab team has grown to over 500 professionals, underscoring our ambition to be the leading AI shop in the insurance world. To date, the lab has delivered nearly 300 models that have, in aggregate, yielded almost $100 million of run rate underwriting benefits.

As I said at the outset, 2022 was an important year for Intact. We made excellent progress in integrating RSA and advancing our strategy, and the performance was strong despite heavy headwinds. And this is thanks to the strength and dedication of our people. And in fact, we're very focused on making sure we have the very best people. We're working hard to ensure they're proud of what they do and feel like they're part of a winning team. And again, this year, our efforts are recognized as we were named the

Best Employer in Canada for the seventh consecutive year and in the U.S. now for the fourth year running. Our sites are now firmly on 2023 and beyond. The business overall is operating at a low 90s combined ratio and the outlook for investment and distribution income is strong.

We're well positioned to deliver again this year on our objectives to grow net operating income per share by 10% annually over time and to outperform the industry ROE by 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. While 2022 was the first full year in a largely post-COVID world, our industry has nevertheless been faced with a number of other challenges. Inflation and severe weather chief amongst them, but there was also tight labor markets and capital markets volatility. In that context, I'm pleased to report solid results for both the quarter and the full year. The overall combined ratio for Q4 was 91.5% despite inflationary pressures and challenging weather conditions in Canada and the U.K. Our Canadian and U.S. businesses delivered sub-90 combined ratios and investment and distribution earnings were strong.

On a full-year basis, the combined ratio was solid at 91.6%, further underscoring the strength and resilience of our platform. Cat losses in the quarter were $167 million, driven largely by windstorms in Canada and severe winter weather in the U.K. This figure is higher than the $143 million estimate we announced in early January, reflecting a number of late claims notifications and higher costs per claim than expected in respect of the U.K. freeze event. This takes total cat losses for the year to $826 million above our $600 million expectation. With these results in mind, we are increasing our annual cat guidance to $700 million.

We expect approximately 70% of losses to occur in Canada and approximately 25% in the U.K. & I. Within Canada, approximately 2/3 of losses are expected in personal lines. The increase to our guidance is driven by a combination of growth in inflation, higher cat losses and the impact of reinsurance renewals. Expect the overall earnings impact to be offset by rate actions, much of which we have put through last year in anticipation of higher reinsurance costs. Favorable prior year development was healthy at 3.8% for both the quarter and the full year, largely in line with expectations. Net investment income increased by 27% in the quarter, reflecting higher yields and higher turnover. For 2023, we expect investment income to be approximately $1.1 billion as we continue to take advantage of current market rates.

Distribution income was $93 million in the quarter, taking annual earnings to $437 million. This is a 21% increase over last year, reflecting accretive acquisitions, organic growth and a solid contribution from Onsite. Looking ahead to 2023, we expect to grow distribution earnings by at least 10%. Now let's turn to our underwriting results, starting with Canada. In personal auto, the combined ratio increased by 8.3 points compared to a low 87.5% last year. Severity increased as expected, given inflationary pressures, but these pressures have eased a bit compared to Q3. Frequency increased year-over-year by almost 5 points. This was due to more driving compared to a partially locked down quarter last year as well as worse than normal weather.

Prior year development was strong in the quarter at around 7 points, reflecting our reserving prudence over the years. While this is slightly higher than expected, we expect prior year development to remain strong as we continue to reserve cautiously. Finally, we are seeing the positive impact of our written rates as they are starting to earn through. The impact will increase further in 2023 with earned rates accelerating from mid- to high single digits as they catch up to current written rate levels. With inflation decelerating, we expect a positive impact on results going forward. Our guidance remains sub-95% for this business, keeping in mind there will be normal seasonality in the results, particularly in Q1. In personal property, another solid quarter with a 76.9% combined ratio, 2.6 points better than last year due to lower cat losses. The underlying loss ratio increased in the quarter by 3.9 points compared to a benign in Q4 2021, primarily driven by higher large losses.

In Commercial Lines, the combined ratio was solid at 89% despite 6 points of cats in the quarter, which mainly reflected further development of losses from Hurricane Fiona. Both specialty lines and regular commercial lines contributed to a strong underlying results. Favorable prior year development was healthy at 3.4%, though 3 points lower than last year, reflecting the lumpy nature of large claims development. The overall expense ratio in Canada was 29.7%, around 1 point lower than last year due to lower variable commissions. General expenses were up in the quarter, largely due to timing of expenses between quarters and higher variable compensation tied to outperformance. Turning now to the U.K. and I. In personal lines, the results include over 20 points of cat losses, which is 19 points more than expected.

Almost all of these losses related to prolonged subzero temperatures in December, which resulted in burst pipes in thousands of homes across the U.K. In addition, there were a number of non-cat large losses and inflationary pressures continue to weigh on both Motor and Home. In Commercial Lines, the combined ratio was a solid 92.8%, driven by the continued strong performance of our regions and specialty businesses. at 90.4% for the full year and with market conditions remaining favorable, this business is well positioned for profitable growth. In our U.S. segment, the combined ratio was strong at 85.1%, with the underlying loss ratio improved by 7.2 points, thanks to our profitability actions and favorable market conditions. Growth in this business is skewed towards our highest performing lines, which tells me that we have been successful at managing the business mix.

