S&P Global
Market Intelligence

Intact Financial Corporation TSX:IFC

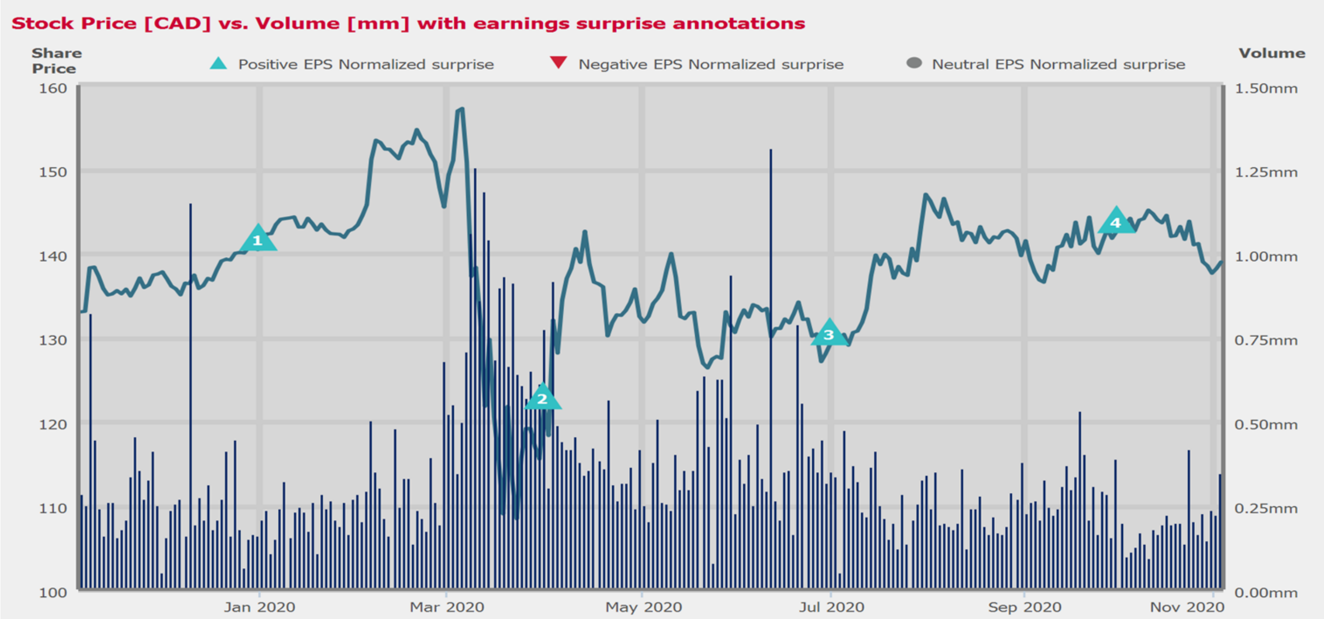
FQ3 2020 Earnings Call Transcripts

Wednesday, November 04, 2020 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.14	2.78	▲29.91	2.29	9.06	NA
Revenue (mm)	2785.80	2864.00	▲2.81	2940.50	11254.00	NA

Currency: CAD
Consensus as of Nov-04-2020 6:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	1.70	2.08	▲22.35 %
FQ1 2020	1.53	1.61	▲5.23 %
FQ2 2020	1.94	2.35	▲21.13 %
FQ3 2020	2.14	2.78	▲29.91 %

Table of Contents

Call Participants	....	3
Presentation	....	4
Question and Answer	....	8

Call Participants

EXECUTIVES

Charles J. G. Brindamour
CEO & Director

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Isabelle Girard
Senior Vice President of Personal Lines

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Louis Marcotte
Senior VP & CFO

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Mario Mendonca
TD Securities Equity Research

Michael Wayne Phillips
Morgan Stanley, Research Division

Paul David Holden
CIBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Intact Financial Corporation Third Quarter 2020 Results Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to one of your speakers for today, Ken Anderson, Senior Vice President, Investor Relations and Corporate Development. Please go ahead, Mr. Anderson.

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Thank you, Carol. 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-IFRS financial measures and important notes on adjustments, terms and definitions used in this presentation.

Our executives are joining today from across the country. In Toronto, we have our CEO, Charles Brindamour. In Montreal, are Louis Marcotte, CFO; Isabelle Girard, SVP of Personal Lines; and Patrick Barbeau, SVP of Claims. And joining from Calgary is Darren Godfrey, SVP of Commercial Lines.

We'll begin with prepared remarks followed by the Q&A.

With that, I'll turn the call to our CEO, Charles Brindamour.

Charles J. G. Brindamour
CEO & Director

Well, good morning, everyone, and thank you very much for joining us today. The pace of the COVID-19 pandemic has accelerated in the last few months across North America, and it continues to cause significant pain and hardship on society. We're thankful for the dedication of health care professionals and frontline workers throughout this year.

Businesses have an increasingly important role to play in protecting and supporting their communities through this crisis, especially if the second wave is more dramatic. We entered the crisis in a position of strength, which has enabled us to support our customers while protecting employees. To date, we've provided $510 million of relief to over 1.2 million policyholders.

In response to the changing environment, our relief measures are evolving towards rate strategies based on our customers changing risk profiles and needs, accelerated deployment of our UBI offering to deliver savings to customers for safe driving habits and lower kilometers driven, innovative product enhancements and personal property to support work from home and continued support for the most vulnerable small businesses to our ongoing policy and rate adjustments as well as a recently announced $50 million relief program to support approximately 100,000 customers in the small business area. It is our strong performance over the years that has enabled us to provide substantial relief to our customers.

Now let's turn to results. Yesterday evening, we announced third quarter net operating income of $2.78 per share, an increase of 46% over Q3 2019. This led to an operating ROE of 17%. Our resilient operations, along with the tailwinds from our action plans over the years and benign weather, delivered a strong results.

