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Earnings Call

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Call Participants

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Geoff Kwan

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Intact Financial Corporation Q3 2024 Results Conference Call. [Operator Instructions].

Also note that this call is being recorded on November 6, 2024. And now I would like to turn the conference over to Geoff Kwan, Senior Vice President and Chief Investor Relations Officer. Please go ahead.

Geoff Kwan

Thank you, Eric. Hello, everyone, and thank you for joining the call to discuss our third 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 forms 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 and Chief Underwriting Officer for Global Specialty Lines; Guillaume Lamy, Senior Vice President, Personal Lines; and Ken Anderson, Executive Vice President and CFO of UK&I. We will begin with prepared remarks followed by Q&A.

And with that, I will turn the call over to Charles.

Charles Joseph Gaston Brindamour
CEO & Director

Good morning, everyone. Thank you for joining us today. This summer, many of our customers were impacted by numerous severe weather events, especially here in Canada. Our teams were on the ground within the first hours of these events and continue to play a crucial role in getting customers back on track. In fact, hundreds of employees answered calls 24/7 and 3 out of 4 clients were able to open a claim within a few seconds. We quickly created 5 drive-thru hail centers to expedite the claims process, which allowed us to appraise nearly 11,000 vehicles to date.

We deployed all of our resources across Canada, including on-site and wildfire defense systems to help customers in affected areas and participate in rebuilding efforts. As a result, we already closed almost 60% of approximately 50,000 claims related to the 4 most severe events. Our expertise is in helping people navigate difficult situations and this is when our teams are at their best. These moments underscore the importance of why we exist, helping people, businesses and society prosper in good times and be resilient in bad times.

As for our third quarter results, our resilience was in full display. Yesterday evening, we announced net operating income per share $1.01 and an operating ROE of 15.8%. Our book value per share stood at $91, up 3% quarter-over-quarter. And finally, our capital position remains strong with a total capital margin of $2.6 billion.

Our growth momentum continued with premiums increasing 6% year-over-year once you remove the noise from the U.K. exits and acquisitions. Our combined ratio of 104% included 22 points of CAT losses, 17 points higher than expected. Excluding excess CATs, our combined ratio was 87%, a 3-point improvement over last year. Given our profitability position, we're keen to grow in all of our segments.

Let's now look at each of our lines of business, starting with Canada. In personal auto, premiums were up 12% year-over-year, driven by rates and customer growth. The combined ratio stood at 97.6% with more than 4 points of excess CAT losses mainly due to the Calgary hailstorm. Adjusting for this, our combined ratio is well in line with our sub-95 guidance. From an industry perspective, profitability remains challenged. As a result, hard market conditions are expected to persist over the next 12 months.

Moving now to personal property. Premiums were up 8%, reflecting rates and customer growth. The combined ratio of 147.5% included 72 points of CAT losses in the quarter. The underlying current year loss ratio was strong with an improvement of 6 points year-over-year. We expect the impact of the catastrophes over the last few years will sustain hard market conditions for at least the next 12 months.

We're continuously evolving our value proposition to make sure it helps our customers face the impact of climate change and deliver sustainable long-term performance. Our product is constructed around perils and price based on a model that assumes the planet warms by 3 to 5 degrees Celsius by the end of the century. Leveraging advanced AI models to optimize risk selection.

On the supply chain front, we tripled the on-site business in the last 4 years, giving it a national footprint with over 40 branches. On risk control, we're investing in prevention and are actively working with governments and regulators on climate resiliency. Our personal property business has shown long-term resiliency with a 5- and 10-year average combined ratio of 90%, including in this quarter. We aim to deliver a sub-95 combined ratio even with severe weather and we expect to end the year close to this goal.

In Commercial Lines, top line growth was 2% in the quarter. We focus on the SME and mid-market segment, which continues to perform well with rates in the mid single-digit range. And this was tempered by continued competition within large accounts.

Looking forward, we expect mid-single-digit premium growth for the industry over the next for 12 months. The combined ratio of 94.4% included 19 points of excess CAT losses with a partial upset from strong favorable PYD. The underlying current year loss ratio was strong with an improvement of almost 5 points year-over-year. We remain well positioned to deliver a low 90s or better combined ratio in this segment.

Moving now to our UK&I business. Premium growth was 28% in the quarter, mainly due to the Direct Line transaction. Organic growth was muted, reflecting pressure in large accounts offset by rates still being in the mid-single digits on average. The combined ratio was solid in the U.K. at 91.9% and in line with our target of low 90s performance in 2024.