I'm encouraged by what this means for this business going forward and our ability to deliver a sustainable low 90s or better combined ratio. Looking at our global specialty lines business in aggregate, premiums grew by 12% over the year to $5.5 billion, while delivering a combined ratio of 86.2%. Our U.S. business is not the only one to perform well. Specialty lines in Canada and U.K. delivered combined ratios in the 80s in 2022, all driven by our continuous effort on profitable growth and outperformance supported by good market conditions. With regards to the RSA integration, we estimate annual synergies to have hit a run rate of $260 million, and we remain well on track to achieve our revised target of at least $350 million by mid-2024.

We also recorded an additional $58 million of tax recoveries this quarter in the U.K., which drove a reduction in the effective tax rate. The gain is driven by a more positive outlook on profitability in the U.K. from both underwriting and investment income. This outlook allows us to recognize more tax loss recoveries from the pool of unrecognized losses, which have been accumulated over time by RSA. There are north of $3 billion of such losses in the off-balance sheet in the U.K. and Ireland as at December 31. We have not reported these recoveries as run rate synergies given their lumpy nature, but they are part of the value created by the acquisition. We are certainly aiming to capture more of these losses in the future. With regards to value creation over the full year, RSA contributed 16% accretion to [Noit], and we're confident of this rising to 20% by 2024.

Overall, the IRR for the transaction remains over 20%. Moving now to the balance sheet, where our financial position continues to be strong despite the macroeconomic environment. We closed the quarter with total capital margin of $2.4 billion and a debt to total capital ratio of 21%. Book value per share grew 2% quarter-over-quarter as solid earnings and gains in our investment portfolio more than offset large mark-to-market losses in our U.K. pension plans. Given our outlook on earnings growth and the strength of our balance sheet, we once again raised our dividends this time, 10%, which represents a 10-year CAGR of 10%. We are also renewing our share buyback program in February on the same terms as the existing program. While this extends our flexibility to purchase additional shares, we will continue to be disciplined in this regard.

As we wrap up another successful year in a challenging environment, we are already laser-focused on making 2023 even better, including a smooth transition to IFRS 17. While this will bring a number of changes to our key reporting metrics, these are mostly geography changes within our results. And as such, we'll have no significant impact on our net operating earnings over time. I encourage you to refer to our MD&A, which hopefully provides a helpful summary. Overall, as we look forward to 2023, there is much to be positive about. We started the year in a strong position despite recent headwinds. Our earnings resilience is evident and our balance sheet is strong. With the platform we have in place, a clear road map and an opportunistic mindset, I'm confident we will continue to outperform over the next year and beyond. With that, I'll give it back to Shubha.

Shubha Rahman Khan

Vice President of Investor Relations
Thank you, Louis. [Operator Instructions] So Sylvie, we are ready to take questions now.

Question and Answer

Operator

[Operator Instructions] And your first question will be from Paul Holden at CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

So just want to make sure I hear you correctly on personal auto, and I don't think your message has changed that much. But the way I'm sort of thinking about 2023 is slowing claims inflation, as you've talked about, and then accelerating premiums earned and maybe sort of a net benefit of something like 2 to 4 points. And then with higher-than-normal PYD release higher than your forward guidance on PYD maybe being a drag of 2 to 3 points next year. So if I think about that as a very simple math that basically gets me to a 2023 combined ratio that's roughly flat versus 2022. Like am I missing anything there? Is that kind of what your guidance is pointing to broadly?

Charles Joseph Gaston Brindamour
CEO & Director

I think your read is good, Paul, and I think that's a good way to unpack the trajectory of personal automobile, our guidance has not changed. It is sub 95%. I'll ask Patrick to give you some color maybe on some of the elements that you have laid out. But I think directionally, I would agree with how you analyze that. Go ahead, Patrick.

Patrick Barbeau
Executive VP & COO

Yes, I agree totally. if I look at the 95 [indiscernible] combined ratio of Q4, there was, as we said, about 2.5 points between weather seasonality and the onetime adjustment on expenses. The PYD was slightly higher than expected, but that's -- as we said earlier, that we don't look in isolation. We had a prudent reserving approach since the beginning of the pandemic because of uncertainty, and we continue to do so because there is still uncertainty around where the inflation will go exactly. We've seen very good signs of reduction in inflation from the 13% in Q3 to 11% in Q4.

And the drivers of that reduction are as we expected. So on car parts, on market values, we see this and this is slowdown. So overall, I think your analysis is very much aligned to maybe nuances I would bring is, if you look at the full year, I don't -- I'm not sure that we expect the PYD to go down by 2, 3 points next year necessarily given we continue to reserve prudently in the current on the other hand, though, our pricing assumption assumes that there would also be a bit of an increase in frequency year-over-year, not even there was a ramp up in the earlier part of the year.

And our pricing assumes that it will continue to migrate towards normal, even if over the past 3 quarters, it was very flat. Overall, these 2 are the slight nuances, but overall, very much aligned with our cash position.

Charles Joseph Gaston Brindamour
CEO & Director

Yes, yes. I think PYD, not too far off, I guess, from what we're seeing year-to-date in my mind, provided frequency in the past does not start the deteriorating, obviously. But directionally right, Paul. Thanks for the question. Good read.

Paul David Holden
CIBC Capital Markets, Research Division

Okay. And then second question is related to the U.K. and I business. And I guess the personal lines, in particular, 121 combined ratio for the quarter, 106% for the year. I think even it's in your commentary, if you exclude cat losses, it's still kind of generating a below target combined ratio. Is there anything structurally related to the regulatory pricing reforms or otherwise that would prevent you from rectifying that situation and bring it down more into the target zone. And if no, maybe you can give us some more specifics on what exactly the action plan is to produce a better combined ratio in U.K. personal lines. And I'm -- I guess I'm talking to, I just want to be specific, on the property side more than auto.