Top line growth was a healthy 8% in the quarter, with Canada growing at 9% and the U.S. at 3%. The overall combined ratio was strong at 87.1%, with solid underwriting performance across personal lines and commercial lines. There were no direct COVID-19 provisions recorded in the quarter as we again have seen no evidence to warrant a change to our initial Q1 provision.

In Canada, the combined ratio of 86% was strong, driven by underlying performance and a low level of CATs, while U.S. commercial lines delivered a solid seasonal 94.5%.

Let's now look at our results by line of business, starting with Canada. In personal auto, growth was strong at 8% as our relief measures have improved our competitive positioning, leading to high retention and robust new business. The combined ratio was solid at 84.9%, with the underlying loss ratio improving 9 points. The underlying improvement is driven by our profitability actions, changing mix, benign weather and reduced driving activity. Driving activity itself has increased since last quarter and has stabilized slightly below precrisis levels.

Overall, the fundamentals in personal auto are solid, and I expect this business to operate in the low end of the mid-90s range next year. Looking at the industry rate momentum has been impacted by the crisis. However, with an industry combined ratio over 100% at Q2, we expect corrective measures to resume as claims frequency returns to historical level later.

In personal property, premiums grew a strong 10%, driven by market conditions, unit growth and the GCNA acquisition. The combined ratio at 83.7% was driven by our profitability actions over time and benign weather conditions. Over the last decade, we've more than doubled the size of this business, while better protecting Canadians from the risk of climate change. At the same time, we've transformed our offering, advanced our pricing and risk selection and moved deeper into the supply chain. Personal property performance is in the right zone, and I'm confident this will continue.

In commercial lines, premium grew 11%, reflecting the GCNA acquisition. Growth has decelerated as this segment is exposed to the economic slowdown. I know that SMEs in certain sectors are severely impacted by the crisis and the economic slowdown. We're here to support our small business customers through this difficult time, and our relief measures are ongoing and evolving. The 89.4% combined ratio in commercial lines reflected strong underlying performance and a low level of catastrophes. I expect this business to operate in the low 90s next year. While the hard market industry conditions in commercial P&C have returned, we continue to temper our rate increases for the most vulnerable small business customers. In commercial auto, the hard market conditions remain tempered by the crisis.

Moving to our U.S. commercial segment, premiums grew 3%, with the GCNA acquisition adding 5 points. Lower volumes and lines impacted by the crisis, such as ride sharing and entertainment, offset the strong organic growth in other lines. The underlying loss ratio improved 0.8 points, driven by our ongoing profitability actions. The combined ratio at 94.5%, including 3 points of seasonality, were solid. This segment is positioned to hit our sustainable low 90s objective. The U.S. commercial market is hardening, and we expect it to continue.

On the strategic front, our teams haven't missed the beat advancing our long-term road map. Expanding our leadership position in Canada's front and center, and we've made significant progress, first our customer experience is second to none. We reached a significant milestone in belairdirect with 3 out of 4 customers digitally engaged with us.

Our mobile apps continue to lead across Canada with the belairdirect and Intact Insurance taking the 2 top spots in the app store in the insurance category. And as economies have reopened, our digital engagements across our claims, apps and UBI have all remained at record levels. Second, BrokerLink recently surpassed $2 billion of premiums as it continues to grow organically and through acquisitions. The growth story isn't done as we've set a new premium target of $3 billion for BrokerLink.

And finally, the integration of GCNA is progressing really well, and we're on pace to meet our financial objective on this transaction. Building a leading specialty lines player is another one of our main strategic pillars, and our execution is continuing.

In September, we acquired International Bond & Marine, a leader in the U.S. customs bond market. This tuck-in was in line with our strategy of finding opportunities where we can leverage our manufacturing capacity, gain deep expertise in specialty markets and capture an ongoing growing stream of distribution earnings.

In October, we brought together our Canadian and U.S. specialty platforms under a single brand, Intact Insurance Specialty Solutions. This is an important step as we build a world-class specialty platform. There is significant growth potential in this business through organic and inorganic opportunities as we drive towards our objective of $6 billion of premiums, running in the low 90s.

Finally, we've reinforced our commitment to be a best employer and support our employees through this difficult time. We've ramped up training and awareness around mental health issues, enhanced our diversity and inclusion strategy and invested more in learning and development. These initiatives have helped drive an all-time high employee engagement across our organization as measured in September. As well, for 2020, we're recognized again as a best employer in both Canada and the U.S.

Our outperformance mindset is what sets us apart from our competitors and drives us to deliver our promise to customers, to support our communities and transform our competitive advantages and to build a world-class insurer.

In conclusion, we've made significant progress on our strategy while delivering strong results. We ended the quarter with a robust capital margin, ready-to-manage potential shocks and invest in strategic opportunities that will come. Our book value is up 10% year-over-year, and we're delivering a mid-teens operating ROE. Our employees have made this outperformance possible, and I want to thank them for their continued focus and hard work. We have the best team. Our business is very resilient, and we're very well positioned to surpass our financial objectives in the years ahead.

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

Louis Marcotte
Senior VP & CFO

Thanks, Charles, and good morning, everyone. The crisis continues to have an impact on society, and we remain committed to supporting our customers, brokers and employees throughout these uncertain times.

With this in mind, we recently launched a $50 million targeted relief program for our small business customers, bringing our total relief to $510 million and covering over 1.2 million customers. These new targeted measures will be entirely written and earned in Q4 2020 in Canada commercial lines.

During the third quarter, the relief measures impacted our written premiums by 5 points, and our net earned premiums by 1 point. The unearned portion of the relief measures will impact net earned premiums in future quarters, offsetting the impact of reduced frequency.

At the end of Q3, incurred losses related to COVID were less than $40 million, with more than 85% of reported claims already paid and closed. We are, therefore, confident that our provision for both COVID-related direct losses and bad debt remain adequate.

Moving to results. We delivered strong net operating results of $411 million, up close to 50% versus last year, driven by strong underwriting and distribution performances. Underwriting income grew 86% over last year, driven by our profitability actions and benign weather, combined with higher earned premiums. This was partially offset by our continued relief measures.