Overall, I'm very pleased with the speed of our progress in the U.K. We are focused on continuing to improve service and broadening our broker relationships while investing in technology and integrating the DLG acquisition.

In the U.S., premium growth was 4%, with our most profitable lines growing in the upper single digits. Overall, we expect industry premium growth to be mid-to-high single digits over the next 12 months. The combined ratio was strong at 87.4% in the quarter, making it the fifth quarter in a row that our performance was below 90% and we continue to demonstrate outperformance. We remain well positioned to continue to run this business in the low 90s or better.

Turning to our strategic initiatives. Let me highlight some important milestones delivered over the past few months that aligns very well with our strategic road map. With respect to increasing digital engagement, we have real positive momentum from our ongoing investments on the digital as well as the branding front. Intact is the most well-known ensure in Canada, position now held for over 4 consecutive years. And by capitalizing on increased shopping traffic, our web influence quotes were up 83% year-over-year. This led to strong premium growth, particularly in our direct distribution business that are direct.

In addition, of the almost 50,000 claims from the 4 most severe weather events, over 40% were reported digitally. Taking action to remain a leader in pricing and segmentation is a core element of our strategic road map. We're accelerating the deployment of AI models in all of our segments.

For example, in Canadian commercial lines, nearly 2/3 of our products now leverage machine learning or pricing. Claims and Supply chain is another key pillar in driving sustainable outperformance. On site, which has an average cycle time of about 50 days less than the rest of our network, handled 2/3 of all the Intact claims from the Southern Ontario floods. And our Intact Service Centers, which have a 30% faster cycle time and 8-point higher Net Promoter Score handled an influx of claims from the Calgary hailstorm.

And beyond helping our customers, we're investing in our communities to build resilience. We continue to work with cities across Canada, over 100 to date to support local prevention initiatives. Through the Intact Center on climate adaptation, we've reached close to 3.5 million Canadians with practical resilience advice. And we've engaged directly with mayors and fire chiefs in the 20 most at-risk municipalities when it comes to forest fires.

As we've said many times before, climate is a societal challenge, not just an insurance one. So without a doubt, Q3 was a challenging quarter for many but the incredible work done by our teams in helping to support our customers in their time of need further reinforces our value proposition.

Looking ahead, our global platform provides substantial organic growth opportunities and with a strong balance sheet. We're really well positioned to execute on our strategy and achieve our NOIPS growth objective and ROE outperformance objective in the coming decade.

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

Louis Marcotte
Executive VP & CFO

Thanks, Charles, and good morning, everyone. Our third quarter results showed the resiliency of our platform with $1.01 of net operating income per share and an operating ROE of 15.8%. We delivered very strong underlying results across all lines of business and geographies. We also benefited from our diversified sources of earnings with both investments and distribution income growing in the double digits and providing approximately $2.30 of net operating income per share. This means we were able to absorb $5 of catastrophe losses and still report a profit.

Let me take some time to go over these catastrophes. In the third quarter, we had $1.2 billion of net CAT losses or $1.7 billion on a gross basis. This was mainly due to the unusually severe weather events impacting 3 of the 4 most densely populated areas in Canada. Year-to-date, we incurred $1.4 billion of net CAT losses which is above our annual guidance of $900 million.

As usual, we will release our CAT loss guidance for 2025 along with our Q4 results, which will take into account our science-based climate modeling, change in exposures, inflation and obviously, recent experience. We will also consider tools at our disposal to mitigate the impact of climate change. We are confident that it will not hamper our ability to continue to grow our operating earnings in line with our track record.

Let me talk about the strength of our underlying business. The underlying current accident year loss ratio of 55% improved 2 points from last year, particularly due to the strong performance across our Canadian lines of business as a result of our profitability actions. Strong favorable prior year development of 5.7% was driven by healthy development across all lines of business and included one point impact from prudent reserving from last year's CAT losses.

Canada Commercial was elevated at 14%, but it is important to note that the PYD in this line has historically been strong, typically ranging between 6% and 8%.

Going forward, we still expect favorable development between 2% and 4% on a consolidated basis, though at the higher end of this range in the near term. The overall expense ratio of 32.5% was comparable to last year, even with our growing investments in technology as well as marketing. The year-to-date ratio of 33.6% was in line with our full year expectation of 33% to 34%.