Charles Joseph Gaston Brindamour
CEO & Director

Okay. Good question, Paul. I think if you strip excessive cat, you're in the upper 90s in personal lines, if I put all first lines together, that's not good enough. Obviously, our work is not done. And I'd point to 3 areas of improvement. One is rates. So rates are flowing through the system. 2, very important, pricing and risk selection sophistication. And 3, making sure we're playing in the right part of the market. And there, our work is certainly not done on these elements. And as I've mentioned, within 24 months of closing, we'll finalize where the footprint is, but we're not done. Ken, who is in the U.K. can give you additional perspective.

Kenneth Anderson
Executive VP & CFO of UK and International

Yes. No, I'm very much aligned with that. The 2023 overall combined at 106, as you say, there's about 6 points of elevated cash in there. There's also about 2 points of subsidence claims in the home market. So just for those 2, you are indeed in that upper 90s zone. And we continue to hold the line on rate to deal with the inflation. The markets in the early part of '22 was slow to move. We've started to see some signs in the fourth quarter of rates ticking up. But there's more rate needed in the market in '23. That's clear.

We're certainly pushing that neighboring pressure on units and with the cost base that we have. So all in, that upper 90 zone is kind of the zone of performance that we see in the near term. And then the actions that Charles mentioned are indeed the ones that are being pushed tilting that portfolio towards the direct and away from the partnerships where the economics don't back up, the pricing sophistication, bringing some of the Intact capabilities and deploying them in the U.K. market. And then also in terms of technology and increasing digital and technology footprint on the home and pet business, in particular, at the latter part of '23.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Ken. And I think an element of your question, Paul, was are there regulatory constraints to bring improvement in the portfolio. And I would say U.K. market is really tough. But one thing that is good in my mind is you can turn on a dime when it comes to pricing, either in the amount of price you're taking or in terms of risk selection. The U.K. Trust competitive behavior, in fact, more so than the Canadian regulatory system. So when it comes to pricing and risk selection, no barriers to improve that.

Operator

Next question will be from Geoff Kwan at RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, Research Division

I just wanted to clarify, I think it was Ken's comment because my question was going to be like in the U.K. personal line space, like what to you would be a success or would be good results in terms of combined ratio for 2023? And if I heard it right from Ken's comments, it sounded like upper 90s in the near term is kind of the goal. Is that correct? Or did I get that incorrect?

Charles Joseph Gaston Brindamour
CEO & Director

Well, upper 90s is not the goal. I think upper 90s is what you can expect to see in 2023 because pricing risk selection takes some time and the work we're doing in claims will take some time. And we're not going to run an upper 90s business in the U.K. personal lines, absolutely not. But in 2023, we're in the second year of the integration, that's maybe what one can expect given the inflation given the state of the market and...

Patrick Barbeau
Executive VP & COO

Absolutely the commitment to mid-90s performance in the mid- to longer term is very the aim, but for 2023 that will obviously...

Charles Joseph Gaston Brindamour
CEO & Director

Yes.

Geoffrey Kwan
RBC Capital Markets, Research Division

Right. Okay. No, that's where I was talking about the 2023, not your actual more term goal. And my second question is just going back on auto in terms of the claims inflation from [indiscernible] comments. The improvement Q4 versus Q3, was that the rate of inflation was coming down? Or are you actually seeing some of the actual claims costs actually net-net, reducing? And then also, is there any comment on are those same trends playing out so far in Q1?

Charles Joseph Gaston Brindamour
CEO & Director

So Q3 year-on-year was 13%. Q4 year-on-year is 11%. I'll let Patrick provide some color.

Patrick Barbeau
Executive VP & COO

Geoff, as we mentioned in prior quarters, if I break it down, there's 40% of the cost that's coming from liability and injuries, 30% on car repairs and 30% on total losses, including debt. On injuries and liability, no change from prior quarters. We see no inflation year-on-year on that. So that's no change between Q3 and Q4. On the repairable losses, the car parts themselves have been flat between Q3 and Q4, but they've been more available. So we've seen a little bit of easing on the pressure on rental costs for repairables. But no increase between Q3 and Q4 in parts, which is an improvement from the trends we were saying before.

On the total losses, the market value has flattened as well the curve indices or the index of market value, which is the main driver of the cost and total losses is also flat between Q3 and Q4, with a slight reduction in the last month. So that's very aligned with what we've seen in the U.S. And because the denominator now is higher when we compare the year-on-year that has created about 5 points reduction in the inflation rate in Q4 versus Q3, and that's the main cause of the reduction. These 2 items, when you look at availability of parts, the car parts prices themselves being flat and the index of market value starting to slow down are good signs that this will continue in the same direction in coming quarters.

Charles Joseph Gaston Brindamour
CEO & Director

And I think Patrick, Geoff was trying to figure out what happened in Q1. We've had a chance to take a look at January even though it's a few days fresh...

Patrick Barbeau
Executive VP & COO

Yes. It is in the same direction. So a slight reduction again over what we've done in December.

Charles Joseph Gaston Brindamour
CEO & Director

Slight deceleration from Q4.

