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Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Intact Financial Corporation Q4 2023 Results Conference Call. [Operator Instructions] Also note that this call is being recorded on February 14, 2024. And now I would like to turn the conference over to Shubha Khan, Vice President, Investor Relations. Please go ahead.

Shubha Rahman Khan

Vice President of Investor Relations

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

Before we start, please refer to Slide 2 for cautionary language regarding the use of forward-looking statements which form part of this morning's remarks and Slide 3 for a note on the use of non-GAAP financial measures and important notes on adjustments, terms and definitions used in this presentation. To discuss our results today, I have with me our CEO, Charles Brindamour; our CFO, Louis Marcotte; Patrick Barbeau, Executive Vice President and Chief Operating Officer; Darren Godfrey, Executive Vice President, Global Specialty Lines; Guillaume Lamy, Senior Vice President, Personal Lines; and Ken Anderson, Executive Vice President and CFO, UK&I. We will begin with prepared remarks followed by Q&A. With that, I will turn the call over to Charles.

Charles Joseph Gaston Brindamour

CEO & Director

Good morning, everyone, and thank you for joining us today. 2023 was a challenging year for society. Inflation continued to exert pressure on the cost of living, and natural disasters took a heavy toll on the communities we serve. But through it all, our people worked tirelessly to ensure customers get back on track as quickly as possible.

And against this backdrop, our business demonstrated remarkable resilience. Yesterday evening, we announced net operating income per share of \$4.22 for the fourth quarter, up 45% from last year, driven by strong underwriting investment and distribution results. The undiscounted combined ratio was 90.1% in the quarter, which reflected strong underlying performance across all regions and our exit of U.K. personal lines.

And top line momentum is strong and improving. Organic growth was 8% for the quarter, driven by rate actions across all segments. Hard market conditions continue to provide a significant tailwind for a majority of our businesses. Overall, we delivered an operating ROE of 14.2% in 2023 and maintain a strong balance sheet with \$2.7 billion of capital margin. We're therefore pleased to raise the quarterly dividend by 10%, our 19th consecutive annual increase.

Let's now look at each of our lines of business, starting with Canada. In personal auto, premiums grew 12% in the quarter, driven by our rate actions and continued momentum in unit growth. Premium growth has been accelerating for the past year, driven by our improved competitive position, leading brand awareness and continued investment in digital marketing and customer experience. With a combined ratio of 95.2% in the quarter and 94.7% for the full year, underwriting performance was in line with guidance.

Inflation, as expected, abated in the past year and appears to have stabilized in the mid-single digit range for the past couple of quarters. We expect rate increases to continue to cover inflation. And as a result, we remain comfortable with our sub-95 guidance and with capturing growth in this environment.

Moving to personal property. Premium growth was 8% in the quarter due to our rate actions and supportive market conditions. The combined ratio for the quarter was very strong at 75.8%, reflecting robust underlying performance and mild weather across Canada. For the full year, the combined ratio was

100.7%, which included 11 points of CAT losses, above expectations. Despite this, our average combined ratio for the past 5 and 10 years remained below 90%, thanks to adapting our value proposition and operating model in the last decade. Given double-digit rate increases in a hard market as well as our expanding claims and supply chain capabilities, we are well positioned to sustain this track record. Our expectations take rising CAT losses into account, which Louis will cover in more detail.

In commercial lines, premium growth was 4% in the quarter and reflected targeted exits to enhance profitability in our specialty lines portfolio as well as increased competition for large accounts. As the market remains hard across most lines, we expect growth in '24 to be generally consistent with upper single-digit increases for the industry. We delivered a combined ratio of 84.4% in this segment, reflecting our profitability actions over time. And the business remains well positioned to deliver sustainable low-90s or better performance.

Moving now to our UK&I business. Premium growth in our now commercial lines-focused business was 26% in the quarter, thanks largely to the Direct Line transaction. Organic growth was 6%, driven by our rate actions in a hard market. The combined ratio of 104.6% for the quarter included 11 points of CAT losses above what we would have expected. We expect to run this business in the low 90s in '24, and we see this improving to approximately 90% within 2 years as we improve performance and realize synergies from the Direct Line transaction.

In the U.S., our business grew 9% in the quarter, led by strong growth across our most profitable lines. For the full year, growth of 14% also included the benefit of an MGA acquisition in late 2022. The combined ratio of 86.4% for the quarter reflects our profitability actions over time, which were partially offset by unfavorable prior year development from one specific trend. In the next 12 months, we expect hard market conditions across most lines to persist given higher reinsurance costs, rising CAT losses and inflation. And we remain well positioned to maintain low 90s or better performance in this business as well.

Let me now highlight some of our strategic milestones and initiatives in the past few months. In Canada, BrokerLink continued to consolidate the market. Despite a slow start to the year, the business closed 20 acquisitions, representing \$375 million of premiums. Total premiums exceeded \$3.5 billion in '23, and we're therefore on our way to achieving our \$5 billion ambition in the midterm.

On the digital front, our mobile app saw over 23 million visits by customers in 2023. With the ease of use of our self-serve tools, 1 in 5 policy transactions are now fully completed online. And we continue to invest in our supply chain capabilities, a key driver of our underwriting outperformance over time here in Canada. Four new claims service centers were opened in Q4, bringing the number of total locations across Canada to 31. Service centers reduced the claims cycle time by 30% on average. They are an increasingly important part of our value proposition to customers, generating higher Net Promoter Scores and driving premium growth.

In Global Specialty Lines, we launched a new Global Renewable Energy segment in addition to expanding underwriting capacity for cyber coverage across all our markets. We're also accelerating the transformation of our pricing capabilities and deployed 6 new AI-driven pricing models in this segment in the quarter. In 2023, premiums exceeded the \$6 billion mark in specialty lines, and we delivered a solid combined ratio of 88%. We're making excellent progress towards our ambition of \$10 billion of premiums by 2030 while operating in a sub-90 combined ratio.

