S&P Capital IQ

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Intact Financial Corporation TSX:IFC

FQ2 2017 Earnings Call Transcripts

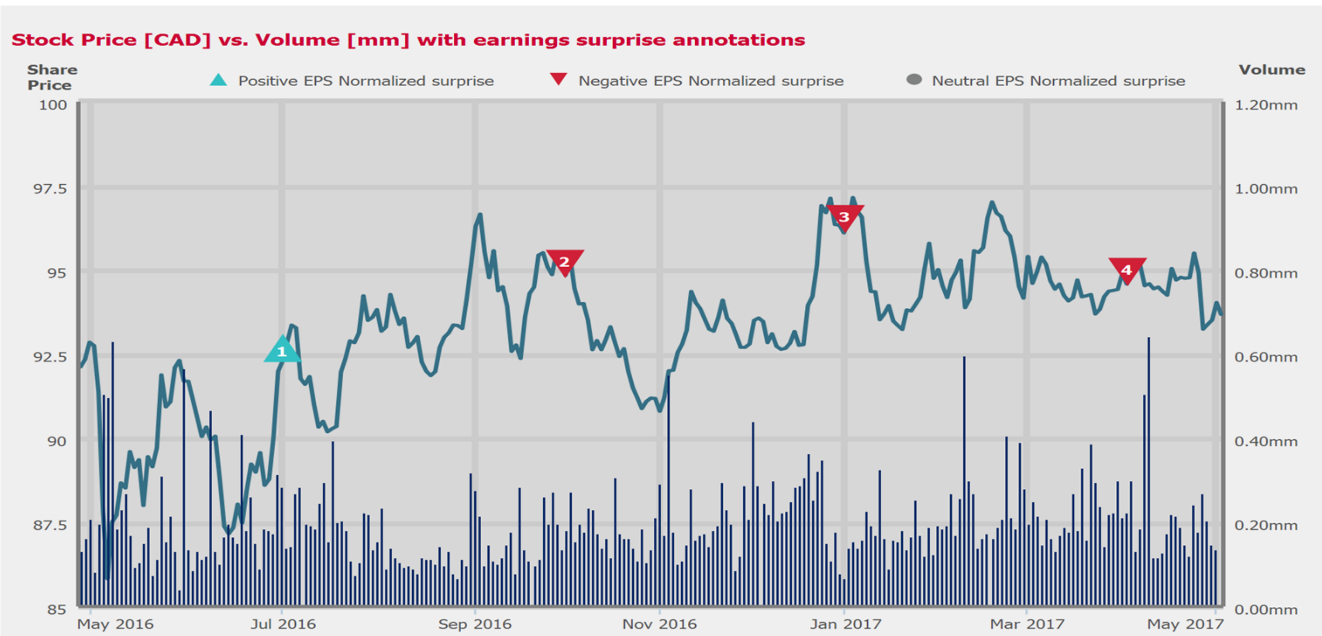
Wednesday, August 02, 2017 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.32	1.44	▲9.09	1.55	5.81	7.28
Revenue (mm)	2058.00	-	▼(0.34 %)	2133.50	8642.33	10204.08

Currency: CAD

Consensus as of Aug-02-2017 11:43 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	0.64	0.83	▲1 29.69 %
FQ3 2016	1.04	1.01	▼2 (2.88 %)
FQ4 2016	1.75	1.58	▼3 (9.71 %)
FQ1 2017	1.03	0.90	▼4 (12.62 %)

Call Participants

EXECUTIVES

Alain Lessard
Senior Vice President of Commercial Lines

Charles Brindamour
Chief Executive Officer and Director

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Kenneth Anderson
VP of Investor Relations & Treasurer

Louis Marcotte
Senior VP & CFO

Patrick Barbeau
Senior Vice President of Claims

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BMO Capital Markets Equity Research

Presentation

Operator

Good morning. My name is Cheryl, and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial second quarter earnings conference call. [Operator Instructions] Thank you.

Ken Anderson, Vice President of Investor Relations and Treasurer, you may begin your conference.