Operator

Next question will be from Doug Young at Desjardin Capital Markets.

Doug Young
Desjardins Securities Inc., Research Division

Sorry about this, but I'm going to stick with Personal [indiscernible] for my first question. And -- I guess loss cost trends is outpacing earned rate, and you saw that last year. Is this something that's going to reverse in Q1? Is that the message that I heard? Or is this something that's more back half of 2023? And then just to clarify, when I think of a sub-95% combined ratio talk about seasonally adjusted. And I get Q1 is going to be higher and Q2 is going to be lower, but there's no other adjustments when we think of sub-95%. So when I think of like the 95.8% that you recorded this quarter, like that's the number we should be looking to be sub 95%. And that includes prior year reserve developments and whatnot? Just get some clarity on that as well.

Charles Joseph Gaston Brindamour
CEO & Director

So this quarter, so Q4 is a higher seasonality quarter. I think we've pointed out that, a, there's seasonality and b, there was even more winter than what the seasonality we would have expected -- so you went right there 1.5 point there. Q1 is a high seasonal quarter. So we need to keep that in mind. Our guidance is indeed a run rate ex seasonality type guidance. I'll let Patrick comment on loss cost because there's an element in your question, though, that is what you assume when you price as well. But go ahead, Patrick.

Patrick Barbeau
Executive VP & COO

Yes. So last cost and premium, maybe I could cover the 2 because that's what we see crossing past a little bit right now when we look at the coming quarters. So on the last cost side, the frequency was flat for 3 quarters in a row. -- compared to prior year because Q4 in '21, as we pointed out, was still a bit lag down. There is a year-on-year increase of about 5 points, but it hasn't moved for 3 quarters. We expect in our pricing that, that might continue to or start to migrate closer to pre-pandemic. That's one of the thing in Last cost on the other hand though, the inflation from 13% to 11%. We expect that will continue to go down at about that pace for a few quarters.

On the premium side, written rates were in around 5% in the middle of the year, it peaked up 9% in December. Only 5% of it is earned. And if you look at the next 2 quarters, it will be earned at the 7% rate level in Q1 and get to the high teens by the summer. So you see these last cost trend crossing with the rates starting to be higher in the coming quarters than the actual loss cost rate.

Doug Young
Desjardins Securities Inc., Research Division

So it seems like that cross is going to happen about midyear. So this is like the back half of the year is when we should see earned premium outpacing loss cost trends? Is that right, am I reading that rightly?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. But the expectation, if you strip seasonality is that this business is running now sub-95 to be here, okay? There will be gradual improvements as you described as those 2 lines cross. But keep in mind that from a pricing adequacy point of view and from a pricing point of view, the frequency we're seeing is actually lower than what we're pricing for and lower than what we're reserving for. You put all that together and you get to our guidance. So sub-95 throughout ex seasonal, okay? But clearly, a different combined ratio pattern in the second half than in the first half because those 2 lines will cross sometime in this...

Doug Young
Desjardins Securities Inc., Research Division

Okay. And then just listening to discussion on the U.K. personal property market. If I go back many, many years, and I don't know the date, but I mean Canadian personal property was an issue back in the day, and it took you I forget, let's say, it took you 5 years to go through the pricing segmentation to really kind of fix that business. Is that like -- is that what we should be expecting for the U.K. personal line business? Is this like a 5-year fix -- or is this something that I know 2023 can't -- it doesn't sound like we're going to see drastic improvement. But is this something in 2024, 2025, where you do expect that to hit the midpoint of that? Or is that a longer tail?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. I think -- so Doug, if I think about personal property because it's a very good example in my mind. This was a major revamp of what we did. I'll take you back 10 years ago, where we changed the product, we changed the pricing algorithm. We changed the claims supply chain management and how we manage claims, invested in prevention, and that took a few years indeed. But when I look at it in retrospective, I look at the last 10 years combined ratio in personal prop, 8099. If I exclude 2022, 11 years, 90% combined, 5 years, 87% combined with volatility with cats. So when you do a major overall, it takes some time, but it pays up. Like it's not just superficial fixing here and there. In the U.K., because I think there's heavy lifting we're doing at the moment, the piece that is quite different from when we improve home insurance is we didn't change the footprint of home insurance.

We changed what we did pretty much for all Canadians at all levels of the value prop. In the U.K., we have not concluded that we want to play in all the segments where we are today. And that's the bit that can move the needle a bit faster than changing great algorithm technology, et cetera. That being said, it will take some time. And that's why to the earlier question, the guidance is upper 90s for 2023, but that's not how we measure success. Ken, anything you want to add in?

Kenneth Anderson
Executive VP & CFO of UK and International

[indiscernible], but I think the point around the distribution channel and going in the direct business, you're much more in control of your overall combined ratio outcome versus in the partnership side of the business, which is the majority currently of the PL business that we have, you're less in control of the combined ratio. That tilt will take a bit of time. That is the route -- to one of the important routes to better performance...

Charles Joseph Gaston Brindamour
CEO & Director

Good point. We have a number of partnerships. Some of them we've exited. Others were in the process of negotiations where we're not happy with the economics. That can take some time to run. But otherwise, I think our perspective is upper 90s this year, sub-95 over time, lots of work left to be done in the coming months.

Operator

Next question will be from John Aiken at Barclays.

