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Earnings Call

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Call Participants

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Guillaume Lamy

Kenneth Anderson
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Kevin Lemay

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TD Cowen, Research Division

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Paul David Holden
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Tom MacKinnon
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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Intact Financial Corporation Q2 2024 Results Conference Call. [Operator Instructions]. This call is being recorded on July 31, 2024.

I would now like to turn the conference over to Kevin Lemay, Deputy Senior Vice President and Head of Financial Performance. Please go ahead.

Kevin Lemay

Thank you, Lily. Good morning, everyone, and thank you for joining the call to discuss our second 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 Investor tab.

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

To discuss our results today. I have with me our CEO, Charles Brindamour; our CFO, Louis Marcotte; Patrick Barbeau, Chief Operating Officer; Darren Godfrey, Executive Vice President; and Chief Underwriting Officer for Global Specialty Lines, Gui 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

Good morning, everyone. Thank you for joining us today. I want to take a minute to acknowledge the extreme weather events across Canada over the last few weeks. These are tough times with the loss of homes, the destruction of businesses and stressful evacuations.

We're focused on providing support to customers in a time of need. Maintenance teams, on-site and wildfire defense systems have been really quick to respond. We are proactively contacting customers to assess their situation, providing funding for additional living expenses and are present on the ground where possible to begin rebuilding efforts. It's in these moments that we're reminded of how important our purpose is. That's to help people, businesses and society, prosper in good times and be resilient in bad times.

As for our second quarter results, yesterday evening, we announced net operating income per share of $4.86, which doubled since last year. This was on the back of strong underwriting performance in all lines of business, as well as solid growth in distribution and investment income.

Top line momentum is strong at 6%, led by double-digit growth in personal lines. And while the margin and commercial lines is changing, it remains favorable, and we expect the industry growth to be at least mid-single digits for the next 12 months. As such, we're quite positive about our own growth outlook.

Our combined ratio was excellent at 87.1%, 9 points better than last year. This reflected a 2-point improvement in our underlying performance driven by growth in the most profitable segments and favorable market conditions.

Catastrophe losses were also low for the second quarter, in contrast to the severe weather events reported last year.

Overall, with our operations performing really well, operating ROE stood at 17%, up 4 points year-over-year. And we maintain our balance sheet in a position of strength with an increased $2.9 billion of total capital margin and leverage in line with our 20% target.

Now let me provide some color on the results and outlook by line of business, starting with Canada. So in personal auto, premiums grew 11% in the quarter, up 5 points from a year ago. Top line momentum reflected both rate increases and customer growth. The industry continues to face profitability challenges and is pursuing corrective measures. As such, we expect hard market conditions to prevail over the next 12 months and industry growth to be in the double digits.

This environment plays to our strength given early action, advanced segmentation and deep supply chains. Our brand, distribution and digital leadership help us grow in this tough environment.

And the combined ratio in auto was solid at 91.4% in a seasonally favorable quarter. Underlying performance was strong, improving 3 points year-over-year, which offset lower favorable prior year development. As a result, we remain comfortable with our sub-95 guidance for this business in '24.

Moving now to personal property in Canada. Premium growth was 9% in the quarter, driven by our rate actions and continued customer growth. We expect the current hard market conditions to persist over the next 12 months, and industry growth could reach double digits.

Combined ratio is very strong at 78%, with low cat losses in a typically active season. Underlying performance was robust, improving 9 points year-over-year, as we reacted promptly to early signs of severity pressures last year at heavy cat losses.

In commercial lines, premium growth was 1% in the quarter with a very strong combined ratio of 83.6%. Rate increases were healthy and in the mid-single digits. This was though mainly offset by increased competition for large accounts, which was evident in Q1 and continued through Q2. Given our focus in the mid-market space, we're really keen to grow in this environment that means to do so.

Moving now to our UK&I business. Premium growth was 42% in the quarter. mainly due to the Direct Line transaction. Organic growth was 6%, driven by rate actions and solid new business. The combined ratio was healthy at 92.2% in line with our expectations as we take cautious stance on the recently acquired Direct Line business.

Integration is progressing well as we've begun the migration of customers to the RSA platform. Going forward, we're well positioned to deliver a sustainably low 90s performance in this business.

In the U.S., our premiums grew 1% in the quarter. Our strategy is very segmented. Growth in our most profitable lines is strong, while corrective actions are being applied on underperforming segments. The environment remains favorable, though and even across lines, and still provides good growth opportunities.

The combined ratio was solid at 88.5% in the quarter, and the business remains well positioned to maintain a low 90s or better performance. Our team continues to execute with rigor and discipline against our strategic priorities.

Let me highlight important milestones and initiatives delivered over the past few months. In Canada, BrokerLink further consolidated the market, successfully closing 9 acquisitions this quarter and has now reached $4 billion in annual premiums. The business is well on track to achieve its ambition of $5 billion in annual premiums by 2025.