Net investment income of $143 million was down 2% compared to last year. This was mainly due to lower reinvestment yields, partially offset by higher invested assets from the GCNA acquisition. All else being equal, we expect net investment income for Q4 to be similar to Q3, reflecting lower yields.

Distribution EBITDA and other income grew 45% in the quarter, driven by underwriting profitability, organic and inorganic growth, including the additions of FCC and On Side, as well as disciplined expense management. On a year-to-date basis, distribution income grew 24%, above our earlier expectations. When including Q4 earnings, we expect full year growth to be around 20%.

Now let me provide some additional detail on the underwriting results, beginning with Canada. Our action plans and our improved competitive positioning in auto led to solid results as units grew 6 points in the quarter and profitability was at 84.9%. The improvement was driven by a combination of better weather conditions, our profitability actions, lower driving activity, offset by relief measures.

With regards to our decision to exit the BC auto market, this will have a negligible impact on our underwriting performance. In personal property, organic growth was largely fueled by unit growth and the high retention ratio. The combined ratio improved 5 points, mainly driven by our profitability action and mild weather. Conversely, the expense ratio increased 2.1 points, driven by higher variable commissions due to strong underwriting performance.

In our Canadian commercial lines, we saw premium growth of 11% in Q3, mostly driven by GCNA. The combined ratio of 89.4% reflected a solid improvement of 2.4 points in the underlying performance, mainly driven by lower claims frequency and our profitability actions.

The Canadian expense ratio of 29.8% for the quarter increased 2 points from last year. This was mainly driven by higher variable commissions due to continued improvements in our underwriting performance. We expect the full year expense ratio to be in line with our year-to-date figures.

Turning to U.S. commercial. Keep in mind when looking at our Q3 results in the U.S. that there are 3 or 4 points of unfavorable seasonality. Having said that, the underlying loss ratio of 57.3% in the quarter improved 0.8 points, which was largely driven by our profitability actions, including migrating to a more profitable business mix. Despite the high level of CAT activity, we've seen across the U.S. landscape, none of these events generated losses that met our own CAT threshold. It has, however, impacted non-CAT losses in the quarter.

The U.S. expense ratio of 39.2% was 0.8 points higher than last year, mainly due to the addition of GCNA surety business. We expect the full year expense ratio in the U.S. to be slightly lower than our year-to-date figures.

Our operating performance led to an operating ROE of close to 17%. And in terms of our outperformance, we've generated 690 bps during the first half of 2020, well above our objective of 500 bps.

Now looking at our balance sheet. We ended the quarter in a strong financial position with a total capital margin of $1.9 billion and debt to total capital ratio of 21.2%. We remain on track to reach our 20% target over the next 6 to 12 months. We also have $500 million of cash at the holding company, and our $750 million credit facility is entirely undrawn. Our book value per share increased 4% since June 30 to $56.22, thanks to solid earnings and favorable capital markets.

Before concluding, I'd like to draw your attention to the risk of an impairment loss of $96 million pretax in Q4 related to the equities that have not yet rebounded from the precrisis levels. This may change due to market fluctuations. But as a reminder, the impairment will not impact our capital position nor our book value per share.

Overall, we have maintained a position of strength throughout this crisis and that has allowed us to continue to support over 1 million customers coast to coast. We are well positioned right now, both from a profitability and a balance sheet perspective, while the fundamentals of our business remains solid on both sides of the border. We stand ready to deploy capital as our opportunities arise during these uncertain times to add further value for our shareholders.

With that, I will turn the call back to Ken.

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Thank you, Louis. In order to give everyone a chance to participate in the Q&A, we would kindly ask you to limit yourselves to 2 questions per person. If there's time at the end, you can certainly requeue for follow ups.
So Carol, we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jaeme Gloyn from National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

I just wanted to dig into the M&A picture, first off. And can you just reiterate what you're seeing in terms of opportunities, nice tuck-in with IB&M, but looking at the excess capital of $300 million to $500 million and then the credit line facility as well at your disposal, how are -- how is that part of the picture evolving?

Charles J. G. Brindamour
CEO & Director

Well, thanks for your question, Jaemes. Yes, the acquisition in the U.S. that you just pointed to, IB&M, is very consistent with the strategy we've laid out to build a distribution footprint in the U.S. to really help scale up some of our operations. In this case, our surety operation, expand our reach, and at the same time, build our distribution earnings stream, which, as you've seen, is very healthy and growing.

Now your question is bigger than that, Jaemes, I recognize. And our thesis is very much intact, 15 to 20 points of market share, here in Canada, will change hands. In the coming years, we think that with an industry running in the single-digit ROE range with the dislocation that is taking place globally and the pressure that COVID is putting on institutions here and abroad, we think that this is a good environment in the coming months, coming years for a consolidation to take place. That's the first point. And as you know, expanding our position in Canada is our #1 priority, when it comes to capital deployment.

Second point I would make, Jaemes, is that there's a fair bit of activity at the distribution level in Canada as well. The joint venture we have with the number of brokers and then BrokerLink, also very healthy deal pipeline and really bulking up and helping a number of players, including BrokerLink, to consolidate the space. And again, you can see the distribution income, earnings stream here being a reflection of that activity.

Clearly, if you move south of the border, when you look at the performance of our U.S. platform, now known as Intact Insurance Specialty Solutions, you see that this is really operating in the zone that we were looking for before deploying capital, that is low 90s. And if you take season into account, that's very much where the business operates now. We would look to deploy capital in that space, but we need to find a target that bulks up the strategy that we're focused on in the U.S., but I see an opportunity to consolidate a portion of that market as well.

So I would say, in aggregate, I think we are in a very healthy environment to advance our consolidation and acquisition strategy. And we think that there are opportunities to leverage our skills at integrating and creating outperformance on a bigger base.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

And second question, just digging into the U.S. operations. Organic growth was down 3% -- or sorry, 2%, I guess, year-over-year in this quarter, primarily on the ride share and entertainment businesses. Can you talk about the organic growth outlook for the other lines or even those lines as well as we head into Q4 and then into 2021, what you're seeing in terms of unit growth and rate growth in the U.S.?