Operating net investment income increased by 13% to $394 million in the quarter as we captured higher reinvestment yields over the last 12 months. We remain on track to meet our guidance of more than $1.5 billion in 2024. While interest rate trajectory is unclear, we still expect to grow investment income over the next year although at a slower pace. This is due to our strong book yield and increasing our common equity exposure closer to our 10% target by year-end.

Distribution income increased by 14% to $132 million led by solid performance from BrokerLink. This was on the back of broker acquisitions, solid organic growth and margin improvements. While the on-site team was very active this summer, its contribution still represents a small proportion of our total distribution earnings. We remain on track to meet our guidance of at least 10% growth in distribution income in 2024.

Our operating effective tax rate was low at 4% as it was impacted by the sources and geography of earnings that are taxed at different rates. The underlying losses in our Canadian segment drove our tax rate lower in the quarter which would have been approximately 22% on a normalized basis.

Looking ahead, we continue to expect our operating effective tax rate to be around 22% to 23%. And in the context of this challenging operating environment, we delivered an operating ROE of 15.8%, in line with our 5-year historical average, which is impressive given the severe weather conditions.

Turning to our balance sheet. Our financial position remains strong. We have strong capital ratios across all jurisdictions, including a healthy MCT of 192% in Canada. Our total capital margin stood strong at $2.6 billion due to a combination of solid investment in distribution income as well as favorable market movements. We also ended the quarter with an adjusted debt to total capital ratio of 20.3%, in line with our target. We are in a good position to absorb volatility and capture opportunities as they may emerge.

Book value per share grew 3% in the quarter and was 17% higher than last year. The increase from Q2 reflected solid earnings as well as market-related gains in our bond portfolio. Our balance sheet strength and operational resilience are also being recognized by rating agencies. Last month, Moody's upgraded our financial strength rating by 1 notch to AA3.

Finally, I want to take the time to thank our teams for their dedication to delivering second to none service to our customers every day. With our robust platform, exceptional talent pool and a clear strategic road map, I am confident we can continue to achieve our long-term target of 10% net NOIPS growth and ROE performance versus industry of at least 500 basis points.

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

Geoff Kwan

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

Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Jaeme Gloyn with National Bank Financial. Please go ahead.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First question, I just wanted to start in personal auto and Ontario regulatory environment, I guess. It seems like there's some proposals to potentially remove accident benefits from private insurance. Maybe you can sort of just talk through potential impacts from that proposal and also any other commentary on the regulatory environment in Ontario specifically?

Charles Joseph Gaston Brindamour
CEO & Director

Very good. Maybe, Guillaume, you can share your perspective. You've been close to that.

Guillaume Lamy

Yes. So we've been doing [indiscernible] over the past couple of years, advocating for reforms that offer customers more choice and personalized product. In budget 2024, we saw movement on the auto reform file, particularly around optionality. So mandatory accident coverage will continue for the medical and rehabilitation cost coverage and other benefits like income replacement, caregiver or housekeeping will become optional, which will provide customers with more choice, especially [indiscernible] that gives quite a bit of time for the industry to react with we're advocating for that.

So quite happy with that date. Overall, we're supportive of the change in Ontario. And the budget announcement [indiscernible] in discussion on the details surrounding the implementation, mostly to ensure that the new product is simple to understand for customers and that the offer is somewhat across the industry. So as the distribution is easier that way.

Charles Joseph Gaston Brindamour
CEO & Director

Thank you, Guillaume. I think a good job on the part of the Ontario government as far as we're concerned, taking action an environment where the cost equation is pretty good is the best moment to work on product reform. And we need to keep an eye on BI, obviously, inflation, but accident benefit is in a very good space. So good work on their part.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

And second question, just flipping over to the U.K. and Ireland and a couple of the notes in the strategic road map there. Can you talk through maybe the time line for Guidewire to be fully implemented if it's not already? And then what you potentially expect from perhaps a claim savings perspective on that front? And maybe a little bit more detail about what one commercial program is for the DLG business?

Charles Joseph Gaston Brindamour
CEO & Director

Very good. Thank you for your 3 questions. I think they're all quite relevant. I'll ask Patrick to share his perspective on the technology front and the implications for claims. And then, Ken, maybe you can give a perspective on One Commercial. I'd say -- and you can see that in the results, Jaeme, the performance in the U.K. is really good and the speed of the transformation also but it's multilayered transformation from values, leadership, system, how we define success, the integration, the supply chain strategy, et cetera.

But I must admit we're further than where I thought we would be at this stage. So Patrick, why don't you share your perspective on technology?