Ongoing investments on the digital and branding front have enabled better direct and Intact Insurance to capitalize on increased shopping traffic with a 39% increase in our web influence quotes this year. This led to strong growth, especially in our direct distribution business, which grew by double digits in the quarter.

The expertise in data and AI that we've built over the years in personal lines than in regular commercial lines is now being leveraged within specialty lines. NS models for property coverages in the U.S. are now being deployed. While our global specialty lines performance is already really good. There remains, in my view, a lot of room to improve from a sophistication point of view.

We continue to invest in our supply chain capabilities as well, a key driver of our underwriting outperformance. 5 new claims service centers were opened in Q2, bringing the total to 37 locations across Canada.

On the climate front, recent events have shown that we need to double down on our climate adaptation efforts. Since 2010, we've engaged with cities in Canada from coast to coast by providing funding of over $25 million to more than 100 climate adaptation projects. These are focused on helping communities become more resilient. And we're providing an additional $2 million in our municipal grants program to help communities adapt to extreme weather events.

June 1 this year marked the 3-year anniversary of the RSA acquisition, a landmark transaction for us, both strategically and financially. With both IRR and net operating income per share accretion above 20%. And looking forward, the platform we've built is impressive with a meaningfully larger and more resilient footprint. We've become a global specialty lines leader with more than $6 billion of premiums worldwide.

We also now have a new pipeline of growth in the U.K., which is on the path to delivering mid-teens operating ROE. And we have substantially expanded our scale advantage in Canada, where we're more than twice the size of #2 in a highly fragmented market. With an overall ROE in the high teens and a balance sheet and a position of strength, we're very well positioned to invest and grow and achieve our financial objectives in the years ahead.

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

Louis Marcotte
Executive VP & CFO

Thanks, Charles, and good morning, everyone. This quarter is a further proof point that our strategic actions in recent years and our focus on outperformance is paying off. Strong underwriting performance as well as robust investment in distribution income growth have all contributed to an operating return on equity of 17%.

It is worth noting that this return still includes the impact of the $600 million of catastrophe losses from Q3 last year. Catastrophe losses totaled $96 million this quarter, Q2, and reached $193 million for the first half of 2024. While this is below expectations, we still have 6 months to go into '24.

We had the recent floods in Toronto, and we are also monitoring the impact of the forest fires in Jasper, Alberta. Although we expect significant losses from these two events, we remain comfortable with our guidance of $900 million on an annual basis.

Favorable prior year development of 4.7% was in line with last year and remained at the higher end of our guidance of 2% to 4% overall. This was driven by healthy development across all lines of business, reflecting our prudent approach to reserving as well as favorable development on the elevated catastrophe losses from last year.

The consolidated expense ratio of 34.1% in the quarter was in line with prior year, and while there are some movements by quarter, we continue to expect the full year ratio to land within the range of 33% to 34%.

Operating net investment income increased by 19% to $387 million in the quarter, driven by higher reinvestment yields captured in the latter half of 2023. Given persisting high short-term yields, we expect investment income to be north of $1.5 billion in 2024.

Distribution income was $169 million in the quarter, an increase of 23% versus last year on the back of higher revenues from solid organic growth and robust M&A activities in the latter part of '23. With this growth momentum, led by our wholly owned distributor BrokerLink and a healthy pipeline for acquisitions. Distribution income remains on course to deliver growth of at least 10% in 2024.

Our operating effective tax rate was lower than expected at 19.5% in the quarter. This reflected the impact of new Canadian tax legislations recently enacted, offset by tax recoveries related to the increasing profitability in our U.K. operations. Looking ahead, we expect our operating effective tax rate to be around 22% to 23%.

Overall, net operating income per share grew 108% in the quarter, a third of which was attributable to strong underlying performance in all geographies as well as stronger investment and distribution results, the remainder from lower cap losses.

Earnings per share growth was also robust, thanks to the strength of our operating earnings, but also due to improving nonoperating results, including muted exited line losses.

This contributed to a book value per share growth of 4% in the quarter and 15% year-over-year to $88. Over the past 5 and 10 years, our book value grew 12% and 9%, respectively, on an annualized basis before adding the impact of dividend yields.

This is very consistent with our NOIPS growth of 12% over the past decade, and our average ROE outperformance of 6.8 points over the same period. In my perspective, this track record is industry-leading and we intend to maintain it going forward.

Our balance sheet continues to strengthen, thanks to approximately $1.4 billion of capital generated year-to-date, leading to a total capital margin of $2.9 billion at the end of June. Some of the capital generated was used for deleveraging and drove our adjusted debt to total capital ratio down to 19.8%.

Overall, our balance sheet is as strong as ever, and our capital generation capabilities provide flexibility to invest in growth, both organically and via acquisitions.