Charles J. G. Brindamour
CEO & Director

Yes. So I think high level, the market in the U.S. is hard, broadly speaking. And when I look at our own business and I leave aside the noise that COVID, as related in terms of business activity, I see it as an upper single-digit growth story, quite frankly. We've seen throughout the year, Jaemes, that most of the lines of business that are not under profitability improvement plan are growing in the teens. The lines of business that are under profitability improvement plan have been shrinking. I see that work diminishing next year because there's been so much heavy lifting that's been done by our teams that are trying to improve performance that all in, we view 2021 for the U.S. base as upper single-digit sort of performance, a combination of rates tapping into the hard market and then some unit growth as well. But very healthy organic growth profile there. I don't know, I see Darren is nodding in Calgary. Darren, do you want to add a bit of color?

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

No. I think the only thing I would add there, Charles, is you're right in terms of Q3, obviously, some of the COVID-related sort of economic sectors, you can think of sharing economy. And you can think about entertainment, for example, where we saw some top line pressure as expected. If we somewhat look at the other lines of business, we're in the upper single, close to double-digit range, both in the U.S. on those other lines of business. So again -- and very consistent with what we would expect moving forward into '21 as well.

Operator

Our next question comes from Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess, first question is on -- a lot of talk on digital and personal auto on UBI. I guess how much of that do you think the UBI uptick is more temporary because the times we're in versus a longer term trend that you think should sustain once we get out of the COVID crisis?

Charles J. G. Brindamour
CEO & Director

Well, I don't think it's temporary. I think that it is a trend. Clearly, there's been a jump during COVID. But Michael, we've been very proactive for the past 4 years to build a massive telematics or UBI program, and we're clearly in the current context, where it makes eminent sense for people to embrace that technology have been pushing this as a product that is really good for customers.

The reason why I don't see this coming down is because of the fact that the telematics offer is actually evolving, a fair bit. And what you'll see at Intact and belairdirect in early 2021 is a broad range of value-added services that will be provided as part of our telematics offering. So it will not just be about how well and how much you drive and what it means for your price, it will be about your driving experience and what Intact or belairdirect can do for you and will clearly tap on these new features as we enter into 2021 to make sure that the trend goes up. And you'll also see that the marketing game plan will very much back up this notion. We have a big lead in telematics, and we want to make sure that we accelerate that lead going into 2021.

And as I said, it is in touch with times and what people are going through in terms of changing habits. And so we're quite bullish about what telematics can do for our business, and we'll press the accelerator in the coming months.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. I guess second question is shifting gears. On your decision to combine the Canadian operations in U.S. under kind of one roof, on the specialty operations there under one roof, was that more of a marketing play to do so? Or are there may be expected synergies that can come from doing that?

Charles J. G. Brindamour
CEO & Director

The synergies, in my mind, are independent of the brand. I think we have acquired the business in the U.S., and Mike Miller and team have done a phenomenal job in my mind to really connect our value offering in specialty lines in Canada with our value offering in the U.S. And I think we've also established very strong cross-border capabilities and in a number of segments like entertainment, marine, surety et cetera. We truly have a North American offering. So it just makes sense at this stage to operate under one brand and a brand that is distinct for specialty lines as we embark on the second leg of our growth in specialty lines, where we see a ton of opportunities in that segment, broadly speaking.

So it was more -- people asked me, when we did the acquisition, how about the brand? And I said, brand is Day 2. Well, this is Day 2. It's just a normal continuation. But from an expense and synergy point of view, we really have achieved what we wanted to achieve with the U.S. platform. And I don't know, Louis, if you want to add some color on that point, the branding exercise was not done with a major expense claims, Mike.

Louis Marcotte
Senior VP & CFO

No. I would agree with you, Charles here. The -- most of the synergies were extracted early on, I would say, maybe there's still a bit more to be done on the claims side internalization and process, but -- and that you're seeing flow through quarterly as we improve the results. But the pure synergies were achieved, I will say, probably in the first 18, 24 months of the transaction.

Operator

Our next question comes from Geoff Kwan from RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, Research Division

I had a question on personal auto pricing. Just wondering where you see yourselves versus peers that do you think there is still more room that they need to catch up to you on pricing? Just trying to understand is like if we see further rate increases from them, that could help your policies in force growth and DPW growth?

Charles J. G. Brindamour
CEO & Director

Yes. Geoff, this is sort of the question of the moment, quite frankly, because the team and I were surprised by the strength of our growth in Q3. And in fact, I think there was -- everybody is surprised by the speed of our growth in personal automobile in Q3. Relief was largely in line with what we had guided before. But clearly, the new business flow is very strong and then the retention is at an all-time high, and that's clearly a sign that the industry is catching up to some of the heavy lifting we've been doing over the past 3 years. And we're entering in, I think, this period where growth comes at a healthier clip now that we're in the zone we were aiming for. And we're very happy to grow in this sort of environment.

I'll ask Isabelle, maybe she wants to provide a bit of color in terms of competitive positioning without sharing all the tricks with our competitors who always listen to those earnings call.

Isabelle Girard
Senior Vice President of Personal Lines

Thanks, Charles. Now I think to add to what you just said, I think the fact that we were fighting cost inflation in automobile for already a long period of time. We were already entering 2020 in a position of strength and the relief measure we have put in place have brought our competitive positioning in a very good spot. And as Charles mentioned, that's part of why we saw a good growth in Q3. So new business, the levels are robust, and that is to be -- expect to continue a bit in Q4 further -- of course, there is a still moving pieces, but we think our competitive positioning is very good as we speak.

Charles J. G. Brindamour
CEO & Director

Yes. I think one of the nuance that Isabelle has just made, Geoff, is that we launched a big relief effort in late March. Now we stepped up the relief effort in automobile, and it was needs-based and risk-based. And I think what we've done in the second part of the summer is basically reflected a portion of the relief that we want to provide customers in our rate position and it's -- clearly, the response is very strong. So we're quite pleased with that.