John Aiken
Barclays Bank PLC, Research Division

Sticking with the U.K. and I just for a moment, a lot of discussion around the combined ratios. But I was looking at even when you strip out the Middle East divestiture, volumes are down on the U.K. I and personal side of the equation. And I get that you're trying to rightsize the business going through. But with all of the factors that you're putting into play for the combined ratio, should we expect volumes to continue to trend down in 2023, particularly if you're renegotiating some of these partnerships? Or should we actually see an inflection point at some point in '23 or is that 24 or later?

Charles Joseph Gaston Brindamour
CEO & Director

I'll ask Ken to provide this perspective.

Kenneth Anderson
Executive VP & CFO of UK and International

Yes. Well, indeed, the pressure on top line in '22 has been driven by, yes, the exit, but also the rate that we have been pushing ahead of the market. The market has been slow to respond on rates and therefore, the top line pressure has been there. As we move into 2023, I would say, overall, mid-single-digit growth in the zone for personal lines. But again, we will maintain the discipline and a lot of the outcome will be determined by how the market bonds and what the market pushes in terms of rates.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. I think it's a good thing that it is a small portion of the IFC business because -- in the context of the work we're doing to improve PL now, we're not really looking at the top line. I'll be very clear. It's all about improving the bottom line. And the market does whatever it wants. We have some work to do there and could be mid-single digit. But if the market doesn't move, it will be less than that because we'll lose some more units, and that's just the way it will be.

John Aiken
Barclays Bank PLC, Research Division

Understood. And my follow-on, if I may. Louis, in terms of distribution income, guidance, 10% that you expect to do better than. But when we take a look at the growth that we've seen over last little while, it's been hovering 20% or above, this -- the drop down in the guidance, I know 2022 benefited from acquisitions. But should we infer from this that capital deployment opportunities in distribution are starting to slow? Or are you just being overly cautious and we could see well above 10% if you're actually able to execute on some opportunities?

Louis Marcotte
Executive VP & CFO

So no, I wouldn't say there's a slowdown here. The way we drive our guidance is really built on what I will say in bank at the time we give the guidance. So if there is additional M&A that comes out during the year, and we were certainly willing to deploy capital for that it would be additional. So we end up higher because the market is still very good, and we think there's going to be more opportunities coming. But the guidance doesn't take -- doesn't go for potential transactions in the future. It really is based on what we have already signed and then the rest is upside to the guidance. But just to be clear, the market is still very good, and we're certainly willing to deploy more capital in that space, no doubt.

Operator

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

Tom MacKinnon
BMO Capital Markets Equity Research

Question with respect to the increase in the cat guide. Does it reflect -- you don't necessarily see a lot of business. I think you retain like in the high 90s in some of the lines in mid- to high 90s and others. So is this increase in cat guide just a reflection of, hey, we got 2020 wrong. We guided at 600, and it was over 800. So we're just going to change the guidance now just because the way weather is for 2023? Or have you actually changed your approach to reinsurance? Are you retaining anymore? And is that driving this change in the cat guide?

Louis Marcotte
Executive VP & CFO

Yes. So a few items here on this front. So on the 1/1 renewals, which are part of the explanation why we increased our cat guidance we were successful at retaining or securing the gas capacity we needed. The costs are higher. We had anticipated that and started pricing for it last year. So the impact, as I mentioned earlier, is fairly neutral on the earnings, but the cost of it and the fact that we increased retention in the 3 countries we operate in has actually will drive a bit more cat losses that drive part of that $100 million. So there's 3 elements, as I said earlier, the fact that we've grown more premiums and there's inflation, that's about 1/3 of it. 1/3 is the renewals, the impact of the renewals. And the last part is the increased cat losses we've seen historically.

So those are the 3 buckets that drove the $100 million increase. And then our view here is this was largely anticipated and has been priced in already. Therefore, the impact on earnings is de minimis. You are right to say that we don't see it very much. The overall cat program is a small single digit -- low single-digit portion of net earned premium. And the impact here is, I would count it in basis points overall. So I hope that's helpful.

Tom MacKinnon
BMO Capital Markets Equity Research

Yes. I mean you haven't really changed your guidance for top line growth in commercial lines quarter-over-quarter, yet there is an increase in the cats and you're saying you're pricing for it. So I would have expected your top line for expectations for commercial to have changed now that you're trying to price in these higher reinsurance costs, at least on a quarter-over-quarter basis? Or is it just -- or am I just being too cute here?

Charles Joseph Gaston Brindamour
CEO & Director

No, no, no. You're not being too cute, but I'll tell you what the story is. So first, it's a good opportunity, I think, to recognize the foresight of the reinsurance team, who, after the July renewal, said, okay, guys, we need to get ready for a step up in cost and an increase in retention. And we said, let's do it. So this notion that we would face a hard reinsurance renewal on 1/1 was identified months ago by Benoit and Stephen Hetrige, who runs reinsurance. And that was very much baked in our thought process as we built our action plans for 2023 and our pricing plans. And as a result, the guidance we've given in the past couple of quarters anticipated hard reinsurance renewal cycle was a bit more expensive than what we anticipated, but nothing meaningful. And then in the $100 million per se, the increase in retention, which is primarily at the bottom of the Canadian program is worth about $35 million. So 1/3 of the $100 million is increase in retention.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And just a quick one with respect to the deferred tax asset move. It seems to reflect your outlook for improving performance in U.K. and international. And I'm assuming that this change in the DTA would have looked past 2 years. Now you talk about having 2 years to fully evaluate your business in the U.K. and I. So what does the move in the deferred tax assets, say, with respect to your 2-year time frame to fully evaluate this business?