Kenneth Anderson
VP of Investor Relations & Treasurer

Thank you, Cheryl. Good morning everyone and thank you for joining the call today. A link to our live webcast and published information for this call is posted on our website at intactfc.com under the investors tab. As a reminder, the slide presentation contains a disclaimer on forward-looking statements, which also applies to our discussion on this conference call. Joining me here in Montréal today are Charles Brindamour, CEO; Louis Marcotte, CFO; Darren Godfrey, SVP of Personal Lines; Alain Lessard, SVP of Commercial Lines; and Patrick Barbeau, SVP of Claims. We will begin with prepared remarks followed by a Q&A.

With that, I would like to turn the call over to our CEO, Charles Brindamour.

Charles Brindamour
Chief Executive Officer and Director

Thanks, Ken. Good morning, everyone and thank you, for joining us this morning. Yesterday evening, we announced second quarter net operating income of $1.44 per share, driven by healthy underlying underwriting results and continued growth in distribution income. Results were impacted by $0.58 per share from cat losses, which while lower than last year, were higher than expected. Many of our customers, particularly in Québec and Ontario, faced the consequences of one of the heaviest spring rainfalls on record. But as usual, our troops worked hard to get our customers back on track. Our top line was up 2%, led by continued momentum in personal property. Growth in personal auto and commercial P&C was tempered as our disciplined profitability actions, including rate increases, flow through in a competitive marketplace.

Our specialty lines business continued to contribute to growth this quarter again. On the combined ratio, I'm not satisfied with 95%. But when I look at our underlying results, I see strong performance in personal property and commercial lines and continued momentum in personal auto, as our profitability actions in that line gain traction. Our operating ROE improved to 12.1% for the past 12 months, despite some 2 points from excess cat losses. We ended the quarter in a very strong financial position with over $1 billion of total excess capital. When we compare ourselves to the industry at the end of first quarter, we outperformed by 550 basis points on ROE, above our target of 500 points. But to be clear, while we exceed our ROE outperformance target, we don't view a 12% ROE as an acceptable performance level and we're in focus on expanding our advantage. So let's now look at our second quarter results by line of business.

Personal auto grew 1% in the quarter, as our rate actions implemented earlier this year are resulting as anticipated in some near-term top line pressure. The combined ratio rose slightly to 97.8%, due to deterioration in prior year development.

But when I look at our underlying performance, excluding pools it improved close to 2 points year-over-year. This is consistent with the actions we've taken to date and is further supported by expense ratio improvements. We still expect rate increases together with continued benefits from reforms and our claims action plan to bring mid-single digit combined ratio improvement in this segment in the latter part of this year. When it comes to the industry outlook for auto, we continue to anticipate a competitive environment with low to mid-single digit growth in the coming 12 months, as rate increases are implemented to address claims cost inflation. In personal property, premiums grew a healthy 6%, as recently introduced products and continued rate increases were deployed in favorable market conditions. The combined ratio of 99.5% included 16.9 points of catastrophes, mainly heavy precipitation in Québec and Ontario. That said, our underlying performance was very strong and positions this line very well going forward. In terms of the industry outlook for personal prop, we expect the elevated cat losses to support continued firm market conditions and mid-single digit growth over the next 12 months as the industry continues to adjust to changing weather patterns.

Turning to commercial P&C. While continuing competitive market conditions challenge our growth, this business is performing very well. Our pricing and segmentation actions are paying off and the combined ratio for this business line was excellent at 85.3%, while underlying performance continued to improve by 1.8 points. In commercial auto, premium grew 7% on the back of multiple initiatives in specialty lines. The combined ratio for the quarter was strong at 89.9%, as we continue to drive our profitability actions to deliver a sustainable low 90s combined ratio in this line. We expect low single-digit growth in the coming year for commercial lines as markets remain very competitive across the country.

Now turning to progress on our strategy. As you know, we announced the acquisition of OneBeacon on May 2. The approval process is in progress and on July 18, shareholders of OneBeacon approved the transaction. We've received U.S. antitrust approval and we're on track to close this fall. Transition planning with the folks at OneBeacon is well underway and we're looking forward to the prospect of joining forces and creating a leading North American specialty lines insurer.