Patrick Barbeau
Chief Operating Officer

Great. So there's a lot of investment on technology right now in the U.K. Implementing Guidewire for claims has been the first area of focus right after the acquisition. We're well on our way. In fact, we're deployed pretty much on most lines. There remains just a few areas for specialty lines, but we're well advanced in the deployment. What Guidewire brings from a claims perspective is the ability to have harmonized processes, better controls on indemnity. And -- but the big part from a strategy perspective is to internalize the work just like we've done in Canada. The outperformance -- the ROE outperformance, about 2/3 come from risk selection, pricing and claims expertise and supply chain, and we have our road map very clear for the coming year to build the same advantage in the U.K. and the system is an enabler for us to do that.

Charles Joseph Gaston Brindamour
CEO & Director

Ken, do you want to share a perspective? And just one point to make, and it talks maybe to the role that Ken is playing in the U.K. We're investing in technology in that perimeter massively way more than investments that were made there, historically north of GBP 100 billion. That's baked in the performance that you see, which is already in the low 90s. And you can think that the U.K. business from an ROE point of view is approaching the mid-teen range at this stage. So 3 years in, we think we're in a good shape, Ken?

Kenneth Anderson
Executive VP & CFO of RSA UK and International

Sure. So One Commercial, Jaeme. What we've done is we've taken in the Direct Line portfolio into our systems side by side with our existing or say Commercial Lines portfolio. And the One Commercial endeavor will essentially bring together now those two propositions and face off into the market with a single proposition in terms of product and price and phasing off into the brokers with a single distribution footprint. We think that, that's going to be very impactful. We're moving now to a #3 position in the Commercial Lines -- the Domestic Commercial Lines market in the U.K., real opportunity to leverage that enhanced distribution footprint to improve service as well as we move into 2025.

So the first endeavor was to take the business into our systems, which we've done, protect the business. We talked about having 100 million more premium from DLG than we originally anticipated. Now it's about bringing the offer together and leveraging the footprint and the distribution opportunity moving forward.

Operator

Next question comes from the line of Tom MacKinnon with BMO Capital Markets.

Tom MacKinnon
BMO Capital Markets Equity Research

First question is with respect to what you're seeing as we embark on reinsurance pricing. Do you -- what are you seeing there? Is this strictly going to be passed through? Does this sort of keep hard markets continuing to be firm? And how do you see their view on CATs for next year being priced in and then perhaps passed through to further rate hikes for consumers? Yes, with respect to that? And then I have a follow-up.

Charles Joseph Gaston Brindamour
CEO & Director

Perfect. So maybe, Louis, you can tackle the reinsurance question. And Guillaume, you can tackle the rate environment question. I think the reinsurers are doing quite well, if you want my opinion, but I'll ask Louis to share his perspective.

Louis Marcotte
Executive VP & CFO

Sure. Well, I think you're right, Charles, they've been profitable last year, and we think they're profitable this year. So market seems to be good for them. We have not used them too much over the last 5 years. If we look at the number of times we've hit our retention levels it's not very significant. This was the first time this year -- last quarter. So we think we're in a good position to talk with them.

And the environment, we think the environment remains firm but still capacity there to be competitive and we expect to generate a good outcome. Now keep in mind here, from our point of view, the ceded premiums on reinsurance are not a huge -- they're significant, but they're only mid-single digits of total premiums. So the impact of changing prices here is somewhat limited. I think that's important.

Our strategy historically has worked. So we don't plan to change the strategy. Proof is in the pudding. Our personal property results historically have been very good with the CAT program we put in place. And you'll remember it's meant to tackle hail risk, not quarterly volatility. So going into this season, no changes expected on the strategy. We expect good market conditions and not a huge change to the cost of the program.

Tom MacKinnon
BMO Capital Markets Equity Research

And maybe from the pricing perspective.

Charles Joseph Gaston Brindamour
CEO & Director

Done. Unless you have a follow-up on reinsurance. We'll go to the rate environment, which was your -- the other part of your question.

Tom MacKinnon
BMO Capital Markets Equity Research

Yes. Great. Continue, sorry.

Charles Joseph Gaston Brindamour
CEO & Director

No problem. Go ahead, Guillaume.

Guillaume Lamy

Yes. So from a pricing front, so Q3 CAT activity, as we said, included 4 major events impacting Canada, 3 out of the most populated cities in the country, 2 events reaching reinsurance. So really a very high return period event. For example, the center of those events is a few kilometers north or south, it's a vastly different story. So it happened, we're not discounting it. But that's why we say it's a high return period event.