Overall, I'm proud of the strength demonstrated by the business again this quarter. With the platform we have in place, the quality of talent we have across the globe and a clear strategic road map, we are in very good shape to grow net operating income per share by 10% for years to come and outperformed the industry ROE by at least 500 basis points.

I would like to thank all the teams that are there for those who have been impacted by the recent weather events across Canada. We've been on the front lines of climate change for over a decade. And with the strength of our people, we continue to help protect what matters most to customers and building a more resilient society.

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

Kevin Lemay

Thank you, Louis. In order to give everyone a chance to participate in the Q&A, we would ask you to limit yourself to 2 questions per person. You can certainly re-queue for follow-ups, and we'll do our best to accommodate if there is time at the end.
So Julie, we're ready to take questions now.

Question and Answer

Operator

[Operator Instructions]. Your first question comes from Paul Holden from CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

First question is related to personal auto. I'm getting a lot of questions on how sustainable this high level of premium growth might be as we go into '25. So I guess my first question on that is maybe you can provide some context in terms of auto rate approvals you received year-to-date? And then maybe also in terms of like the or less regulated markets you operate in where premium growth is trending as well, just to get a better sense of sustainability on that strong top line numbers you're posting.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Paul. We'll ask Guillaume to share his perspective.

Guillaume Lamy

Thanks, Paul. So first, I'd like to point out industry is still not in a profitable position in personal auto. We've seen in 2023 as well as in the first quarter of 2024 combined ratio of -- north of 100% for the industry.

On our side, we were writing rates in the low double digits right now. And with the rate approval that we have already obtained, we're expecting to stay at the current rate level for the remainder of the year with some residual flowing into 2025. Beyond that, it will really depend on how the loss trends evolve in the upcoming quarters.

There's an obvious downward trend observed especially on physical damage coverages, but we're keeping a close eye on the liability trends. So we'll adapt our strategy in each province is based on the local outlook, on trends and inflation. And nationally, we're already [indiscernible] adequate and outside of Alberta, we're in a good position to execute on rates, where we need them and when we did them.

Charles Joseph Gaston Brindamour
CEO & Director

Great. Thank you very much, Gui. So Paul, when you ask yourself how much time, the way the math probably works here is that you have an industry in aggregate, that's operating above 100% combined ratio. So that tells you that there's a rate adequacy problem at the industry level.

Now the challenge is not just to bridge that gap. The challenge is also to cope with the mid-single-digit inflation that is currently in the system and prospectively. So for me, it's easy to see that you've got 12 months' worth of correction at least, I think, in the market.

So this plays to our strength because we moved really fast and we're keen to grow in this environment in most jurisdictions.

Paul David Holden
CIBC Capital Markets, Research Division

Okay. That's helpful. And then second question for me, and this is maybe a little bit more of a nuanced one, but I see that you expect to increase investment allocation to common equity by roughly 4 percentage points by end of the year.

So my question on this, is this a move to enhance net investment income? Or is this more of a move to offset the anticipated downward pressure on short-term fixed income yields?

Charles Joseph Gaston Brindamour
CEO & Director

None of the above, but I'll let Louis share his perspective.

Louis Marcotte
Executive VP & CFO

No, Paul, you may have noticed, I will say probably over 3 years, we've been underweight on equities compared to our historical position, and for good reason, market volatility, but also in the midst of the RSA acquisition following the COVID crises, we were sort of very prudent. And now we're at the point where capital is reestablished, balance sheet is strong, and we feel conditions are right to move back towards our targeted allocation, which is the 4 points you've raised earlier. This is what we view as per our efficient frontier work as being the optimal way to allocate our assets and therefore, it's a return based on long-term return expectations, not on the short-term basis.

So it should not come as a total surprise. We were there before we're going back. We think the time is right now. And the reality is you might come back with the forecasted investment income with short-term rates being where they are, the gap between the long-term equity returns and those rates are not huge. But over the long-term, we think that, that will drive actually, are we out performance points based on historical experience with our asset allocation.

Charles Joseph Gaston Brindamour
CEO & Director

We were playing defense a few years back, anticipating the pension buy-in and acquisition in the U.K., a bit of volatility. Now we're moving back to target.

Operator

Your next question comes from Tom MacKinnon from BMO.

Tom MacKinnon
BMO Capital Markets Equity Research

First question, I guess, is there anything else you can add with respect to potential losses associated with the Toronto floods and the Jasper fires, other than this adhering to the $900 million annual cap loss guide.

Charles Joseph Gaston Brindamour
CEO & Director

So why don't we ask Patrick to share his perspective on what's going on at [indiscernible] that all hands-on deck, that's our business, and Patrick will give you a bit of perspective.

Patrick Barbeau
Chief Operating Officer

So the last flood in Toronto from 2 weeks ago was really the first significant weather events we had this year. So our operations were ready to jump in. They were pretty quick to respond both the claims' operations and the on-site teams.