Charles Joseph Gaston Brindamour
CEO & Director

Go ahead.

Louis Marcotte
Executive VP & CFO

Very good question. So the outlook is more positive, and you'll understand we were comparing to a year ago essentially when we made our first -- well, of course, our RSA business was already doing a PDA. But this is really the first year afterwards where we have our own outlook, and we have a bit more credibility in terms of the results, and that allowed us to recognize more tax loss recoveries. The estimate is based on a 5-year projection. And with the fact that our underwriting is improving, the investment income is improving, and we have more credibility, we were able to increase the DTA asset. If there were changes to the structure going forward, we would have to adjust. So it gets a bit tricky as to what the impact of those changes would be on the taxable income. But we would reflect them as soon as they are known and we adjust accordingly. But at this point, it's sort of a, I'll call it, a going concern plan 5 years out with what our best expectations of earnings, both on underwriting and investment income driving it.

Charles Joseph Gaston Brindamour
CEO & Director

So I think if I boil it down to 2 things really. One is the guidance from a combined ratio point of view hasn't changed much. But I think when people look at our ability to generate that in earnings, it's gone up, therefore, the DTA recognition takes that into account. Second one, which is not related to the guidance we've given, which is combined ratio driven in nature of the investment income potential, put those 2 things together and that's how you right there, Tom.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And the 2-year time frame sounds like you're a little more optimistic now.

Louis Marcotte
Executive VP & CFO

Well, the 2-year time frame is the strategic discussion Charles talked about earlier. On the tax front, it's really a 5-year out. And again, I said it doesn't take into account, I will say, potential changes to the structure. It would be -- it's really as we are today looking forward with the improvements we expect to make.

Operator

Next question will be from Mario Mendonca at TD Securities.

Mario Mendonca
TD Securities Equity Research

Louis, if we could stick with you on your investment income guidance. The $1.1 billion is actually a little less than what the Q4 annualized would be. I know it's marginally less. But given the new money yield, I think you said a 4.5% is a fair bit higher than your book yield. Why are you not building in some improvement in the overall realized yield over the next 12 months? Because it would appear that you're not in your $1.1 billion guidance?

Louis Marcotte
Executive VP & CFO

So the first, if you try to run -- use a run rate, you're right, it's a bit shy because the 279 of Q4 probably has $10 million to $15 million of, I would call, lumpy -- it might recur, but it's more lumpy and therefore, difficult to put in a fixed run rate. But otherwise, that's about the only amount. That's why it's a bit shy of it. Then our estimate for next year is based on current rates, where the book stands today and then the turnover with a normal turnover next year. If the turnover accelerates, we could generate more. If yields go up more, we can generate more. But we're on a book yield as we are today, plus it's normal turnover going into the future.

Mario Mendonca
TD Securities Equity Research

But just so we're clear, the $1.1 billion does include normal turnover?

Louis Marcotte
Executive VP & CFO

Yes.

Mario Mendonca

TD Securities Equity Research

And wouldn't the normal turnover in and of itself increase your realized yield?

Louis Marcotte
Executive VP & CFO

It would. And we've put some of that in the estimate, but it's not a huge -- at that pace, it's not very big. Keep in mind, we've traded quite a bit in Q4 already. And so the amount we can turn over next year on a normal basis has a more limited impact.

Mario Mendonca
TD Securities Equity Research

Okay. That's helpful. Charles, maybe we could go back to the U.K. for a moment. You made you and Ken kind of made the comment that it kind of depends on what the market will give you, that competitors were slow to react to rate. When you look at the competitive landscape, you look at the individual competitors that you face in the U.K. personal lines, is there -- could we make an argument that some of those competitors and maybe a majority of those competitors have lower return expectations than Intact does. And as a consequence, you're always going to compete against firms that really don't need the same or have the same required hurdles that Intact does. Is that statement? Is there some truth to that statement?

Charles Joseph Gaston Brindamour
CEO & Director

There is some truth to that statement, Mario. However, it's important to understand that we're not all operating in the same way. You can make that argument in Canada. There are people -- many people in the market that have lower expectations than we do. Yet, we beat them from both the top and bottom line point of view. Why? Because we price and select differently and we have a better supply chain. We're not in that position in the U.K. And therefore, I don't have the same confidence we can do that in the U.K. That's why we're still trying to figure out where we have a real shot at winning.

But certainly, when I say, a, you need to figure out if you can outperform. And b, you need to figure out if outperforming generates enough return to justify leaving capital there. And to that question, and maybe that's where you're headed. It's not clear to me that the answer to that second question, even with outperformance, you can make enough money in all parts of the market. And that's why we're not done finalizing the footprint.

Mario Mendonca
TD Securities Equity Research

Yes. That's kind of where I was going. If you've got competitors that have lower return expectations and Intact is not the 800-pound gorilla there, then it almost seems like you're pushing against the string. It's not an area where you can deliver the outperformance you need to be there. That's essentially where I was going with that. Isn't that the more logical conclusion?

Charles Joseph Gaston Brindamour
CEO & Director

I think it's not that straightforward. But logically speaking, I think it's fair. I'd say, Mario, that in commercial lines, we're in a very strong position. And we have to keep in mind that in home, we're #3. And so are we in pet that's either #2 or #3. So definitely not the 800-pound gorilla, and I'm not sure we're actually ensuring gorillas in pet, but with some degree of scale. I think our question mark on those 2 segments is what Ken referred to, it's how they're being distributed. That's the piece where we hesitate the most at this stage Ken, why don't you provide color?