So our track record is really strong in Personal Property, 90% over both the last 5 years, last 10 years. And we're taking the actions to maintain that. So from a pricing perspective, what that means rates are already in the double digit and we'll be scaling that up slightly, reflecting the recent CAT emergence. You also recall from last year, our analysis on climate based on worst case global warming scenario of 3 to 5 degrees that showed that weather losses, which make up only 40% of our losses will increase by 50% by 2040.

So what that means over a 15-year horizon, the impact on rates is manageable at slightly more than 1%. And that trend is already fully reflected in pricing. But really, rates are not our only tools in addressing the impact of climate change. So that's why we're also turning on non-rate levers to manage the volatility like risk selection, product prevention, supply chain and stakeholder education.

Charles Joseph Gaston Brindamour

CEO & Director

Thank you, Guillaume. Bottom line Tom, I think our perspective is there's capacity in reinsurance and it's a constructive marketplace and the primary rate environment is a hard one, in our mind with double-digit rate increases for the coming 12 months. Do you want to add anything?

Tom MacKinnon
BMO Capital Markets Equity Research

Commercial Lines favorable reserve development, they're probably bigger than what most were expecting. You talked about some favorable development in the long tail lines. Can maybe just elaborate a little bit more color? What are these lines? Is it surety? What are you seeing here? What years is the favorable development pertaining to? Any color there, that would be great.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. I think, Tom, that's right, a bit higher than what it's been historically. We want us to keep in mind that our track record in Commercial Lines, is in the upper single-digit range in terms of PYD. So high PYD higher than historical, but in line with pretty healthy favorable reserve development. Louis, I don't know if you want to provide additional color for them.

Louis Marcotte
Executive VP & CFO

Well, so at 14%, it's 5.7 points higher than last year. So clearly, a big spike. Two factors, the prior year development on CATs and the other one is, as you mentioned, the long-tail lines. So we don't get into the details of specifics in terms of years or lines. I think what we're trying to say here is we've been prudent on the balance sheet in our reserving. Some of this is coming back. It will fluctuate by line of business, by quarter. So we're not surprised here that you might see a spike like this one and particularly in Canadian Commercial, where it's been fairly healthy PYD historically. And then with last year's CATs, you would expect some kind of bump up.

And we've been expressing prudence in our balance sheet for a number of quarters. So this is coming back now. And to me, not a surprise. It is a quarterly change. And that's why you see our guidance not changing too much either. And you know we guide on a global basis for 2% to 4%. And what we're hinting to is higher in the near term, higher end of that range in the near term. But we don't get into the specifics of lines of business because it varies too much either by quarters or by line of business.

Charles Joseph Gaston Brindamour
CEO & Director

So Tom, I think in and around the top end of the range is how one probably should think about PYD prospectively. The balance sheet is very strong. And I think where we have applied caution, we're seeing that things might not turn out as we anticipated favorably. When it comes to the Commercial Lines PYD, the mix between auto, if you want color, commercial auto and commercial P&C is like 20% auto, 80% P&C. So it's very much P&C driven. We're very happy with our performance there and it clearly shows in what were very strong results. Sort of multiyear favorable development. So it's pretty much across the Board.

Operator

The next question comes from the line of Brian Meredith with UBS Financial.

Brian Robert Meredith
UBS Investment Bank, Research Division

Charles, just kind of adding on that a little bit. In the U.S., we continue to get a little bit more -- companies talking more and more about the tort inflation an impact we're seeing on reserves down here and just pressure on margins. Are you seeing that in your U.S. operations, in particular, in some more recent accident years and maybe your perspective on that?

Charles Joseph Gaston Brindamour
CEO & Director

When we've entered the U.S., Brian, we've exited lines where we felt pricing would be tough, lines with long tails and much variability around the tail. And that puts us, I think, in a very good position, and I'll let Darren provide perspective on duration and so on.

Second, we've been very focused on severity inflation in liability for many years, in part because frequencies have been moving. And so you've heard us talk about lots of moving pieces. We've, therefore, taken a very cautious stance. So we are seeing inflation. But we're not surprised by the level of inflation we're seeing, and that's, therefore, baked in either in our footprint or in the prices that we're charging. Darren, maybe you can provide a bit of color for Brian.