Geoffrey Kwan
RBC Capital Markets, Research Division

Okay. Perfect. And just my second question was, I know it's really a small part of your business, but staying on personal auto, the decision to pull out of the BC market. I'm just curious whether or not it was something that happened maybe a bit before you made the decision or after just, if there's been any discussions with the government because, obviously, this is effectively reducing competition? And then what would you need to see for you to contemplate reentering the BC market, if you were to do it at some point in the future?

Charles J. G. Brindamour
CEO & Director

Yes. You're right that it's not a big part of the portfolio, and Louis will give you a bit of perspective on what it means from a top line point of view. But look, Geoff, I mean, we've been at it for 20-plus years. And as you know, you're trying to compete on a small part of the marketplace against the monopoly who subsidizes one part with the other made it very difficult. And it's one of the areas of the organization, probably the only area of the organization where hope was part of the strategy. And I'd say, in the last year, we lost hope there. It -- I think what would be needed, and we've got the capabilities to serve the marketplace extremely well in BC. We're fully equipped to run. I think the way to go in BC is to open up competition across the board basically and compete against the platform in place now, but to compete in a small part of the market, which the monopoly is subsidizing is just untenable from a strategic point of view. We thought people were sort of eventually realize that the best thing for drivers in British Columbia would be to open up competition. We just don't see that happening at this stage. And we've got so many growth opportunities now on the platform that we've decided to redirect our efforts where private markets operate effectively and where we can give customers the best deal we can.

Operator

Our next question comes from John Aiken from Barclays.

John Aiken
Barclays Bank PLC, Research Division

Louis, I appreciate all of the guidance that you gave us for the fourth quarter. Just wanted to talk about the distribution EBITDA for a moment. Can you remind me about the seasonality expected in Q4, given the expected drop-off in the fourth quarter from the third quarter based on your 20% growth target?

Louis Marcotte
Senior VP & CFO

Yes. So I guess, historically, it's probably in the 24%, 25% or 1/4 of the earnings in the fourth quarter. So that would be historical. Having said that, it fluctuates a bit based on when the brokers will record some CPC. And so we have to be careful with the variations. And the guidance we -- I provided earlier was really meant to say there's 46% growth in Q3, don't -- let's not carry this over into Q4 because that's not what -- how it's going to work. So this is what we're trying to sort of clarify in giving the overall year guidance, if you want. So I'd be careful. Normally, I would say, you'd expect to have a light Q1, a heavy Q2 and then the other half of earnings spread between Q3 and Q4, but it does vary a bit. And I wanted to be specific enough so that you have the right idea of what Q4 will look like in terms of what we expect.

John Aiken
Barclays Bank PLC, Research Division

Fantastic. And then in terms of the personal auto claims ratio, obviously, we saw a step back in the quarter because of the number of kilometers driven, but are we seeing the increase in the claims ratio? Is that actually commensurate within the amount of kilometers driven, of course, ex the impact accounts?

Charles J. G. Brindamour
CEO & Director

Isabelle, maybe you want to -- I think in the context of Canada, it's always better to compare a quarter -- one year from the next because there are seasonal patterns here. And Isabelle, why don't you explain high level the underlying improvement in personal auto and how it largely breaks down, and then we'll give you a perspective on what's driving as shown throughout the summer right until today. Isabelle?

Isabelle Girard
Senior Vice President of Personal Lines

Yes. Sure. So in terms of looking at the improvement in the underlying loss ratio in Q3 versus the same period last year, we're seeing about 9 points of improvement. And we estimate that 3/4 of this improvement is coming from our actions. So mainly rate action, risk selection actions and claims actions we have taken in the past. So -- and that the remaining 1/4 would be explained by the benign cost environment that we're in due to the pandemic net of the relief we gave and the different mix of claims. So that's what we see in our improvement versus last year.

In terms of driving, what I can say is that since April, as we said last quarter, driving is returning progressively since then at an increasing pace. That varies, I would say, a bit by presence as governments were either reopening the economies or adding new restrictions at the different point in time. But since the summer, we're still seeing the driving level increasing. I would say that as we speak today, we're still below normal levels in terms of driving.

And in terms of frequency, as the driving was increasing, we saw the frequency also increasing at the same time. And since the end of the summer, frequency has stabilized as well below normal levels. So that's what we see today.

Charles J. G. Brindamour
CEO & Director

But driving is now sitting here within 10% of what it's been historically, basically. Severity is up a bit, but driving is roughly within 10% now, fluctuating across the land.

Operator

Our next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Charles, I'm just curious, you know you've talked about it just a little bit, but I was a little surprised at the outlook with respect to personal auto direct premium written growth for the fourth quarter. Just kind of mid- to high single digits, I would have thought without any premium relief coming through, it could be double digits. Maybe a little color around that?

Charles J. G. Brindamour
CEO & Director

Yes. Isabelle, do you want to provide a bit of perspective there?

Isabelle Girard
Senior Vice President of Personal Lines

Yes. Sure. So as we explained a bit earlier, our Q2 growth at 8%, including the impact of relief, was really driven by our improved competitive positioning and driven in part by higher retention and robust new business. So that's why as we are sitting here today, our best guidance for our Q4 growth would be mid- to single -- mid- to high single digits for Q4, knowing that we have moving -- we've moved from our relief program to rate strategies. And as I said, I expect that us and other payers may continue to move as well. So that's why our guidance is aligned with the growth we saw in Q3.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. So competition has picked up, I guess, what you're saying?

Isabelle Girard
Senior Vice President of Personal Lines

But I guess compensation is reacting to inflation as we do.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. And then, Charles, I'm just curious, your guidance with respect to the personal auto combined ratio next year kind of at the low end of the -- mid to low 90s is you're talking about. Is that contemplating some normalcy in the claims frequency environment?