We now have a pretty good view on the volume of claims and a lot of the work, the emergency work is done, but we are at the early stage of the rebuild process. It's very interesting for me to see that 3/4 of all the files in the Toronto area are being [indulged] by on-site, which is by far, the most files they've taken on any single event since we acquired them a few years ago.

On the Jasper side, this one is more recent, thanks to WDS war on the ground, we received some information. We have also other sources of mapping and inventory that helps us have a reasonably good understanding of the extent of the damage, but our teams, our underwriting -- our adjusting teams don't have direct access to the site as we speak. We've been proactively contacting our clients from the area to offer help in their temporary relocation process.

And to give you a feel, we insure about 700 families and businesses in the area that have been evacuated, and we estimate that around 250 or so have very likely suffered significant damage.

At this point, though, when we look at our estimates of these 2 events like Charles mentioned, or we and the low amounts that we've incurred in the first half of the year, our total year guidance of $900 million is still a good number at the moment.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Patrick. I think for us, true estimates at this stage. When you think about our retention per event, $250 million roughly. In those events, we're meaningfully above that, that would be easy for us to put a number on the table, they're not. And therefore, we want to get a bit more maturity on both these events at this stage and all the energy is going to getting customers back on track as opposed to filling around with models.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And on the on-site, where does that show up in terms of your earnings? Which one of the lines would we be looking for in terms of your ownership of the earnings with respect to on-site?

Louis Marcotte
Executive VP & CFO

So the -- our share of their earnings, which is 100% is in the distribution income and other.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. Great. And so then the second question has to do with the favorable development we continue to get. That's kind of running north of your 2% to 4% guide, what can you attribute that to? What kind of -- what accident years, what lines are you seeing the most favorable development? And if I look in 2023, you had unfavorable development in personal property. You said that was atypical. If you can just elaborate on why that may have been atypical and why we wouldn't expect that going forward.

Louis Marcotte
Executive VP & CFO

Sure. So maybe I can start with some color here. So 4.7% versus our guidance of 2% to 4%, I will say there's probably close to a point that comes from prior year cats, and that should not be a surprise with the level of cat activity we had seen last year, you would expect some favorable development given the way we reserve for the cat activity to come back in the following year. And of course, it's outsized given the level of cats we had in the prior year.

I would say, secondly, I think the -- we've talked about prudence for a long time. And you're seeing some of it come back. We're getting further away from the famous COVID years. So that's -- you see it in auto, it's still very positive, but tempering, which is as expected.

When you talk about personal prop, last year was an exception. If I recall correctly, we had a late year storm, which we had some unfavorable development in the first half of the year. But if you look back a number of years, it's pretty unusual for us to see that, what the reality is we reserve to make sure we never see it in PYD.

In this case, it was a late storms that surprised us in the first half of the year. That's why we say it's unusual, and we expect to go back to within the ranges, I will say it varies by line of business by quarter a bit. But overall, you should expect us to land roughly within that 2% to 4%. And I would say largely across lines of business. It won't be even over time -- over quarters, but over time, it should be landing in those zones.

Charles Joseph Gaston Brindamour

CEO & Director

[indiscernible]

Operator

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

Doug Young
Desjardins Securities Inc., Research Division

On Canadian commercial, looks like competitive pressures in the large case has persisted for, I guess, 2 quarters in a row. And I'm just hoping you can flesh out just what you're seeing. Can you remind us how much of your Canadian commercial is large case versus mid case where you're trying to grow? And are you seeing this move into other segments of the commercial market. Are you starting to see some irrational behavior anywhere across the Canadian commercial landscape.

Charles Joseph Gaston Brindamour
CEO & Director

Doug, thanks for your question. In aggregate, no. I'll let Darren share his perspective on what we're seeing in Canada.

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Yes. So thanks for that, Doug. A number of moving pieces that I'd probably want to highlight in the quarter. But firstly, I mean, as we said in the remarks, rates are in that sort of mid-single-digit range, quotes a new business were both up in the quarter year-over-year. So that's positive.

As we highlighted, we did see some pressure in the large account space. That is about 10% of our total Canadian commercial lines' portfolio. And I should highlight that Q2 in particular is our largest quarter from a large account renewal standpoint. So obviously, we saw the effect more in Q2 here.

We had a number of other pieces of, say, timing related with movement of renewals from quarter-to-quarter that had about a point of an impact. And as we mentioned last quarter, we continue to take action on unprofitable accounts, and that was worth about a point as well.

So even though there was all that noise in the quarter, retention was still relatively flat, but the biggest driver in the quarter was really around a 3 to 4-point negative mix impact on the top line.

Now we'll often see that in terms of -- I mean, obviously, large accounts is one example of that, but we sometimes will see that. But that, for me, I think, was the biggest driver. It's not something we see consistently every single quarter or quarter-on-quarter. So I think Q2 is more of an anomaly from that standpoint.