In our UK&I business, we've taken a lot of action over the last 12 months to drive outperformance. We derisked the pension plan through a buy-in transaction. We exited the U.K. motor market. We acquired Direct Line's brokered commercial lines business. We sold a direct U.K. [home and pet] platforms to [Emerald] and announced the exit of U.K. personal lines partnerships. A lot of hard work has gone into refocusing the business, but I'm very pleased with where we stand today. There's still work to be done, but I'm confident that we'll have one of the best P&C businesses in the U.K. market within 24 months.

Investing in our people is critical to our success and an important pillar of our strategic road map. As the best employer in both Canada and the U.S. and with meaningful progress in '23 towards becoming a best employer in the U.K., I'm proud that Intact is a place where our people can grow and thrive as we win in

the marketplace as a team. And I'd like to thank our people for all they've accomplished in the past year. They certainly didn't falter in assisting our customers through multiple natural disasters. And we were able to deliver on key strategic initiatives, investing in our performance across all our businesses.

It's clear, we entered '24 with a lot of momentum. Growth is in the high single digits, our underwriting performance in the low 90s, our operating ROE in the mid-teens. With our strong balance sheet, we're ready to capture growth opportunities as they emerge. The business is in very good shape to grow net operating income per share by 10% a year over time and to continue to outperform the industry ROE by at least 500 basis points every year. 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. I'm very happy to report a strong finish to a very busy year. Our businesses delivered strong fourth quarter results on the back of excellent underlying performance across all lines of business, as well as continued earnings growth from our investment portfolio and our distribution assets. This helped drive an operating ROE of 14.2% despite a 3-point impact from higher-than-expected CAT losses in 2023.

Meanwhile, book value per share grew 6% in the quarter to nearly \$82, fully recovering the dilution from the pension buy-in earlier this year. Strong underlying performance across our lines reflected our continued underwriting discipline and ongoing profitability actions. Personal auto was consistent with our sub-95 guidance. Underlying performance in personal property was sub-90, and commercial lines delivered a low 90s performance or better across all geographies.

This is a solid foundation to grow our business on. With organic growth of 8% in the quarter and continuing favorable market conditions in all regions, our priority is to leverage this environment to accelerate profitable organic growth. This feeds really well into our 10% net operating income per share growth objective and contributes to ROE outperformance.

On that strong note, let me add a bit of color to our Q4 results. CAT losses in the quarter of \$200 million were mostly attributable to 2 severe storms impacting our continuing businesses in the U.K., Ireland and Europe. The storms also impacted our recently exited U.K. personal lines with an additional \$65 million in losses. Looking ahead, we are increasing our annual CAT guidance from \$700 million to \$900 million. This reflects ongoing inflation and business growth, as well as our updated science-based climate modeling, which conservatively assumes that the planet will warm by 3 to 5 degrees by the end of the century.

The new CAT guidance represents a manageable increase in the CAT loss ratio of less than 1 point to approximately 4.3%, and more importantly, it is expected to be neutral to earnings expectations, thanks to our ongoing pricing actions. As such, our combined ratio guidance for each line of business is unchanged. Favorable prior year development remained strong at 5.2% for the quarter, reflecting our prudent approach to reserving, and we continue to expect the PYD ratio to be in the 2% to 4% range over the medium term.

The consolidated expense ratio was 32.5% in the quarter, modestly lower than last year due to timing of certain expenses. The full year ratio of 33.4% was within our expected range of 33% to 34%. In 2024, we expect to operate largely in the same range. Operating net investment income increased 35% in the quarter, driven by both higher portfolio turnover and rising book yields over the last 12 months. As we indicated in Q3, we expect investment income to increase to \$1.5 billion in 2024. This reflects the actions taken to capture higher yields in 2023 and the fact that our book yield remains below reinvestment yields despite recent rate movements.

Distribution income increased 16% to \$109 million in the quarter, driven by recent broker acquisitions as well as solid organic growth. For the full year, growth of 6% reflected the slow pace of acquisitions in the first half as we remain disciplined in a hot M&A market. The pace picked up significantly in the back half of the year as anticipated, and the pipeline remains strong. As a result, we expect distribution income to grow by at least 10% in 2024.

The operating effective tax rate was 17% in the quarter, below our expected tax rate, largely due to additional tax recoveries resulting from the improved profitability outlook in our U.K. business. Looking ahead, I'm expecting an increase in our effective tax rate of 1 to 2 points based on proposed tax legislation in Canada. This would take our expected operating effective tax rate to between 23% and 24%. Any additional tax recoveries in the U.K. would temper the impact of these changes.

Overall, net operating income per share of \$4.22 for the quarter was up 45% from the prior year on the back of solid earnings from all businesses and a lower tax rate. Moving to nonoperating items. We reported exited line losses of \$158 million, mostly attributable to the exit of our U.K. Home business in Q4. These losses include the impact of the storms I mentioned earlier, as well as prudent reserve strengthening in U.K. Home.

After 30 months from the closing date and lots of strategic actions taken so far to improve the performance, I'm pleased to report that value creation from the RSA acquisition is well above initial expectations. Net operating income per share accretion and IRR are both above 20%, and annual synergies are expected to reach \$450 million by June 2026. Not included in our updated IRR and accretion are the synergies from the Direct Line acquisition, which are expected to generate an additional \$35 million annually within the next 36 months.

In the quarter, the business performed largely in line with expectations. We are focused on improving performance in the acquired portfolio to deliver a low 90s combined ratio in our UK&I business in 2024.

Moving now to the balance sheet. Our financial position continues to be strong with a total capital margin of \$2.7 billion at year-end as well as solid regulatory capital ratios in all jurisdictions. Despite weather-related volatility, capital generated during the year easily covered all capital needs, including dividend payments, organic growth and M&A related to our distribution platform. The adjusted debt to total capital ratio stood at 22.4% and was relatively stable compared to Q3 as we used capital to fund the Direct Line transaction. We expect the ratio to return towards our long-term target of 20% by the end of 2024, if not before, putting us in a very good position to deploy capital should an opportunity arise.