Charles J. G. Brindamour
CEO & Director

No. I think that we're expecting that will be a bit in a low in 2021 from a driving and frequency point of view. And we do expect a return to normal driving level that is bridging the small gap we're seeing now by year-end. And to a certain extent, it is reflected in our temporary price position, which we're equipped to reverse should driving return back to normal. But when I look at the overall cost environment at the moment and some of the work that we've been doing, which is flowing through our performance and mix and quality of portfolio, we think we'll be at the low end of the mid-90s sort of range for the foreseeable future.

Operator

Our next question comes from Tom MacKinnon from BMO Capital Markets.

Tom MacKinnon
BMO Capital Markets Equity Research

I've heard retention mentioned more on this call than normal. And I get the impression that some of the premium relief measures are helping with retention, if you can clarify that. Is that strictly in personal auto? And what's going to happen? Maybe you can put some metrics around retention as well just to show how much it has improved? And what's going to happen when some of these relief measures kind of wear off? Do you think the retention is going to change at all? And have you experienced -- what's retention like outside of personal auto and personal property or maybe in commercial where you've given some hard-pressed industry, some relief as well? And I have a follow-up.

Charles J. G. Brindamour
CEO & Director

Yes. Tom, we'll ask Isabelle and Darren to share a perspective on what they see in their respective lines of business. But I would say, from my own point of view, historical high across the board in terms of retention. And I think it is a function of tight market capacity in both auto as well as commercial lines and the heavy lifting we've been doing for 3 years, which is also slowly eroding from a competitive disadvantage point of view. And all of this is paying off. But why don't we kick it off with Darren on commercial lines, and then we'll go to Isabelle.

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Tom, so as you would expect, I mean, obviously, there's different sectors within the portfolio experiencing different profiles, given the economic realities of the crisis today. So when you think about more on the -- the more vulnerable customer side, so you can think about hospitality and retail. We do see a little bit of pressure there from a cancellation standpoint. Not material, but definitely, there's a little bit of pressure there.

On other segments of the portfolio, which are not as impacted by the economics, we see either flat or slightly improved retention. So again, it very much depends upon sort of where we're at sort of an economic cycle standpoint. New business levels are starting to pick up as well, too. It's a reflection of, I think, capacity challenges within the marketplace.

Obviously, we've been very cautious and prudent relative to quality. But definitely, I think the growth profile is changing a little bit. But again, it's difficult to make broad brush comments because it is very much sector by sector that we're watching very, very carefully. Obviously -- I mean, obviously, you saw the announcement around our relief program there to further support our most vulnerable P&C customers there, 100,000 customers coast to coast. So we believe that will help as well. But again, we're monitoring wave 2 in particular and modulating rates as we need to base on the crisis as it unfolds.

Charles J. G. Brindamour
CEO & Director

But Tom, maybe if I put some numbers on that, Darren, correct me if I'm wrong. But historically, in commercial lines, you'd be in the upper 80s in terms of retention in units, that is in units, I'm talking about. And if you look at September, for instance, you're in the 91% range. So a couple of points of retention change like this is very good because we know that the more loyal/mature business is always better business in terms of loss ratio performance. So a nice pickup in commercial lines.

Let's look at personal lines, Isabelle?

Isabelle Girard

Senior Vice President of Personal Lines

Yes. So as you mentioned, part of the various form of relief we have provided was in the rate tempering or rate increases at renewal, and that's caused retention to increase accordingly. So in both lines, I would say. So in personal auto, as an example, that just like last Charles was mentioning in commercial, we were running in the upper 80s and low 90s retention ratios and units. And in Q3, we saw, as an example, the retention ratio increasing close to 94%. So meaning that we're keeping 94% of our clients at renewal. So that's one of the highest points we saw in retention in the last 24 to 36 months. So that contributed to the growth we saw in Q2 in personal lines in general.

Charles J. G. Brindamour
CEO & Director

Yes. And I would say, Isabelle, when you say 24 to 36 months, I'd go so far as to say probably 20 years. 93%, 94% combined retention in personal automobile is extremely high, and we're seeing very strong retention in both channels. So we're quite pleased with that. And in fact, if you look at what most people expected from a top line point of view in auto and what we expected versus what actually happened, I'd say, 40% of the spread in expectations was driven by retention, 40% of the spread then was driven by new business generation. So very pleased with that.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And then the second question has to do with disruptors. We just saw another one kind of come out here, IPO recently Root, got Lemonade. I mean some of these aren't necessarily in Canada, but they are potential disruptors to what extent maybe Amazon or Facebook might come into that play as well. I mean they have the social media to market that, I assume, gives them some sort of the distribution edge. And can they replicate your pricing or segmentation edge as well? What are you doing to defend your space against these potential disruptors? Is it simply just by trying to change mix or maybe you can discuss some of the points around that?

Charles J. G. Brindamour
CEO & Director

Sure. I think, Tom, we've been focused on disruption for 10 years, I would say. We've been far more focused on preparing for disruption than competing with our existing competitors, quite frankly. And for disruption to actually take effect, you need, in our book, 2 things. You need better design and you need better value for money. And so if you've got both, then you can promote it at scale, you've got a good shot at potentially disrupting.

So if you look at the agenda that we've presented to investors over the past decade, you'll see that there's been a lot of focus on the digital tools, the role of our design lab and the customer experience, broadly speaking. You will have seen that we are dramatically changing the experience in the direct channel through our insurance simplified project. And you've seen in the direct channel, a big drop in the expense ratio to make sure that we can compete on affordability or just value for money, if somebody came in to do things dramatically differently.

You've seen us invest aggressively in our brands, both Intact Insurance and belairdirect, who are the 2 leading insurance brands in the country. And the other thing you've seen, Tom, is a big focus on creating optionality and distribution. You've seen us build Intact Insurance, then bring Intact Insurance online, even though we distribute through brokers. You've seen the buildup of belairdirect, then you've seen us build a massive personal lines distribution platform with multi options, which also provides a ton of optionality. So that is on the sales, distribution and customer relationship side of things.