We like where we're positioned. Rate is still strong. It's a good operating environment. We want to grow here. So I think that's some of the color that I would give on Q2 in and of itself.

Doug Young
Desjardins Securities Inc., Research Division

And can you flesh out what you mean by sort of a negative mix? Can you just kind of elaborate on that?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. The math goes like this. You have retention for SME, retention for mid-market, retention for large account, when your retention for large account is meaningfully lower than the average retention across the rest of the book, you get a mix change, so to speak. Not much to do with profitability. In fact, the profitability is strong across the board. It's just the average size of account written in the quarter has created a drag of 3 to 4 points as Darren just highlighted.

Doug Young
Desjardins Securities Inc., Research Division

Got it. And so you're still seeing price increases in the large case, Darren. Like is that -- and is that -- just you're not seeing a market as hard as it once was? And it doesn't sound like there's any irrational behavior going on, but -- yes.

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

I mean in that large account space, it's case price underwriting. So some are up, some are down. It's a function of the individual accounts.

Charles Joseph Gaston Brindamour
CEO & Director

Yes.

Doug Young
Desjardins Securities Inc., Research Division

Okay. And then the second question is just something that I'll throw out there. I'm not sure it's relevant or not. But obviously, we had the CrowdStrike outage. And just curious what implications that has on your business from a business interruption perspective, I know you -- I think you've been starting to right cyber policies. Maybe kind of how does that impact you from a current business perspective, but even kind of framing your view in terms of the outlook for building out that side of your business?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. I'll ask Patrick to share his perspective.

Patrick Barbeau
Chief Operating Officer

Yes. So first of all, on the commercial base product business interruption. This kind of outage from system is not covered. If it's similar to the COVID business interruption, it requires physical damage to trigger business interruption. Clearly in this case, this is not the case.

We do -- there is some coverage on our cyber insurance policy for this. But for the large majority of these products, there is a time -- waiting time period, financial deductibles and then for excess policies, fairly high attachment points. So we don't expect any significant costs from these events. We have received a few claims that we're investigating, but overall, it won't be significant.

Charles Joseph Gaston Brindamour
CEO & Director

Most people were back on track in a short period of time.

Patrick Barbeau
Chief Operating Officer

Yes. They need the same day.

Operator

Your next question comes from Mario Mendonca from TD.

Mario Mendonca
TD Cowen, Research Division

I want to go to U.S. specialty, specifically the comments around certain business lines or segments that require corrective action. Could you speak to the areas where you figure you need corrective action with what's going on there and how important are those segments to Intact?

Charles Joseph Gaston Brindamour
CEO & Director

Darren, why don't you share your perspective.

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Thanks, Mario. I mean this at a high level, new business was up in the quarter year-over-year, but retention was down 2 points. And that was mostly the result of our own actions. So business units that I would highlight is entertainment and financial lines. Both were down double digits in the quarter, that was driven a combination of reunderwriting the portfolios, shifting of appetite, I think about our financial institutions' portfolio. But also where we've been pushing strong aggressive rates with the aim to improve profitability. If I was to strip out those actions and those business units, our growth profile in the U.S. in the quarter is more in the mid- to high single-digit range.

Now similar to Canada, when we talked about a negative mix, we had 3 points of negative mix in the quarter in the U.S., and that was driven by 1 single large account in our accident and health portfolio, which is really a downsizing of the transportation account. So again, not something that we would see every single quarter, but that clearly had a significant impact on the top line growth in the quarter.

We now strip out 2 lines, which obviously we're working on remediating. We have very, very strong growth in our strongest performing possible lines. It's a continuation of what we're seeing over the last sort of 12 to 18 months, and I expect that to continue moving forward as well, too. So again, a little bit of noise. Most of it was self-inflicted, I would suggest there, Mario. But the outlook remains strong with rates in that mid-single-digit range. We're really looking to grow in that particular marketplace at the moment.

Mario Mendonca
TD Cowen, Research Division

And those lines, entertainment and financial lines like -- yes, financial lines, I think you said, how relevant are those 2 into that business, particularly in the U.S.

Charles Joseph Gaston Brindamour
CEO & Director

Well, they're relevant. I mean they're part of the 12 verticals that we believe in and want to grow. And I think in those 2 segments we want to make sure that they're on the right footing to grow. So I would say they're not the largest lines by any stretch, but there are lines that I wanted to make sure we have respectable, profitable path going forward. And I do believe that these are lines that will grow back in time.

Mario Mendonca
TD Cowen, Research Division

And then just maybe very broadly, what is the company's outlook for U.S. specialty? Just broadly, is this business, do you still feel like it's a firm market? Is there any change in your sentiment in that business line?