Darren Christopher Godfrey
Executive VP & Chief Underwriting Officer of Global Specialty Lines

Yes, sure. Thanks, Charles. Yes. So when you look at the composition of our U.S. portfolio, Brian, versus our peers, our casualty exposure is less than average. Obviously, we have a little bit heavier property book. But also when you think through our non-P&C exposure, surety, for example, we were obviously not exposed as much from a social inflation standpoint. When we look at the liability book itself and the duration of our reserves, today, we sit at around about 2.4 years. And that compares to the average in the industry of about 3.1%. So that is a material gap between the average duration of our reserves.

Now as Charles said, that's a function of not both the reserving action we've taken historically but also the exits of a number of lines where really social inflation pressures existed at the time of exit. So very much is the makeup of the book. I think from an exit line standpoint, as you've seen, they performed as expected in 2024 with no impact on our nonoperating results. Obviously, we've been very active from a claims management standpoint in our runoff portfolio, together with, obviously, as you know, the significant reserve charges that we've taken in a number of years post the exit in those particular lines.

As Charles said, in the ongoing lines, we continue to take strong rate actions. You think about our auto liability, you think about umbrella. We're very active in terms of pushing significant double-digit rate increases there. So we're well positioned from a rate standpoint. And obviously, broadly, we're taking a very prudent position, obviously, in the current accident year as well as the prior accident year. So again, as we said, balance sheet remains strong, both on the ongoing and on the exit lines, and we're comfortable with the position that we see today.

Charles Joseph Gaston Brindamour
CEO & Director

See, Brian, the problem with inflation and liability is that when you realize there's inflation, it touches many accident tiers, and that's why you're seeing these rebound and these reactions. And that's why I think part of the toolbox is great productivity on spotting inflation early on or just getting out of the places that you don't think you can spot inflation.

Brian Robert Meredith
UBS Investment Bank, Research Division

And my second question, Charles, it was noteworthy in your discussion of market conditions in the U.K. that's gone from a firm to a moderating, call it, pricing environment. I was hoping maybe you could elaborate a little bit on that. And then also, what potentially -- how is going to potentially impact kind of growth as we look into 2025 if we're seeing a more competitive marketplace and maybe also with the large commercial account pricing that you're talking about?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. Not that much change in fact, in the pricing environment in the U.K. I'll ask our local expert, Ken Anderson to share his perspective on the market and also come back.

Kenneth Anderson
Executive VP & CFO of RSA UK and International

So Brian, I think all in, we're achieving mid-single-digit rate on average. I think there's two elements. I would say in Main Street commercial lines, conditions remain favorable. We're seeing mid-single-digit rate increases in the mid-market commercial and the SME book, in fact, is achieving upper single-digit rate increases. Slightly different on the specialty line side. There, we're seeing a bit more moderation on the back of substantial rate increases over the past couple of years. That's similar to North America that Darren talked about and we've seen that increased competition on large accounts at renewal, and that trend continued in the third quarter.

Of course, we're remaining disciplined in that environment, prioritizing portfolio quality, and we continue to grow the new business as we're seeing more accounts being shopped around. So overall, we would expect that market to remain constructive, firm conditions in commercial, a bit of moderation in specialty, all in that mid-single-digit rate.

Charles Joseph Gaston Brindamour
CEO & Director

Yes, I think that's right. The thing that we've seen specifically in terms of change is large accounts, we've been flagging now for probably 9 months that there was more competition in large accounts. And in the last quarter, in the London market business, in particular, to large accounts, we've seen a deceleration from low single-digit sort of rates to basically very little rates. And that's why we've changed the word. But in aggregate, we're pretty much in the mid-single-digit zone. And I find these conditions to be very constructive, especially in the context of the NIG integration.

Operator

Your next question comes from the line of Doug Young with Desjardins. Please go ahead.

Doug Young
Desjardins Securities Inc., Research Division

Hopefully, this will be relatively quick. But it was mentioned again in the release about conservatism on DLG as you rolled that book. And I think that book now is on your systems. And so can you talk a bit like just what is conservatism, why is there conservatism? And now that it's on your system, does that change how results kind of flow through?

Charles Joseph Gaston Brindamour
CEO & Director

Doug, I think the first point is that the way we structured this deal is we didn't take the past. That's good news. There is no exposure from the past. So what you're seeing is current accident year performance. And as we've talked about before, you should always look at current accident year and PYD together to assess the underlying performance of our business across the board. Because there's no past here, we're building caution on the current accident year. That's all this is about. But the overall performance of DLG as a result a bit higher because of that prudent building in the current accident year. Otherwise, it's performing well and probably better than what we thought 6 to 9 months ago. Ken, I don't know if there's anything to add.