Kenneth Anderson
Executive VP & CFO of UK and International

Well, in addition, I guess, then what that leaves, I guess, then is the motor business. That's where clearly the scale is more challenging and given the cost base. And we're remaining disciplined on pricing. And I think the bigger question mark is on the motor...

Charles Joseph Gaston Brindamour
CEO & Director

Business.

Kenneth Anderson
Executive VP & CFO of UK and International

I think scale -- yes, #3 position in home and cash it's not #1. It's not the same as Canada, but it is a reasonably scaled position if you can tilt to a more direct offering in terms of distribution.

Charles Joseph Gaston Brindamour
CEO & Director

Exactly.

Operator

Next question will be from Lemaur Presaud at Cormark Securities.

Lemar Persaud
Cormark Securities Inc., Research Division

I apologize for going back to personal auto here, but I'm wondering if you could provide an update on the ability to push through rate in personal auto, just in light of the Alberta government freezing rates at the end of 2023. Is that something other provinces are looking at? Or do you think you can continue to push through higher rates to say inflation comes in higher than expected or frequency rises more than expected?

Charles Joseph Gaston Brindamour
CEO & Director

Well, thanks for the question. I'm glad you bring up personal auto again because we love that business, and we have a very strong track record there. So we don't mind talking about it. In general, regulators have been quite rational. I mean, if you have a good case for why there's cost pressure, you can price for it. And in fact, there are some markets, our biggest market. In fact, you don't even have to ask for permission actually to price for inflation. So it hasn't been an issue. It has not had a negative impact of any substance on performance over time. And frankly, because the cost pressure now is on short-tail lines and not on long-tail lines, it's much easier to demonstrate why rate needs to move.

And in aggregate, we think that the regulators get that and it's easy to demonstrate. And that's why in 2022, we were able to pretty much take in 9 points to cover inflation. Patrick, maybe you want to give a bit of color on Alberta and so on.

Patrick Barbeau
Executive VP & COO

Well, similar to the rest of the country, we're very proactive early on in 2022 in taking rates. So we're starting the year in '23 in good positions, including in Alberta. The new policy of rate freeze is elated in our view, and we'll do nothing really to address the core issues that are putting pressure on rates for Albertans. If anything, it makes a significant arm as the industry will be temporarily left behind on reflecting inflation in the rate. So while the freeze is meaningful for the Alberta market in the context of intact, the solution is slightly different. But first, we need to be clear, we'll take the necessary actions to protect the profitability position in the province.

And that might include the appetite regarding new business and our renewals and at a minimum, the amount of future marketing investments. But second, we've taken rates in advance of the market. We have good rate momentum in there. That's only 17% of our Canadian PA portfolio of 5% overall of IFC. So it doesn't have an impact on our outlook for the next 12 months and sub-95 combined ratio guidance. That being said, we reiterate the fact that while it might be attractive politically, this is not very good for our burdens. And for sure, our team stands ready to engage with the government on better ways to improve in the long term. the availability and affordability for insurance in Alberta.

Charles Joseph Gaston Brindamour
CEO & Director

Bottom line, I think regulators are rational. The need for rates at the industry level is clear and easy to prove. And so not concerned by regulators ability to deal with that. Alberta, it's political. It's a real bad call. I think within 6 months, you'll have capacity issues in that market. And I think other provinces understand that when you artificially try to do stuff like that, there's a blowback that comes back, and that might very well be the case in Alberta. So we're, I think, in a good position in relative terms and feel good about our ability to price for inflation. And the 9 points we've talked about is baked 10 already.

Lemar Persaud
Cormark Securities Inc., Research Division

Okay. That's helpful. And then my second question, I want to come back to Mario's line of questioning on the investment income. Are you guys building in expectations for rate cuts later in 2023, which could limit market-based yields? Because I think, Louis, if I heard you correctly, there's $10 million to $15 million in lumpy revenues, but even excluding that with normal asset growth, I could still easily get over $1.1 billion. So any thoughts there would be helpful.

Louis Marcotte
Executive VP & CFO

So we have not booked any rate cuts clearly. So yes, I think we're -- it's a prudent guidance, but not based on rate cuts plan or expected rate cuts next year at all.

Operator

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

Nigel R. D'Souza
Veritas Investment Research Corporation

Just a quick clarification on the on-limit earlier. For personal auto, including the seasonal impact, do you expect that combined ratio to be above 95%, and I understand that correctly.

Charles Joseph Gaston Brindamour
CEO & Director

No, I think we're saying sub-95 is what we would expect quarter after quarter after quarter, except that you need to take into account seasonality. So Q1, for instance, there's a few points of seasonality. Normally, if you go back in time, you will see that, it's a very clear pattern. That needs to be taken into account. What we're seeing is that the run rate per quarter, as we sit here today is sub-95 and should improve over time.

Nigel R. D'Souza
Veritas Investment Research Corporation

Okay. Got it. That's helpful. So my first question was on favorable PYD. When I look at your guidance, it looks like you're expecting a favorable impact on the IFRS 17 on the PYD metric. And you're also guiding for PYD to be in the 2% to 4% range over the medium term. So I think the midpoint of that guidance, 3%, that's actually lower than the favorable PYD of 3.8% in 2022. So would it be fair to expect favorable PYD to decline in subsequent quarters and trend lower? Is that the way to think about it?