Charles Joseph Gaston Brindamour
CEO & Director

We love the specialty lines business in the U.S. And if I go macro for a moment, Mario, specialty lines performs better than commercial lines in the U.S., which performs better than personal lines in the U.S. So I feel that entering in the U.S. or operating in the U.S. in really the most profitable segment of the marketplace is the right entry point for us. We've been at it for almost 8 years now. This business in Q1 was outperforming its peers by 5.5 points of combined ratio outperformance. And with the growth pattern that very much looks like our peer set.

Now what is the competitive environment at the moment, I would say it is a very good competitive environment. Just to put things in perspective, Mario, in Q2, the average rate increase in the U.S. was 4%. The difference between Q2 this year and Q2 last year where we were closer to 5.5% is that there are a few lines that have softened.

And we've talked about those line management liability would be a good example. Cyber would be a good example. And as a result, in these 2 lines, we're not seeing the sort of growth we have seen as rates were harder in the past 4 or 5 years. But this is still an excellent environment and, frankly, one in which we want to see more growth.

Operator

Your next question comes from Grace Carter from Bank of America.

Grace Helen Carter
BofA Securities, Research Division

I wanted to go back to the earlier question about the premium growth in personal auto. And I guess kind of personal lines more broadly. How should we think about the policy count growth component of the top line over the next several quarters? It seems like it's inflected to sequential growth in the past couple of quarters.

And I was just curious what you're seeing from a shopping perspective, if there's any updates there and if we should expect maybe acceleration in the policy count growth, and I guess, just kind of to round it out, if given, I think, some of the profitability actions you've been taking in property lines after the cats last year, if we should expect to grow a gap in personal auto policy count growth versus personal property growth.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. Thanks, Grace. We'll ask Gui to give a perspective on what we're seeing from a shopping point of view, what we're seeing in the digital channels and how that should translate into customer growth over time.

Guillaume Lamy

Thanks. So we're very comfortable with our profitability position in both personal auto and personal property and are really happy to be growing in that environment. I think the growth was strong again in Q2, 11% in personal auto, 9-ish percent in personal property. While the unit growth was mildly positive, and as we're still continuing to be active on rates to reflect the emerging trends that we're seeing in the portfolio.

We're seeing strong growth in our digital channel. Sales are up 84% year-to-date, which benefits mostly our direct channel, where a larger portion of the traffic is digital. The direct channel also benefited from the conversion of the RSA portfolio, the affinity portfolio to the belairdirect brand, which can now access all the same digital ecosystem as the rest of the retail portfolio.

Through time, we're still expecting our profitable -- our competitive position to improve as given what we mentioned earlier that the industry profitability is north of a 100%. There's still a fair bit of catch-up to do for the industry, and that should help unit growth going forward, while our retention remains really strong in most markets.

So we're already seeing customer growth when we look at written. Written is kind of a leading indicator of the policy in force. So we're expecting that to also become positive. And it's already actually became positive this quarter, and we're expecting that to trend positive for the next few quarters.

Charles Joseph Gaston Brindamour

CEO & Director

And Grace, we're tactically adding to our marketing or call this response generation sort of budget in the jurisdictions, where it makes most sense to do so because we want to lean in this environment.

I'd say the exception here for me remains Alberta, where there's this artificial cap that is below inflation. It's very hard for the industry. And as a result, players, as anticipated, started to exit this market.

I do think that if the cat stays in place, you'll see more exit from the market. And every month, where you're in a position where there's more inflation than the cat, our own appetite in this province is reducing, I would say, at a pretty good speed at this stage. We think there are very clear solutions on the table. We've shared those with the government, the ball is in their court.

Grace Helen Carter
BofA Securities, Research Division

And sticking with personal auto. I mean, I think the last time we saw such strong year-over-year improvement in the underlying combined ratio kind of on a natural basis was maybe in 2019, but that trend, obviously, it got a bit disrupted by the pandemic environment. And I was just kind of wondering, given the slowing reserve releases in that line, if you could help us think about maybe kind of the long-term target range for the underlying combined ratio in personal auto. And if we should expect sub-95 on a total combined ratio basis to be achievable over the course of the personal auto cycle just kind of regardless of the environment.

Charles Joseph Gaston Brindamour
CEO & Director

Gui, do you want to share your perspective.

Guillaume Lamy

Yes. So combine ratio was, again, really strong this quarter at 91.4%. Let's not forget this is a seasonally favorable quarter. So this is really in line with our guidance of sub-95. We're observing the underlying loss ratio improvement of 3 points with still PYD of 3.3 points, which is lower than last year's level.

On the cost side, we're seeing inflation in the mid-single digit, very similar to the last few quarters. While on the premium side, both our written and earned rates are hovering around 10%.

So really, our profitability outlook remains unchanged. I think the inflation trajectory is definitely downward especially on physical damage. But we're not banking on a much larger decrease and we're keeping an eye on the liability trends. So that's why we don't want to really decrease guidance at this point, but we very much like to beat that guidance. So overall, we're comfortable with our position in personal auto and really happy to be growing in that environment.