Kenneth Anderson
Executive VP & CFO of RSA UK and International

Not a whole lot to add. But of course, because we're not taking any exposure from the past as we build the conservatism in the current year, we don't have the PYD currently to release to offset it. Hence, that's why it's having a slight drag. As Charles said, very pleased with the business. And now the remediation is starting and that's what should evolve that UK&I performance from that current 92% or thereabouts combined ratio towards the 90% level in 18 to 24 months.

Charles Joseph Gaston Brindamour

CEO & Director

I'm quite bullish that portfolio's performance. When I look at how it's performing now, when I look at the fact that we assume we would receive GBP 530 million of business, and we were delivering GBP 630 million business. It gives us room to improve performance by mid-single-digit sort of improvement point at this stage and we're on track to get there.

Doug Young
Desjardins Securities Inc., Research Division

Impact future results as we should start to see PYD flow through next year?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. I mean unless things deteriorate, but that's not our expectation. This should follow a pattern that's not inconsistent with what you see across the platform.

Doug Young
Desjardins Securities Inc., Research Division

Okay. And then second, just hoping -- you gave some good color on just the competitive landscape in the U.K. But in Canada, is it -- again, it's talking about large case competition. And I know it's not as big as your SME and mid-market. But can you talk about what you're seeing from a competitive perspective in commercial Canada large case? And is it same, worse, better? Is it spreading into the SME and the mid-market? If you can give a little more color.

Charles Joseph Gaston Brindamour
CEO & Director

Darren, do you want to share your perspective on Canada?

Darren Christopher Godfrey
Executive VP & Chief Underwriting Officer of Global Specialty Lines

Yes, Doug, I mean, I don't think we really see a material difference versus the last couple of quarters from a large account standpoint. We see a little bit of shift in specialty lines. I mean, obviously, you've got some portfolios that have very high average premiums. So there's a bit of mix shifting happening there. So when you think about our growth trajectory, you think about rates and new business rates and retention rates, there is that offset of negative mix that continues in the quarter, not inconsistent with what we saw last quarter there.

So again, competition remains strong, but not, I would suggest a material change relative to last year. We're still getting rates in that mid-single-digit type range across the entire portfolio. Again, obviously, a pressure on the large account standpoint. The rates that we're achieving are not materially off where we were last quarter. So it continues to be a competitive market. But we do, obviously, given an outperformance, given the fact that we consider the market environment to be favorable, we continue to be keen to grow in that market.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. I think the large accounts in Canada are primarily indeed in specialty lines run by [Paul Lucarelli], the performance there is excellent. The combined ratio starts with an 8, and we're very comfortable growing in that environment, I would say. But Paul and team are prudent as we all are, and there's a fair bit of upside in the Canadian market despite our strong presence. Otherwise, the bulk of the portfolio is mid and SME or yes, a semi mid-market business, and that is mid-single digit at this stage.

Operator

The next question comes from the line of Stephen Boland with Raymond James.

Stephen Boland
Raymond James Ltd., Research Division

Just, Charles, I want to go back to your comments and Louis on reinsurance pricing that they've been very profitable even with the storms in Canada and the U.S. that basically, it should be a rational renewal season. So I'm just wondering what's the barrier in your mind to just say, Canada on commercial line and personal property and maybe some of the U.S. that basically a lack of irrational reinsurance pricing is not going to lead to further rate declines. If they're going to be firm to flat, what prevents, I guess, your expectation that the premium growth is going to -- or the rate increases are going to be in that mid- to single-digit range?

Charles Joseph Gaston Brindamour
CEO & Director

Well, so first of all, I don't want to mix Canada and the U.S. I think that there have been CATs in Canada, and we'll tackle the question in relationship with what happened this year in Canada, what it means from a reinsurance pricing point of view. I think there's -- U.S. is -- might be a slightly different story but we're far less dependent, not that we're dependent in Canada. But in the U.S., it's not a CAT-prone book. So nonissue for us.

In the Canadian context, I mean, we're not completely guessing what the environment will be next year because we're in active discussions with reinsurers in terms of how much we want to purchase next year. And we know that the market is constructive. There's capacity and reinsurers performance, frankly, in the Canadian context has been good. I think the issue is that there has been an increase in natural disasters. There has been inflation. A big portion of that is happening under the retention. The earthquake risk has not gone up in Canada. That's a big portion of why we buy reinsurance from. So -- and if anything, we manage our direct exposure from an earthquake point of view in a very rigorous fashion. I think the supply chain keeps overall beyond quake cost down and we must be an outstanding customer for reinsurer, and we're looking forward to the upcoming discussions. Louis, I don't know if you want to provide color?