Book value per share grew 6% in the quarter, driven by strong operating performance and favorable market movements. The outlook is favorable. Industry conditions are supportive. Top line momentum is strong. Investment income continues to grow, and distribution income is on course for double-digit growth. In my mind, this means we should see mid-teen ROEs in 2024, driving continued growth in book value per share. With that in mind, we are pleased to raise our dividend again 10% to \$1.21 per quarter.

Overall, I am proud of the resilience demonstrated by the business in 2023, the tremendous progress we made on in driving outperformance in the U.K. and solid top line growth across all lines of business. Given the strength of our platforms, the outstanding talent at our disposal and a clear strategic road map, we are well positioned for growth and outperformance in 2024 and beyond. With that, I'll give it back to Shubha.

Shubha Rahman Khan

Vice President of Investor Relations

Thank you, Louis. [Operator Instructions] So Sigve, we are ready to take questions now.

Question and Answer

Operator

[Operator Instructions] And your first question will be from Geoff Kwan at RBC Capital Markets.

Geoffrey Kwan

RBC Capital Markets, Research Division

My first question is just with the hard market conditions that you have persisting across essentially all your business lines, just wondering if you're seeing any signs of change in client behavior, whether or not that's change in the amount of bundling activity that's going on, changes in coverage changes in churn rates, that sort of thing?

Charles Joseph Gaston Brindamour

CEO & Director

Thanks for your question. I think fair to say that we are seeing changes in behaviors. I would say primarily in personal lines in Canada at the moment. If I look at the changes in behaviors observed in the past few months, that's probably where we see the most important change. I'll ask Guillaume to give you a perspective on some of the changes in behaviors we're seeing in the marketplace.

Guillaume Lamy

Thanks, Charles. So in personal auto, specifically, we've seen the volume of quotes really increased, like Canadians are shopping 30% more than last year, and more and more are coming to our digital channel. As such, our digital sales have more than doubled year-over-year, also benefiting from the integration of our [Affinity] business now leveraging the digital tools.

So on the backbone of this, we made additional marketing investments of more than \$10 million in our direct channel, taking advantage of strong buying ratio, which provides good economics on acquisition cost. On a bundling perspective, we haven't seen much change. I think we've said in the past, most of our business is bundled both in auto, property. We see good retention benefits from it, customers being more loyal when they have more product. And now with the addition of our [Affinity] platform with good benefits and travel, we see that increase, and we see retention benefits. And as such, our retention even passing high rate increase is extremely strong in the market.

Charles Joseph Gaston Brindamour

CEO & Director

Thanks, Guillaume. I think it is a very good overview. And so when I look at the environment in which we operate in the moment in the cycle, we've made sure throughout the high inflationary environment that we price for it as fast as we could. What you've seen in the last 6 months is a convergence of 2 things. First, Canadians are shopping way more, and our competitive position has improved naturally as other catch-up on the trends that we've been observing for some time now. With the margins being very good, we think this is an excellent environment for us to grow our position.

Geoffrey Kwan

RBC Capital Markets, Research Division

Okay. And just my second question is on Canada commercial and the U.S. commercial, we saw the year-over-year growth rate in DPW increasing throughout 2023, but in Q4, there was a sequential decline in that year-over-year growth rate. I know you talked about in Canada, I think there was some comments around kind of competition. But I just wanted to get a little bit more insight in terms of that change we saw in Q4 in Canada commercial and what kind of gives -- what's going to drive that upper single-digit growth for 2024? And then in the U.S., if there's any kind of color that you'd say is this going to see that -- again, the upper single digit that you expect for 2024?

Charles Joseph Gaston Brindamour

CEO & Director

Yes. Geoff, I think you're right. There's been slight differences in Q4. I'll ask Darren to give you a perspective on the Canadian growth as well as the change you've observed in the U.S.

Darren Christopher Godfrey

Executive Vice President of Global Specialty Lines

Yes. Thanks for the question, Geoff. When I start, first of all, with the Canadian portfolio, it's a little bit of 2 different stories here. When I look at the Main Street commercial lines operation, continuation really of that sort of mid-single digit growth that we've seen throughout all of 2023, driven by rate. Our retention remains strong. Our completed quotes are up sequentially 25% versus the prior year. And we've been doing a fair bit of work in terms of enabling technology through machine learning algorithms to really improve the funnel, so to speak, from submission, to quote, to bind.

What happened in Q4 was more of a specialty lines, I would say, noise. So we were essentially flat in the quarter. And that's primarily driven from a number of different sources. One was we've made some strategic exits. And if you can remember back in Q1, we saw something similar as well, too, where we were getting off large programs or single accounts where we continue to be focused on profitability. And they weren't meeting sort of where we wanted to be from a pricing standpoint. So we exited strategically, as I said, either some large programs or some single one-off accounts.

We did, as we noted in Charles' remarks and in the MDA, we are seeing a little bit of increased pressure in the large account space. Now the large account space for us, just to put in some context, is only about 10% of our total commercial lines volume. So yes, it has a little bit of pressure on specialty lines, but in aggregate, not that significant. And then there were some one-offs as well, too, you can think about the riders and active strike in entertainment caused a little bit of pressure in Q4 as well, too.

So a number of different pieces there. But when I think about the general market environment and the rating action that we're taking, we're consistently in that sort of mid- to high single-digit range, both in commercial lines and in specialty lines. We continue to also increase amounts of insurance to reflect the inflationary pressure on the property side, too. So we're continuing to get good momentum from a renewal and from new business book. And obviously, as you would expect, increases are targeted and segmented to reflect profitability.