Charles Joseph Gaston Brindamour
CEO & Director

Louis, why don't you share your perspective?

Louis Marcotte
Executive VP & CFO

So I think I'll try to bucket into here, the IFRS impact second first, our expectations. So historically, the guideline has been between 1% and 3%, but we did expect it to be stronger in the short term given the prudence we had baked in throughout the kind of the COVID periods. So I think that's still true, and -- you're seeing it in the actual results with the strength of PYD. So that on an even basis, I think, will extend at least in the next 12 months. Then because of IFRS 17, I will summarize the impact to -- we can see today is roughly between 1 or 2 points of favorable impact to the PYD.

So I would sort of take them apart stronger than -- in the short term higher than expected or higher end of the range. And then I would add between 1 and 2 points for the IFRS 17 conversion.

Nigel R. D'Souza
Veritas Investment Research Corporation

Got it. That's helpful. And the second question was on, again, working back to market base yield. When I look at the increase quarter-over-quarter, 50 basis point increase, even if you strip out the $15 million or so in the lumpy items, based on a reinvestment yield that you know at 4.5%, about 4% of your portfolio turns over a quarter, that would imply that your market-based yield should have been only maybe 10 basis points higher relative to the last quarter. So are there any other items that are driving that variance? Is it trading related or something else that enhanced your market-based yields this quarter?

Louis Marcotte
Executive VP & CFO

So market-based yield has a denominator that moves with market volatility, and therefore, it's a harder one to pin down, frankly. The yields -- the book yields have gone up because we trade and we secure a higher yield, but then you've got the offset in the bond themselves, the bond value themselves. That's why we don't use the -- that yield for guidance. We give the hard number to take away sort of the market volatility impact on the book and the market-based yield that comes out of it. So we view the market-based yield as the result of 2 things: increasing the interest on the assets we own and then the volatility of the asset values themselves. And the outcome is what we report on. But from a guidance point of view, we prefer to give the hard number. It's our best estimate of where investment income will end next year as we stand today.

And we try not to reinvent. People are challenging on the run rate given the Q4 numbers, and that's why we're saying there's probably 10, 15 of lumpiness in there, so I wouldn't extrapolate strictly on the actual number. But that's our best guess at today, where we stand based on current yields and where our book has been converted to current rates.

Operator

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

Jaeme Gloyn
National Bank Financial, Inc., Research Division

I guess same kind of question just in terms of the trading impact on investment income. It looks like there was quite a bit of trading in Q4. What capacity do you have left to continue to execute trades. What kind of trades are these that are helping to really juice the interest revenue specifically?

Louis Marcotte
Executive VP & CFO

So we're careful here with the impact of the trading. What you're seeing on the realized gains and losses in the nonoperating section. So we have to be a bit careful here. -- our expectation right now is to go somewhat back to normal trading next year. And if there are opportunities where there is a trade that makes sense and doesn't get wiped out by the realization of the loss on the nonoperating earnings. We would do those trades. But you're right, we took the opportunity as markets move and rates move quite frantically, I think the investment team sees more opportunities, and therefore are much more active to trade. And this is what has happened, I will say, second half of this year, very, very active and you've seen it in Q4. So today, I sit here, what we look at in 2023 as normal turnover, maybe there will be opportunities and that will be a positive tailwind to the current guidance but not more than that.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Got it. And the second one, just in terms of the Highland insurance acquisition in specialty lines. Just wondering if you can comment on the success of that acquisition, how much is contributing to U.S. commercial, but also how is it contributing to the distribution income as well? I guess it hits both sides.

Charles Joseph Gaston Brindamour
CEO & Director

Darren, why don't you talk about the strategic merits and what it's doing for us.

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Yes, absolutely. Obviously, it's a transaction, as you know, that we made last year. We came online in terms of underwriting capacity in Q4. These are very highly specialized niche appetite that they have at Highlands, and that's very much part of the recipe when we look at from an MGA and from an acquisition strategy standpoint. Just a reminder, though, that we did not purchase any reserves or any unearned premiums. So this obviously is earning out from dollar 1. Obviously, as you can see in the MDA, there was an impact -- a favorable impact, obviously, in growth in the U.S. in Q4.

That will very much obviously continue out into 2023. Performance to date, obviously, it's still very, very early, but it's very much in line with expectations and will have a positive impact on the overall performance in the U.S.

Louis Marcotte
Executive VP & CFO

And Darren, we're keeping how much of that?

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

We're keeping a roughly 21% of the capacity out of that operation, obviously supported by both some other direct insurers, but also some reinsurers as well.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Roughly 21%. Louis, can you talk about distribution income?

Louis Marcotte
Executive VP & CFO

Absolutely, so in the quarter, Highland was actually of the 22% rise was about 2%, 3% of the 22% was driven by Highland. So it's a pretty significant portion of the growth in the earnings. It's 2% year-to-date, which is half a year for Ireland. So it has a meaningful impact on the distribution income for the distribution earnings.

Operator

At this time, we have no further questions. Please proceed with closing remarks.

Shubha Rahman Khan

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. A transcript will also be available on our website in the financial reports and filings section. Our 2023 first quarter and full-year results are scheduled to be released after market close on Wednesday, May 10, with the earnings call starting at 11 a.m. Eastern Time on Thursday, May 11. 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. At this time, we ask that you please disconnect your lines.