The other edge that is very significant is the product we actually deliver, and by that, I mean, claims. Our perspective, when it comes to disruption, that the work we're doing to get our customers back on track in the physical world is quite differentiating. And so it is differentiating from a cost point of view, and it is differentiating from an experience point of view. So the whole in-sourcing of the supply chain process and taking in charge the experiences, we see a differentiator with often how people see the claims process as a financial transaction. We don't see the claims process as a financial transaction, we see the claims process as getting our customers back on track, and we've built quite a force there.

The last point I would make, Tom, is the importance of data in the disruptive process. And as you know, you could say, we're a data shop. We've been harvesting our own structured data sets for decades. We're tapping into unstructured data sets. We're tapping into external data sets. Telematics is a great example of a massive program that we have built. And it's all backed up by a huge team of machine learning experts in our data lab, a few hundred people in addition to the data experts that we have in the rest of the organization. And so when you stack all that together, I would say, we're paranoid. Of course, that's our makeup, but we're quite equipped to face distribution.

And the last point I would make in terms of optionality, as you've seen in the past 3, 4 years, a lot of emphasis on commercial lines, specialty lines and opening up a big pipeline of growth in that segment to make sure that should there be growth pressure in personal lines, in part because of disruption or change in how people move, we've got big pipelines of growth outside as well. I don't think we -- there's a dependency on that, but our strategy is one of plenty of optionality.

Operator

Our next question comes from Mario Mendonca from TD Securities.

Mario Mendonca
TD Securities Equity Research

First on -- I want to clarify some guidance you've already offered. I think you said that you'd expect mid- to high single-digit growth in direct written premium personal auto in Q4, did I hear that correctly?

Charles J. G. Brindamour
CEO & Director

Yes, you did.

Mario Mendonca
TD Securities Equity Research

And can you offer anything about 2021? Because presumably, the premium relief will continue throughout, what have you correct in saying the entire year or at least the first half of the year?

Charles J. G. Brindamour
CEO & Director

Yes. I think that's fair, Mario. I would -- I'd be inclined to think about 2021 in the mid-single-digit range. The thing you need to keep in mind is that the exit of BC will be, I think, 1.5, Louis, can you confirm?

Louis Marcotte
Senior VP & CFO

One second.

Charles J. G. Brindamour
CEO & Director

Yes. Yes. So look, Mario, we've been surprised by the pickup, so to speak, in the last 2, 3 months. So we're thinking about auto with BC in the mid-single-digit range in 2021. But subject to that thing to the environment, that's our best guess at this stage.

Mario Mendonca
TD Securities Equity Research

And that's despite the premium relief.

Charles J. G. Brindamour
CEO & Director

Yes, that's all in.

Mario Mendonca
TD Securities Equity Research

So let me -- help me think this through. I've been on the notion that at some point, the frequency would increase the -- or return to normal, the premium relief would still be in place, and it could result in some lengthy quarters. I think that was the word you used to describe this earlier on in the process. Is that no longer your view? Is it fair to say now that the premium relief is being matched up with a gradual increase in frequency, there is nothing really abrupt happening here that could cause lumpy quarters?

Charles J. G. Brindamour
CEO & Director

We don't see abruptness. I think what we see, Mario, is running the business, of course, taking seasonality into account at this stage at the low end of the mid-90s, but we don't expect too much lumpiness as a result of relief at this stage. Isabelle, do you want to add any color to Mario's question?

Isabelle Girard
Senior Vice President of Personal Lines

I think you're right, Charles. The only color I would love is that we also have earned increased momentum going on. So even if we have relief that will be earned throughout Q4 and 2021 will survive an increased momentum on top of the benign cost in an environment, we are operating in. So I think that's why we're believing that we'll be able to operate at the lower end of the mid-90 range in personal auto.

Charles J. G. Brindamour
CEO & Director

Yes. Keep in mind, Mario, there was a lot of heavy lifting done pre-COVID here that is still earning through the system.

Operator

Our next question comes from Paul Holden from CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

So first question I want to ask is regarding the distribution EBITDA. So the guidance for the year is helpful. I'm wondering if you can help us with those contingent commissions, how much of that added to growth in 2020? And what I'm really trying to get to here is, for 2021, the growth is likely going to be a little bit below normal because of that. And that's what I'm really trying to solve for. So anything you can help with on contingent commissions or otherwise would be appreciated.

Charles J. G. Brindamour
CEO & Director

Yes. That's -- I think profit sharing, indeed. But, Louis, why don't you unpack that for Paul?

Louis Marcotte
Senior VP & CFO

Sure, Paul. So let's unpack year-to-date as one example here. We're around 23%, 24% growth. About 10% is our existing broker plant, what we would consider organic growth, and that would include the impact of CPC. Then you have about 5 points, which is the result of M&A. So the inorganic impact on BrokerLink and our other brokers. And then the remainder would be the impact of adding On Side and FCC. So that's roughly the 3 main components that we expect.

Going into next year, the pace will slow, but it's still expected to be a fairly healthy growth pace. And the sharing here, of course, On Side and FCC will become organic, I would say, here. The M&A impact is probably similar to what we've had year-to-date, so mid-single-digit area. And then we do expect a higher contribution from On Side and FCC next year that will juice up EBITDA growth. And that's simply accelerating the earnings, mostly at the On Side into 2021. So I would say, next year, an expectation, probably slightly above 10% and split between organic, a bit of M&A and then top-up with the On Side and FCC.

Paul David Holden
CIBC Capital Markets, Research Division

Perfect. That's very helpful. Second question is related to net investment income, obviously, seeing some pressure on refinancing rates. I guess the question is, are there any shifts that are taking place in investment portfolio to offset that reinvestment pressure either actions taken to date or things you're contemplating over the next 12 months?