So when I take a step back and I look at the path we're on from a CL standpoint and when we sort of discount or minimize some of the noise from specialty lines in Q4, we remain pretty confident that we'll see that sort of mid- to upper single-digit range in 2024. We may see some noise from quarter-to-quarter if we need to take some actions on particular accounts. But otherwise, I think our view is quite favorable moving forward.

From a U.S. standpoint, when I look at the growth here, it is our most profitable lines that we're seeing the growth in the U.S. You can think about our commercial surety book, you can think about our excess property in the marine. Our frame builders risk as well, too. So we are managing the cycle quite well. We are very much hard market conditions, but we do, obviously, as we flagged before, see some softness in our professional lines. So the teams are doing a great job, both in management liability. You can think about FI, you can think about cyber, where there is some pressure there.

Now having said that, in each of those lines of business, that's coming off multiple years of rate increases. So even though rates are coming back a little bit, it's not accelerating. We're still well above our risk-based premium. So we're still confident in terms of where we're positioned today. So when I package all that together, from a U.S. standpoint, I would expect going forward, we're in that sort of mid- to upper single-digit range going forward.

Charles Joseph Gaston Brindamour

CEO & Director

So Geoff, in a nutshell, the debt you've seen in Q4 in Canada is driven by a number of large accounts either driven by us or by the market. And in the U.S., I would say, more specifically, you've seen 18%

growth in the U.S. while the Q4 growth number was 9%. This was primarily driven by the fact that we had the acquisition of Highland and MGA that really helped the growth profile, and Q4 at 9% is probably more in the zone of what one should expect. But a very good environment, and happy to grow in it.

Operator

Next question will be from Tom MacKinnon at BMO Capital.

Tom MacKinnon

BMO Capital Markets Equity Research

Just a question about the favorable PYD we're seeing here, kind of trending to the high end or slightly above that 2% to 4% range you've talked about. Are we -- should we expect it to be towards the higher end of that range in the near term? What is driving some of it, especially with respect to what we're seeing, I guess, in some commercial lines in the U.K. NII, commercial lines as well and in personal auto?

Louis Marcotte

Executive VP & CFO

Sure. So Tom, you're right. It's 5.2%. We've been -- our midterm guidance is 2% to 4%. There's a couple of areas that have come in strongly in the quarter. We're not surprised because of the prudence we applied over the past couple of years, particularly during the COVID crisis. So we were expecting to be at the upper end of our range. We're doing a bit better. Some stuff has come in the quarter. You've seen very favorable in commercial lines U.K., for example. I think our view is we'll be at the upper end in the short term, but we should revert progressively towards that -- the official range.

I will point out that the range is expressed, I would say, on an annual basis, and it's for IFC as a whole. So it's not necessarily every line of business, every region that falls into that range. But overall, we should fall within the range. So 5.2% is above. We're happy with where we stand there, a very strong reserve position, a very strong balance sheet. But over time, I would expect to refer it back towards the range in the midterm.

Tom MacKinnon

BMO Capital Markets Equity Research

And the reason it's higher now, is that just prudence applied through COVID is starting to unwind? Is that what you -- is that how we should characterize that?

Charles Joseph Gaston Brindamour

CEO & Director

It's a combination of factor depending on where you look. I think in personal automobile in Canada, as we've said, I think we've seen a change in the frequency profile, but we took our time to recognize that in long-tail lines of business. We still see some of these frequency benefits in the current accident year. We're taking a similar cautious position. And so I think we -- especially in long tail lines, we tend to take our time before fully recognizing favorable trends. And I think you're seeing that COVID is a fraction of that, but there are still favorable trends being observed.

Then if you look at the U.K., when we entered the U.K. in June 2021, we looked at personal lines, we looked at commercial lines, felt we needed to take a cautious stance on the commercial lines portfolio as we improve performance. And I think that is paying off at the moment. In aggregate, when we look at where we are, and that includes the U.S., we do feel that we'll be operating at the top end of this range in the coming environment, all else being equal.

Operator

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

Doug Young

Desjardins Securities Inc., Research Division

Just maybe, Louis, you mentioned a little bit about DLG and the contribution being on plan. Can you talk -- maybe give a little bit more color around the contribution from that acquisition this quarter? Like what was the contribution to operating EPS, to top line underwriting profit, to PYD? I don't know what you can share. But just trying to get a sense of how it came through this quarter and what impact.

Charles Joseph Gaston Brindamour

CEO & Director

Thanks, Doug. Why don't we ask Ken, maybe to give his perspective. He's closest to this one.

Kenneth Anderson

Executive VP & CFO of UK and International

Yes. And thanks, Doug. Firstly, I guess, in relation to Q4. So as you know, we began recording that business on our books from October 1 in the form of a quota share. We're obviously assuming no claims liability from the past on this business and only exposure on the premiums earned from October 1. And in the fourth quarter, we did have some weather losses like the regular portfolio above expectations, as I said, in line with the rest of the commercial business in the U.K.

We're taking a pretty cautious stance though, as we build reserves on the earned premiums, consistent with the usual reserving practices that we follow. I would say, excluding that excess weather performance is in line with expectations at this early stage, and premiums were about GBP 150 million. As we say in the MD&A, the overall UK&I business is running at a low 90s level from an underwriting -- underlying performance point of view.

In terms of the DLG business, specifically, there's a clear action plan to improve performance in some specific segments that we acquired, and the team are already taking action in line with that plan. So synergies are GBP 20 million, that will emerge as the business migrates and integrates onto our own platforms. If you look out to 2024, I guess from a top line perspective, we acquired about GBP 530 million of premium in 2022. There has been growth in the portfolio in 2023. But of course, we will be taking remediation action on some segments as we take control of the business. So overall, I would say, north of that GBP 530 million is a good indicator for 2024. And from a bottom line perspective, we talked about running the UK&I business at a 92% combined ratio, including the DLG business in 2024, and that's improving further as we realize those synergies.

Charles Joseph Gaston Brindamour

CEO & Director

Louis, any color, anything else you want to add?