Operator

Your next question comes from Jaeme Gloyn from National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First question just on capital. The margin, I believe, disclosed that $2.9 billion. Louis, can you give us a sense as to how much of that you would describe as excess or deployable capital? And then is there any constraints on the mobility of that capital across jurisdictions?

Louis Marcotte
Executive VP & CFO

So I would say on the deployable of that margin, I would figure 10% to 15% is probably the pure deployable. It's high because of the capital generation in the first half. There are a few uses expected in the second half now. As you know, we've redeem preferred shares out of our U.K. business, and these were closing in July, so that will consume a bit.

So that's one element and the rerisking of the equity portfolio will be another consumption of capital. So I expect to level down a bit by -- before the end of the year on that basis. And then hopefully, next year, we'll start generating a fair bit as well. But I -- the deploy will, I would peg it in the 10% to 15% range.

And then across geographies, it depends on the calendar structure, specifically, generally speaking, what we need to do is pull it out and bring it up to the corporate, and then having the ability to deploy it wherever we want from that point of view. But I would say, given the strength of our capital position in each of the countries, the ability to pull out dividends is quite high.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. No, I think it is indeed the case. And I think one thing to keep in mind is that, in particular in the U.K., each time we improved the earnings profile of the organization vis-a-vis the age capital requirements. And this is good for capital requirement.

And so we've made a lot of progress there. You think of the pension buy-in. You think of the improvement, the refocusing of the footprint towards commercial lines. Maybe Ken, you can give us perspective on profitability in the U.K. and the trajectory that we should expect?

Kenneth Anderson
Executive VP & CFO of RSA UK and International

Sure. Yes, look, firstly, things are going very well. Q2 combined ratio [indiscernible] very solid, in line with the overall 2024 goal of [indiscernible]. The DLG business, as you know, we've begun reporting that in Q4 last year in the form of a code share. We have been taking a cautious stance though as we assume and integrate that new portfolio. That brings a little bit of a drag on the near-term performance, but very much in line with expectations.

The integrations in full swing though now, policies are now actually renewing onto our platform, gives us much better insight into the portfolio, which is by the way, is 20% larger than what we anticipated and we're getting strong rate on that portfolio, which will bring loss ratio benefit in the coming quarters, and we're on track to realize the GBP 20 million of synergies over 36 months.

So if you go back to when we announced the DLG acquisition in Q3 last year, we said that we expected the UK&I business to run in the 92% or low 90% range in '24, but down close to 90% by 2026. We're right on track to deliver that, that's getting us in the zone to mid and above mid-teens ROE in the U.K. business, and that starts to create room for dividends and capital repatriation from the U.K.

Charles Joseph Gaston Brindamour
CEO & Director

Especially that capital requirements come down when your forward profitability is improving. And so this is really a double impact here in terms of generating strong ROE in that jurisdiction.

Louis Marcotte
Executive VP & CFO

And we get more tax recoveries.

Charles Joseph Gaston Brindamour
CEO & Director

And as we get more tax recoveries.

Guillaume Lamy

It's all positive.

Operator

Your next question comes from Lemar Persaud from Cormark.

Lemar Persaud
Cormark Securities Inc., Research Division

Yes. So it's meaningful to me that you guys are reminding us that the 17% ROE includes elevated cats from Q3 last year. Is that to suggest that you guys feel like a 17% ROE feels like something that Intact could deliver in a normalized environment. Is that kind of the point to that comment or I might have reading too much into it?

Louis Marcotte
Executive VP & CFO

I would say you're reading is exactly right. That's -- we wanted to highlight the fact that the 17% here was not driven by lower cat losses in the quarter. It is impacted -- it still is impacted by last year's heavy cat losses in Q3, as we're giving a figure on the last 12 months basis. I think we're running at a very solid 17% right now. And I think our view is with every measure we have in place, this is sustainable.

Charles Joseph Gaston Brindamour
CEO & Director

Yes, I think the focus for me, when you get past 15, its earnings growth. And so you need to find that right balance between your growth profile, which translates into earnings growth. And I think that the earnings growth profile of the firm is really good with our new footprint. And where above 15% should you be, in my mind, should be determined by the balance between growth and bottom line translating into earnings growth.

Lemar Persaud
Cormark Securities Inc., Research Division

That's helpful. Now does it feel like all these positive underlying trends with Intact, like at what point do you revisit that 500 basis point ROE gap versus the industry? Because it seems to me like you're putting some distance between yourself and peers and maybe that has to be revisited.

So maybe Charles or Louis, at what point do you revisit that 500 basis point ROE gap, and say, this is a large enough organization we've done enough to improve profitability, and now we think the gap is something higher, maybe 750. How do you think about that?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. I think it's a great question, and it's a question we debate from time to time. We think the machine can generate more than 500 basis points. In fact, our track record over 10, 15, 5, whatever you want to cut it, it's closer to 600, 700 basis points.