Louis Marcotte
Executive VP & CFO

Well, if that answers Stephen's question, I'll stop here unless let him come back with a follow-up questions on it. I thought that was pretty clear.

Stephen Boland
Raymond James Ltd., Research Division

Yes. I think that's fine. And then the second question, I don't know if this is an off-call discussion but one of the things you always highlight is machine learning, AI, how that's being factored into your pricing. And certainly, you have the scale to do that. I'm just wondering like, is there a general -- whether it's in personal auto or personal property or commercial, especially in Canada, does that move the pricing -- like if you charged me 100, but you put in more variables in the machine learning, does that move my premiums up 10% or 5% or down 10%? I'm just trying to get an idea as this theme becomes even more priority, how much it does move your pricing segmentation?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. This is not about average price. It's about pricing accuracy, how many cells you have. I'll ask Patrick to give you his perspective on the output of using machine learning, which we're using widely here in here in Canada across both personal and commercial lines, and we're on a mad race to deploy these models in the U.S. and in the U.K. Patrick?

Patrick Barbeau
Chief Operating Officer

Yes. So there's two layers to machine learning when we apply in pricing, two main ones, if I keep it simple. So the first one is to improve significantly our analysis of the risk, which determines the premium. And when we move from more traditional models to machine learning, we get into trillion price points overall when we combine all of the variables. And then there is a layer on top of it that is pricing optimization, so making sure we factor in our appetite for where to grow and the dynamics of the market.

And that's where even if from a purest perspective, it might create a lot of dislocation because we implement a lot of new segmentation, then it's optimized based on the market conditions to win in the marketplace. So we started in PL. We're in the third generation of machine learning models being deployed in personal lines. We now have a lot done already in Canada for commercial lines and we're getting into specialty lines. But more importantly, it's a big lever for us to support our performance road map in commercial and outside of Canada and U.S. and U.K.

Charles Joseph Gaston Brindamour
CEO & Director

So bottom line, Stephen, is the fact that using machine learning doesn't move the average price for consumers, but it creates far more pricing options and dislocation if you're an existing customer. The good news is the fact that the P&C insurance industry is one of the most competitive marketplace where in every product, every province, you probably have 20 active competitors. And the good news about massive dislocation is that the odds of finding a better deal in the marketplace are going up. They're not going down. But you should try our offers first. That was a joke, Stephen.

Operator

Your next question comes from the line of Paul Holden with CIBC. Please go ahead.

Paul David Holden
CIBC Capital Markets, Research Division

Two questions for you, and hopefully, they're pretty quick. So first one is with respect to bodily injury and personal auto, I think there was a reference to it earlier. Maybe just an update there, if there's any change in trend versus last quarter?

Charles Joseph Gaston Brindamour
CEO & Director

Patrick what's your perspective?

Patrick Barbeau
Chief Operating Officer

No, Paul, no change. I mean we flagged that there is pressure in BI, mainly in Alberta. We reflected it in our -- both our pricing and reserving a few quarters back. But this quarter, there's still pressure in BI, but it's all reflected and it hasn't moved up this quarter compared to the last couple of quarters. Overall, inflation in auto is still mid-single digit, very stable. And it's high single digit for BI but very low in first-party injuries, which is accident benefits. So overall, long tail, our injuries together is still in the mid-single-digit range and no change from last, I would say, 3 quarters or so.

Paul David Holden
CIBC Capital Markets, Research Division

Got it. And then second question is going back to UK&I, obviously, a number of questions on the change in the rate environment there. But does that in any way alter your appetite for planned market share gains, particularly in the SME market?

Charles Joseph Gaston Brindamour
CEO & Director

Absolutely not. I think that the --in the SME and mid-market space is quite constructive. It's in the mid-single-digit zone. And if anything, that's the space we need to occupy to a greater extent. The good news is NIG expands our distribution relationships by hundreds of new brokers. And so the upside of distribution management and so on is big. And all of this is ROE inducive as far as we're concerned.

Operator

Now ladies and gentlemen, this is all the time we have today. I'd like to turn the call back over to Geoff Kwan.

Geoff Kwan

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 section. Of note, our 2024 Fourth quarter results are scheduled to be released after market close on Tuesday, February 11, 2025, with the earnings call starting at 11:00 a.m. the following day.

Thank you again, and this concludes our call.

Operator

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