Louis Marcotte

Executive VP & CFO

Well, I think Ken covered it really the -- I think it's in line with expectations. The first quarter is a bit noisy, I would say. Just because we're integrating, we're picking up another premium book. So we're taking action on all of it, but I'm not sure I can add a lot to what Ken has stated.

Charles Joseph Gaston Brindamour

CEO & Director

No. I would say, first observation I would make on DLG acquisition from a financial point of view, there's more business coming our way than what we had anticipated at the start. There's been -- market is hard. They've grown into that hard market. Second point I would make is that, as Ken said, we're not taking past liabilities. So it is a buildup of current accident here. We're making sure that business is reserved at the sort of standards that we reserve at and that drives the track record we've been talking about. There are pockets of the portfolio we knew needed work. I'm quite impressed with how robust the actions are, and I think we're -- price point very good as well.

Doug Young

Desjardins Securities Inc., Research Division

And then just second question and I don't know maybe how to -- you're going to answer this, but I'll just throw it out there. I mean, I guess we're hearing more chatter, news articles around home and auto coverage affordability, inflation. And I'm just trying to gauge in your thoughts more specifically, I guess, around political risk with this narrative. And obviously, personal auto is heavily regulated, personal property isn't. But is there a risk year? Just love any color you have on that, Charles.

Charles Joseph Gaston Brindamour

CEO & Director

Yes. There's always risks, Doug, and you've been around this file for a long time as I have. The flash point at the moment is Alberta. There hasn't been much change in the past few months. I don't think there's an issue in Alberta. At least that's not what consumers are saying. It's purely political. And because of that, I don't see a risk of spillage the way we've seen in 2001, 2002, 2003, where there was a lot of pressure in the system across the board. And what really triggered political involvement back then was that there was an availability issue.

First, people had a hard time insuring themselves, and then indeed an affordability issue. And when you have a combination of both these things, then that becomes an issue for citizens, and for well-intended politicians, this has been an issue. I don't think it is the case right now in the market. And I think people understand there's a lot of focus on test. Not the insurance companies, right? It's the [teets] that are the problem. And I like the fact that governments are focused on the root cause of the issue. And so I do think it's a risk, Doug, but I wouldn't put it in the red box at this stage. We stay focused on it and then we try to work with the Alberta government to be focused on what's good for Albertans.

Operator

Next question will be from Lemar Persaud at Cormark Securities.

Lemar Persaud

Cormark Securities Inc., Research Division

My question is maybe for Louis. I want to come back to these deferred tax -- this deferred tax asset and the potential utilization there. You did mention that it could cause the swing in the operating tax rate from the 23% to 24% that you kind of suggested. How should we think about that for 2024 and 2025? Is there any restriction on the use of these losses? Like how material of an impact could it have on the operating tax rate? Any thoughts would be helpful.

Louis Marcotte

Executive VP & CFO

Sure. So these tax recoveries are booked as we update our projection -- financial projections in the U.K. And we're sort of allowed to recognize some recoveries based on those outlook. So the company has accumulated a lot of tax losses in the past. And not surprisingly, as we're improving the performance of our business, we're getting -- we're making projections that are obviously more profitable, and therefore, we can recognize more. My expectation here from, if I would say, modeling point of view, the updates will probably come in lumps, meaning annually at least, we'll see an update to our projections and adjust the DTA accordingly. Given the trajectory we're setting for ourselves, I assume that's going to be a tailwind to the tax rate in the future, but it's not going to happen on a quarterly basis. The projections tend to change a bit more significantly annually.

So my expectation is you'll see it come in probably once or twice a year at most, and it's likely to be a bit of an improvement to the tax rate. I -- my sense is '23, '24 is a base rate, and then we'll probably save hopefully a point or 2 in the future from additional tax recoveries. Can't guarantee it, but that's my expectation, and that's the trajectory we're setting for ourselves in terms of the U.K. business.

Charles Joseph Gaston Brindamour

CEO & Director

It's good upside. And every time we improve the profitability profile of the U.K. business, we can tap into this large pool of historical operating losses. And obviously, we're focused on improving the profitability

business or profile in the U.K., and it's a very nice add-on that this brings. Ken, I don't know if there's anything else you want to add?

Kenneth Anderson

Executive VP & CFO of UK and International

No, that covers it.

Charles Joseph Gaston Brindamour

CEO & Director

You agree. We're focused on the profitability in the U.K.

Kenneth Anderson

Executive VP & CFO of UK and International

We are.

Charles Joseph Gaston Brindamour

CEO & Director

Does that answer your question?

Lemar Persaud

Cormark Securities Inc., Research Division

It does. Then I want to turn to these restructuring costs. I saw that you guys are suggesting that there could be more over the next 3 years. I wonder if you could size that up? Should we think about it as being in the range of the, I guess, \$250 million range that we saw in 2023? And then could you add some color on this? Like specifically, what types of costs are embedded in this restructuring? And like is it people? Is it footprint? Any color there would be helpful. And then are there any offsets to this? Because I know you guys mentioned an offset in 2024, what about 2025, 2026?

Louis Marcotte

Executive VP & CFO

All right. Very good question. Let me start, and then I'll share the answer with Ken here, and I'll focus on the overall group, but you're basically having 3 types of costs in there, the restructuring costs, which are -- tend to be costs when we change the nature of the business through significant actions like we're doing right now with the PL exit. That's really the fundamental driver right now in terms of restructuring.

We have integration costs, which are directly related to the acquisitions, which -- when we talk about -- when we announce our acquisitions, we do expect acquisition and integration costs to be incurred, and those are ongoing. And close to the acquisition date, you'd expect more of these costs to be incurred over the couple of years afterwards. And I'm pointing out here the RSA transaction, which we closed in 2021, we're still seeing a fair bit of integration costs going through the nonoperating items because we are incurring those costs. We have mapped them out over time, but you're still seeing some of those costs being incurred at this point in time.