Louis Marcotte
Senior VP & CFO

I don't expect major shifts in the portfolio. These are, I will say, tweaks here and there, and the portfolio, we're very cautious, as you know. And there is some pressure, clearly. Going one way, we're seeing a bit of erosion on the other side, growth in assets. So to some extent, they offset each other and help us sort of alleviate the pressure here. But you would not expect us to take -- you should not expect us to take massive moves here in terms of our asset mix or investment style to chase higher yields. We do on the margin, but it's not a huge changes and it doesn't move the risk envelope very much.

Charles J. G. Brindamour
CEO & Director

No. On the contrary, I would say that we've taken a cautious position on the asset side of the house early in the crisis to be able to defend against volatility, but also to make sure that at all points in this crisis, we would be in a position to take advantage of opportunities. So reaching for yield and expanding the risk envelope has not been one bit our approach to date.

Operator

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

Doug Young
Desjardins Securities Inc., Research Division

Two questions here. And Charles, I know I've asked you this in the past, and it comes and goes. But given what I've read in The Globe and Mail and I know that that's first maybe place I always go to. But are you at all worried in Canada about the commercial market becoming regulated? And has there been any discussion around this with the government or with the regulator?

Charles J. G. Brindamour
CEO & Director

Thanks, Doug. Look, I think the commercial lines market, no, I'm not worried that it becomes regulated from a pricing and product point of view. I think that -- and the reason why I'm not overly worried about that is the fact that coming into this crisis, the market was tight, meaning that the industry ROE was single-digit and commercial property was under -- and commercial P&C was under pressure, right? There was liability inflation in the system and then the impact of natural disasters put a fair bit of pressure on property. And there's been 10 years of submarket in commercial property. Now people forget about that now, but there's been 10 years of hard market -- of soft market in commercial P&C.

Then COVID happens, and the investment income potential comes down. You get a fair bit of pressure on the claims side of things. Now we've reserved for all of this in Q1, and we're in good shape. But the industry is under -- has been under pressure as a result of claims. So clearly, the capacity issues that existed in the first place have been exacerbated by COVID. And then you layer on top of that the demands that reinsurers have made in terms of awarding and so on, you have to acknowledge that there are areas of the market where capacity is tight. With COVID, there's been a number of class actions on long-term care facilities, for instance. And then there's moral hazard of vacant buildings that is also an issue.

So long story, Doug, but I think the nuance is important here in the high-risk areas of the market, take bars, restaurant, put heavy liquor liability, this part of the market was largely served by foreign operators and a number of them left. And this has led to a capacity crunch on a small -- very small portion of the market because it's still very competitive in commercial lines. But a number of foreign operators left, and this has created a bit of tension. Now I don't think you bring capital back in the industry by regulating. The problem is capital has left, not people are doing extremely well in commercial lines. And I think that people understand this dynamic. That being said, solutions need to be found. So we're leading a solution with the industry to insure uninsurable risk, and there's a number of mechanisms that are being put in place to address the issue here, but I don't think regulation will solve the problem. It's not that people are overcharging, it's because capital has left the system. And I don't think scaring insurers is the way to bring back capital in the system, and that's my sort of analysis of the situation.

We've been providing a ton of relief in commercial lines. We're growing our commercial lines platform. We've frozen rates for vulnerable customers. We've just announced a $50 million relief program in that space. And quite frankly, the large leaders in the marketplace are stepping up at the moment. The issue is number of foreign operator in the high-risk space has left -- have left.

Doug Young
Desjardins Securities Inc., Research Division

Okay. And so it doesn't sound like the regulator is really reading down your neck or there is that net discussion going on. So I get all your explanations, and it's absolutely logical. I probably think of regulatory seems logical, but it doesn't sound like that's a real concern you're having right now?

Charles J. G. Brindamour
CEO & Director

No, I think that there is a dialogue and where capital has left the system, we need to find solutions. And that's where the dialogue is taking place. But regulation won't solve the system, it will make it worse, if not, far worse, if you want my opinion.

Doug Young
Desjardins Securities Inc., Research Division

And my second question is a question I actually just received, and it's -- the industry, I think you quoted the industry as having combined ratio is about 100% and ROE is still around 5%. It doesn't seem like that's really improved materially. Despite some of the favorable headwinds that 2020 has provided and we're seeing some good results out of you and some of the others. Is there a certain segment of the market that's really performing absolutely horrendously and then certain segment of the market that's doing really, really well? I was just surprised by that, yes.

Charles J. G. Brindamour
CEO & Director

Yes. Yes. So I think there's 2 things, Doug. One of the things we've seen in the first half of 2020, which, where we surprised, yes or no, I don't know, but adverse development from the past in automobile insurance has been a problem. And we've been at it since 2016. There's a lot of heavy lifting. You've seen us take a cautious sense in reserve a few years back. I think that is taking place now at the industry level, and as such, putting pressure on the overall performance in automobile insurance, even if you could expect the benign sort of cost environment.

Commercial lines performance, overall, first half of 2020, has been very bad at the industry level. So depending on the province in which you operate, you see 105, 110-ish type performance in commercial lines. And that's why my view is you've got a capacity issue, clearly an opportunity for us. And -- but that is the nature of the market and hence the industry's result. I expect things will get better this year. But there's a fair bit of digestion to do in this industry to return to historical levels of performance from an ROE point of view. And that's why our view, Doug, has been -- when we were asked before the crisis, how long will the hard market last? Darren had done a very good analysis last year to say, we think it will be 24 months. And this has been put on pause to a certain extent, depending on the line of business, but there's a lot of work left to do to improve the performance and the attractiveness of this industry for, say, average players, gladly, we've done that early on. And now I think the top line is benefiting and the bottom line is doing well. And that's how we operate as a firm. We've shown that in the past and trying to win in this environment.

Operator

This concludes the Q&A portion of our call. And I would like to turn it back to Ken Anderson for final comments.

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Well, 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. The transcript will also be available on our website in the Financial Reports and Filings archive.

In closing, our fourth quarter 2020 results are scheduled to be released after market close on Tuesday, February 9. Thank you, again, and this concludes the call for today.

Operator

Ladies and gentlemen, this does indeed conclude today's conference. Thank you once more for participating. You may now disconnect.