But creating outperformance on a sustainable basis, day in, day out has to be achieved at the customer level in a way. And we know in Canada, given our size advantage and the fact that we've been focused for decades on creating outperformance. We know it's super well anchored. We're really happy with the progress we've made outside of Canada, but we've gone from 100% Canadian business 8 years ago and now at 65% Canadian.

So we feel this is still very much the right objective. We have the horsepower to outperform that objective. But we need to deepen the foundation of outperformance in the U.S. and in the U.K. at this stage, and then we can have a debate as to whether we move the bar, the goal post up or not. But so far, so good. All these business units are firing on all cylinders, and we're really keen to grow in the markets where we have.

The good news is that the sandbox in which Intact operates is 10x bigger than what it was 8 years ago. There's outperformance everywhere. So we can just keep our head down, grow where we operate today and meet our earnings growth objective well outperforming from an ROE point of view. And a few years from now, we can debate whether 500 basis points is the right objective.

But we think there are very few companies and very few industries that have generated this sort of outperformance, and we're very keen to protect that outperformance. And if we can grow it, we definitely will.

Operator

Your next question comes from John Aiken from Jefferies.

John Aiken
Jefferies LLC, Research Division

Charles, I wanted to revisit some of the a comment you made in your prepared commentary about the specialty lines and basically a little bit more room for improvement. Now I think this is in context of when you're talking about digital and AI, are you willing to give us a couple of examples just for my own edification in terms of what you're trying to do with specialty lines?

And then I guess, pushing my luck, can you go -- actually discuss whether or not willing to quantify what the impact of these improvements could be?

Charles Joseph Gaston Brindamour
CEO & Director

So if you look at the specialty lines business, now it's running in the 80s, in a favorable environment. And I think the sophistication lift we can get and keep us operating in that zone on a sustainable basis. That's really what we're -- what we're trying to achieve.

The example I would give you, just to be very concrete is that in Canadian commercial lines, so our main street commercial lines operation. You have a very sophisticated pricing engine, machine learning based in many segments. The [holistic] view of expected profit per customer that is used to manage the business. All that is automated, and it generates tens of billions of price points in a product in a given province.

We're not there in other jurisdictions, and that's where I see a fair bit of upside like we're racing to deploy segmentation models. We're not working yet with systems who are as modern as we have in the [Canadian] ecosystem. So we're investing heavily in our systems in the U.S. as well as in the U.K. and increasingly in Europe. That helps lift the quality of the data you use when you segment.

And so the performance is really good. But when I look at the depth of the sophistication that's in the field right now outside of Canada, I see a lot of upside myself. And that's why we're investing massively in that space.

Operator

And we have time for one more question from Nigel D'Souza from Veritas.

Nigel R. D'Souza
Veritas Investment Research Corporation

I just had some minor follow-ups for you on cat losses. Just to get a better understanding of how it plays out going forward, should we expect that most of the losses from recent events that's going to be reflected in Q3? And is any of it going to bleed into Q4. Could you remind us how long the tails are for these type of events. So in future quarters or future years, how long could your PYD be impacted?

And the last point on the Jasper wildfires, there's a lot of disruption to businesses and potential lost revenue. So any commentary or color on the potential impact on your commercial lines from those wildfires?

Charles Joseph Gaston Brindamour
CEO & Director

So just in aggregate cat losses, you should not expect any of the Q2 and Q3 losses to bleed in Q4. In fact, the pattern we've shown over time is you have favorable development in subsequent quarters because we go to the ultimate very fast. In fact, faster than the industry. And you see that in big cat moments, our outperformance can shrink for a quarter or 2 as the industry moves to ultimate. So I would not expect adverse development from current cats outside of the current quarter. That's the first point. And then there was...

Unknown Executive

Commercial.

Charles Joseph Gaston Brindamour
CEO & Director

Yes, commercial and Jasper.

Patrick Barbeau
Chief Operating Officer

In the overall kind of guidance or color that just provided earlier around these events and the potential impact with the catastrophe retention. When we project the ultimates, we fully take into account all coverage. So the cost to repair, we build the houses, the content, the additionally [indiscernible] expense during the evacuation, including the business interruption, all of the clients that are interrupted during the evacuation, but also for the clients who need to be rebuilt and that's where the business interruption period might be longer.

So to your point, [indiscernible] by the end of Q3, will book fully the full extent of that -- that's including that business substruction potential.

Kevin Lemay

Perfect. Thank you, everyone, for joining us today. A replay of the call 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 section. Our 2024, 3rd quarter results are scheduled to be released after market close on Tuesday, November 5, with the earnings call starting at 11:00 a.m. Eastern Time, the following day.

Thank you again, and this concludes our call for today.

Operator
Thank you, sir. Ladies and gentlemen, this does ended -- conclude your conference call for today. Once again, thank you for attending. At this time, I will ask you that to please disconnect your lines. Thank you.