So the big buckets are restructuring, for example, the PL exit, integration, the RSA acquisition, the DLG acquisition and then acquisition cost, which would be fairly close to the acquisition date, items like legal fees, consulting fees that are strictly related with the acquisition. So those are the components of what's been going through nonoperating items. Right now, you're seeing a lot of activity, obviously, because we're still doing the RSA acquisition or integration. We are adding the PL exit in the U.K., and we are buying the DLG assets concurrently. So that creates a lot of activity in the nonoperating items. I'll pass it on to Ken. Maybe he can share a bit of his view now on what's going on from the U.K. point of view because that's where we're incurring most of the activity right now.

Kenneth Anderson

Executive VP & CFO of UK and International

Yes. Thanks, Louis. So firstly, in relation to restructuring, which is around the PL exit, in 2024, we're expecting approximately \$120 million of restructuring costs relating to that PL exit, which we expect to be more than offset by the proceeds from the sale of the business. More than half of those costs are noncash and relate to software intangible write-offs and accelerated depreciation on technology. The remainder would cover data extraction, migration of policies and systems to new providers and some potential redundancy costs. Obviously, the amount of these costs is a bit contingent on the nature and timing of the transfer of the partnership arrangements. But as I said, all are expected to be more than offset by the proceeds of the sale of the PL business in 2024.

We look out to 2025 and 2026, we'd expect them to be much lower. And again, based on the timing of the exit of the partnership business. If we look at the integration costs specifically relating to the DLG acquisition, there, we'd expect costs in the zone of about \$50 million in 2024. This covers technology and people costs to integrate and deliver that enhanced joined up commercial lines proposition for customers. There's then also costs to enable the realization of the synergies, which is that \$35 million of synergies that Louis mentioned earlier. Again, in 2025 and 2026, we'd expect those numbers to be much smaller. So those are the 2 main buckets from a U.K. point of view, the PL, restructuring and then the DLG integration.

Louis Marcotte

Executive VP & CFO

Correct. And the last item on 2024, that significant depletion of the RSA integration, and there's still probably a bit north of \$100 million left over there as we wrap up all the IT platforming with regards to the RSA acquisition. So a fair bit of activity still expected in 2024. It's going to be a fraction of what we had in '23, and that's going to come down massively as we get further away from the acquisitions and have them fully integrated.

Charles Joseph Gaston Brindamour

CEO & Director

Yes. Maybe a bit of context on the PL exit. If you think about the RSA transaction, we talked about the fact that the IRR and the RSA transaction is north of 20%, so is the accretion. When you look at the economics of the deal, this was sub book value, including Canada. Our entry point in the U.K. was very low. And when you take all this noise in the economic model, you can assume that we're exiting PL in the U.K. in and around book value, which is well above our entry point in the U.K. market. And so a bit of noise economically, strategically took another very good move.

Louis Marcotte

Executive VP & CFO

So one has to recognize restructuring costs are a fraction of the synergies when you annualize them. So it makes sense, but it does make -- it does bring some noise in the...

Unknown Executive

In the near exception. Yes...

Operator

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

Jaeme Gloyn

National Bank Financial, Inc., Research Division

Yes. I wanted to just go back to personal auto. And if I recall, it was your guidance to kind of look at the current accident year and the PYD together to sort of evaluate the performance of that business. Obviously, the elevated PYD in Q4 '22 makes that a bit challenging. I'm just -- I just wanted to get a little bit more color then in terms of what's driving current accident year? If I look sort of at where expectations were, it didn't quite meet those expectations. So is there -- is it a case of theft being a lot more elevated

perhaps than maybe previously thought? Or are other inflationary pressures that are lingering perhaps longer than perhaps you would have thought?

Charles Joseph Gaston Brindamour

CEO & Director

Well, thanks for your question. I would say, yes, I think you still need to look at the current accident year and the prior year as part of the same equation because we continue to exert some caution on the current accident year, in particular, with long-tail lines. It might be worth -- Patrick give his perspective on the inflation we're seeing. And then we'll ask Guillaume to connect the dots with pricing as well.

Patrick Barbeau

Executive VP & COO

Perfect. No, the severity increase in Q4 was in the mid-single-digit range, as we mentioned before. This is much in line with what we had observed in Q3. And I would say that the severity trend is in that mid-single-digit zone now for all coverages, whether we look at car repairs, the cost of total losses, including tax, and injuries. And maybe to be a bit more specific, if I look at car repairs, the availability of the car parts now is back to pre-pandemic levels, pretty much for all brands. But the labor rates in the body shop is still showing mid-single-digit range, given, I would say this environment is fairly tight in capacity. And that's where the expansion of our service center network is helping us on that front.

Then if you look at total losses, the market values have been stable for at least 2 quarters now and showing signs of decline. But that's where the frequency of test is contributing to maintaining the rate increase in the mid-single digit zone as well for total losses. And then finally, on injuries, we've started to see some severe increase in the past 2 quarters. That's not surprising, given we have not seen any increase in the coverages in the prior 2.5 years. So overall, with more stable inflation, the earn rates fully covering the trends and staying in the high single-digit zone for the full year. We're very comfortable with both our guidance and the growth profile of this line of business.

Charles Joseph Gaston Brindamour

CEO & Director

Thanks, Patrick. Guillaume, any color in terms of written earn rate?

Guillaume Lamy

Yes. So earn rates have now reached written levels at the high single digit, which more than compensate the impact of stabilizing inflation that Patrick just described. I think in the quarter, frequency also remained mildly favorable year-over-year. And our written rates have strong momentum entering into '24. We got meaningful approvals in Ontario effective in Q1. And what we already have in the pipeline in other provinces, that will allow us to really keep an elevated level well into '24. So as the industry is taking rate increase to catch up on the inflationary pressure, we expect the premium growth we've seen this quarter to remain strong in the upcoming quarters.

Jaeme Gloyd

National Bank Financial, Inc., Research Division

Okay. Great. Second question on the expense ratio. Total companies, so total IFC expense ratio or expense growth slowing down through the back half of the year and the expense ratio coming in lower than what we've seen in prior quarters, including last year. So just wanted to get a little more detail on the drivers of that result and the sustainability of expense ratios into '24.

Louis Marcotte

Executive VP & CFO

Yes. I would say the second half came in a bit better. Some of it was timing. And when I say timing, it's -- for example, we would accrue variable comp based on the results in Q4 last year, and that accrual could be different than what we are doing in Q4 this year, just based on what we've seen during the year

and the actual profitability of the business. So that creates a bit of tension or differences between the 2 quarters when you compare them.

When I look on a yearly basis, I think we're sticking to our 33%, 34% range for the overall group. I would suggest that below that, some elements that have come through this year is increased investment in growth as we try to cover the growth initiatives and make sure the service levels are adequate, as well as investments in technology. And those are financed roughly by savings in other areas. So the level of expense stays stable, but there's a shift towards either growth or technology improvements within the expense ratio itself.

So that's the overall picture. What you've seen as well as some of the variable commissions have come down slightly, which has improved the expense ratio. But that's abated now. I would say, I think we've gone full circle on that one following the COVID situation. So those are probably the big movements, I would call out, Jaeme. I'm not sure if that's what you're looking for, but those would be...

Jaeme Gloyn

National Bank Financial, Inc., Research Division

Yes. Yes. And if I just follow-up on that, just thinking about like growth rate of dollar value of expenses as opposed to on the ratio. Is the view that this will somewhat or closely align the earned premium growth rate? Or do you see an acceleration just given some of the variable comp impacts that might have flowed through in '23 beyond the growth in the top line, let's say?

Louis Marcotte

Executive VP & CFO

Yes. No, I would not certainly not expect to exceed the top line growth. What we're trying to contain, obviously, our expenses and keep them as close as possible to inflation. What we're doing though is if there are some pockets of opportunities to keep the expense level at the same level as a percentage, but invest more in technology, we'll take those opportunities. That's where we'll lever a bit the situation or the opportunity top line growth affords us to improve our technology footprint.

Charles Joseph Gaston Brindamour

CEO & Director

Yes. I think it's an important point. That's why I think Louis' guidance is very good. We're investing in digital in AI. And what's holding us back is not the financial, it's the capacity to do more at this stage. Now keep in mind also that a big chunk of the expense base at Intact is variable, a big portion of the expense base. And so I would stick to the Louis' guidance.

Operator

Next question will be from Paul Holden at CIBC.

Paul David Holden

CIBC Capital Markets, Research Division

First question is related to personal auto. So hearing the answers regarding their rate expectation, where claims inflation sits. PYD still expected to be sort of near the upper end of the range, near-term expense ratio sort of flattish, all of that. And then I think your actual result for 2023, just under 95%. Like why shouldn't '24 be significantly better when I pull that together? Like am I -- I feel like I'm missing something here. Is that just reinvestments you're making in the business to grow it, marketing spend? Maybe PYD situation does matter more for auto. Just help me maybe bridge the gap there.

Charles Joseph Gaston Brindamour

CEO & Director

Well, I think, Paul, it's a good observation if there was no uncertainty around the outcomes associated with the number of claims, the cost of claims and things of that nature. I mean, keep in mind, this is a line of business that has a bit of a longer duration, and there's a greater range of outcome. We're therefore

prudent in our guidance. We'd love to beat 95%. There's no doubt about it. But at 95%, we're happy to grow.

We're not going to do it by reducing rates. We will do it by investing in marketing, investing in the digital experience. There's a lot of demand for our value prop. But I think this is a line of business that one needs to approach with a reasonable degree of caution, and that is what's reflected in our guidance. But would love to beat 95%, no doubt about it. We're in a zone where a lot of value can be created, big source of earnings growth potential, and we're trying to balance things at this stage.

Paul David Holden

CIBC Capital Markets, Research Division

Got it. Okay. Second question is regarding the book value growth, obviously, a better quarter. But still, if you look at year-over-year, not a lot of growth, if you look, I think, over the last couple of years, not a lot of growth. What I'm curious about, does this in any way limit your capacity to grow premiums or in terms of investment allocation, like, i.e., is this the impact on sort of regulatory capital requirements meaningful at all in terms of restricting your ability to grow and optimize earnings?

Louis Marcotte

Executive VP & CFO

Thanks for the question, Paul. That's an excellent question. I would look at capital margin and regulatory capital ratios and capital generation as the indicator of whether we can grow and fund our own growth going forward. If you look at capital generation, it's roughly in line with operating earnings. So that's a significant amount. We are happy to share some of that through the dividend payout, as you know. But there's meaningful capital being generated, and that can easily absorb the internal growth, the organic growth that we're looking for.

Some of the M&A I was talking about earlier in terms of distribution. And eventually putting a bit more risk on the investment portfolio. We're currently underweight in equities. And at some point, we'll go back to our target level of equities, and that will consume a bit of capital. But we don't feel constrained whatsoever in terms of having enough capital to fund our growth going forward.

I would say on the book value per share side, 2 elements here. First, of course, it was a rough year with the buy in this year, the fixed income interest rate yield impact. So that was tough on the book value itself. And it's starting to turn around, we're seeing it. Earnings are up, and the rates are down a bit, and that helped in the quarter. So I think that will fix itself going forward. And then with the mid-teens, are we, I think it will put us on the right trajectory going forward.

I will point out now what I think is interesting and maybe understated this, after an acquisition -- and we do have restructuring costs or integration costs, those flow through earnings and therefore, hamper a bit of the growth in the early years of an acquisition. We probably don't -- it's probably not obvious immediately, but that's part of the -- we get book value accretion immediately upon doing a transaction, and then we have 2 or 3 years of integration where we're absorbing extra costs. But it will eventually turn into synergies, but there's that transition period where I think book value per share growth is a bit slower because of the integration impact. But once those are done, the full earnings power of the business, what you'll see is the gap between operating ROE and the ROE shrink, and we'll get the full impact on book value per share growth.

Charles Joseph Gaston Brindamour

CEO & Director

Yes. I think that's very well put, Louis. I mean if you step back, Paul, you'll see that the book value per share, go back 5 years was in the 50s, and it's now in the 80s. Why? Because we've done a number of things that were very accretive from a book value point of view.

Last year, we did something that was dilutive, which was the pension buy-in by about 5%. The team and I had a debate. But the reality is that strategically, economically and from a risk point of view, this made complete sense, and we decided to do it anyway. And you know what, I would do it again, given

the same set of factors without much hesitation. And specifically on the pension buy-in, this de-risked the organization. This also translated into capital relief -- regulatory capital relief as well. And so I'd say bottom line here, no constraint. I think the earnings power is well enough to generate plenty of capital to support the organic growth potential.

Operator

Next question will be from Stephen Boland at Raymond James.

Stephen Boland

Raymond James Ltd., Research Division

I'll just ask one in the interest of time, and this is really about the U.K., with all the changes that have happened, the personal lines going. You've added DLG. And this, again, is in the context of CAT losses. So I understand big storms like Ciaran, but that -- they go through all of the islands, there's damage everywhere. But the U.K. itself is -- what happens -- Sunderland doesn't really happen -- may not happen in London. So I'm just trying to get an idea of overall, what's your expectation of CAT losses? Is it only a major European storm that poses risk? Or is there more -- I hate to say provincial, but is there more county-type risk going forward for this company? Or where is the exposure on the islands now?

Kenneth Anderson

Executive VP & CFO of UK and International

Stephen, yes, just a few comments. I guess the go-forward commercial business -- the domestic commercial business is spread across the country. So I wouldn't say it's isolated or concentrated in any particular region. The various storms that we've had have come to different parts of the country. Some have been further north, some have been south of London and therefore, have had impact in different parts of the country. I think then we have the European business, which obviously will have exposure to Mainland Europe. Similarly, the London market will have exposure on an international -- from an international perspective. So I would say no specific concentration to call out on the portfolio in aggregate.

Stephen Boland

Raymond James Ltd., Research Division

Would you say -- obviously, with the personal lines going that the CAT losses can be mitigated a little bit easier? Is that a fair statement?

Kenneth Anderson

Executive VP & CFO of UK and International

Yes. Yes. I think certainly, the CAT expectation on the personal lines business is lower than the incremental CAT from the acquisition of the DLG business.

Charles Joseph Gaston Brindamour

CEO & Director

Yes, I think it's a fair statement. The other important point to me here beyond the exposures, the flexibility you have around the product, which -- CAT -- solving for natural disaster and the increase in natural disaster is not just a pricing issue. And I think we've demonstrated ourselves by changing our product, the data we collect, the claims service, the supply chain that you can create a very strong track record, even in property-intensive businesses. I think commercial lines in the U.K. has more flexibility when it comes to that as well. And I really like our strategic positioning in the U.K., both from an offense and defense point of view, and that includes CATs.

Stephen Boland

Raymond James Ltd., Research Division

Okay. I'll ask a second question. And certainly, there's been a lot of talk about personal auto. Basically, beginning to see a lot of articles now on EV, what the insurers are doing. There's an article out today, a Canadian underwriter, I think today or yesterday, just about the cost of batteries. Is this something that

we don't need to worry about for the next 5 years? Like you've got limited claims coming in from EVs at this point, I presume, because there's not much penetration. But with the government pushing over the next 10 years to get that penetration of EVs up, like is this a longer-term strategy you have to deal with? Or is it just a case-by-case scenario right now?

Charles Joseph Gaston Brindamour

CEO & Director

We'll ask Guillaume to give a quick perspective. Patrick can chime in from a supply chain and repair point of view. I think it's an important trend in terms of transformation of transportation over the next 10 to 15 years. So Guillaume?

Guillaume Lamy

Yes. So our in-force penetration of EV is still extremely low and the low single-digit for our portfolio. We don't see massively different profitability trend between EV or internal combustion vehicle, and they do exhibit higher MSRP. So that drives a higher price when we rate them. So we kind of capture that through our trend and through our growth. But overall, like as we get more volume in our portfolio, we're refining our pricing, but it's still very part -- a very small part of the portfolio.

Patrick Barbeau

Executive VP & COO

So that said, I mean we price each new model as they come in. Specifically, we have visibility through our supply chain at the cost of these parts and the process to repair them, given we're quite involved. So usually our pricing is adequate for the new models coming in. And we're close to our supply chain with the service centers and so forth. So we understand well the process and how it can -- it will evolve with -- as these models become even more popular in the market.

Charles Joseph Gaston Brindamour

CEO & Director

Yes. Thanks, Stephen. The bottom line is we have about \$1 trillion price point in a province when we price an automobile insurance product. And so we're used to price at a far more segmented level than the profile of a broad group of vehicles. And as Guillaume is saying, I think we're on top of that. And technology has been a pressure point from a severity point of view, and we priced for that for a number of years. And I think with this change, which we're staying very close to, we'll keep doing the same thing, but it doesn't change our perspective on how this line can perform over time.

Operator

Ladies and gentlemen, this is all the time we have today. I would like to turn the call back over to Shubha Khan.

Shubha Rahman Khan

Vice President of Investor Relations

Thanks, everyone, for joining us today. Following the call, a telephone replay will be available for 1 week, and the webcast will be archived on our website for 1 year. A transcript will also be available on our website in the Financial Reports and Filings section. Our 2024 1st quarter results are scheduled to be released after market close on Tuesday, May 7, 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. Ladies and gentlemen, this does indeed conclude your conference call. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.

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