There is increasing alignment and momentum on the areas that require strong profitability improvement. 2 months into transition planning, we have greater confidence in our synergy estimates, and our roadmap to a low 90s combined ratio is shared and clear. We also see significant opportunity to leverage the OneBeacon products in Canada and open up cross-border capabilities, which will allow us to deliver broker and customer experiences which are second to none. We'll also be much better positioned to compete with international insurers here in Canada. The financials of the acquisition, in our view, are also compelling, and we expect to generate mid-single-digit net operating income per share accretion within 24 months. We've already put in place a large portion of the financing, which Louis will review in a moment. So while OneBeacon provides attractive diversification of our business and a significant new growth pipeline, we very much remain focused on our domestic business. On the customer experience front, we launched our new Montréal Claim Service Center in April. Along with our centers in Calgary, Ottawa and Toronto, we now have 4 locations across Canada, which have to date served over 9,000 customers. Intact and their direct customers who choose to use the service centers benefit from an easier experience, higher-quality repairs and on average, a 25% lower repair time. Satisfaction is up materially. So in conclusion, I'm pleased with our healthy underlying performance, which demonstrated yet again the resilience of our operations under a challenged condition. Our commercial and personal property lines are performing well and our profitability initiatives in personal auto are gaining traction.

Our financial position is very strong. Momentum is good as we continue to execute on our strategic initiatives with a customer focus mind-set, while the OneBeacon acquisition will open up new growth pipelines for our business. With an ROE above 12% after absorbing elevated cat losses and sub-par personal auto performance, we have a strong base to improve from. I'm confident that the strategies we have in place position us well to deliver on our financial objectives: to outperform the industry ROE by at least 500 basis points, and grow our operating income per share by 10% per year over time.

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

Louis Marcotte
Senior VP & CFO

Thanks, Charles. Good morning, everyone. For the second quarter, net operating income of $193 million was $79 million better than last year, which included Fort McMurray wildfires. The improvement was driven by better underlying underwriting results, lower cat losses and a higher distribution earnings. Somewhat offsetting this is prior year development, which declined year-over-year. Overall, our earnings per share grew 172% to $1.82, driving the ROE to 12.3%. While Q2 cat losses were lower than last year, they remain elevated. However, we are maintaining our annual run rate guidance at $250 million, as it is based on long-term trends. We still expect half of the cats to occur in the third quarter.

On auto, prior year development is down 4.2 points in the second quarter. There are 2 main drivers for the change year-over-year. First, a 1.6 point deterioration from pools, which had high favorable development last year. The remainder relates to development on some large files which predate the June 2016 reforms. Despite the lower prior year development, we see personal auto's underlying profitability gaining traction with further improvements expected in the coming quarters. Our expense ratio improved 2.3 points to 29.4%, driven by lower variable expenses and our cost-saving initiatives. Our distribution business added $50 million of operating earnings in the quarter, 16% higher than last year on growth and profitability improvements as we continue to invest in our broker network. We still expect distribution earnings to grow north of 15% in 2017. Our Q2 nonoperating results improved $83 million in the quarter, reaching $57 million. Mark-to-market losses on our fixed income portfolio due to rising interest rates were more than offset by realized gains from our equity portfolio. Even though the OneBeacon acquisition is not closed yet, our hedging strategies had an impact on the quarter. Firstly, the strengthening of the Canadian dollar in Q2 led to a net unrealized loss of $121 million on the purchase price hedge. This hedge is mark-to-market through OCI until close, at which point it will form part of the purchase price for OneBeacon, and offset a lower Canadian dollar equivalent purchase price.

Secondly, we recorded gains of $41 million on our book value hedges, related to OneBeacon. Movements in the value of these hedges flow through nonoperating results until close. After close, these hedges will stay in place and offset some of the currency exposure on the book value of OneBeacon. The net impact of currency hedging transactions and acquisitions cost related to OneBeacon was approximately $0.71 on book value per share in the quarter. Based on the extensive transition work we've done so far with the OneBeacon team, we strengthen our belief in the economics of the deal. The combined ratio improvements are clearly in sight as we focus on 3 levers: managing the portfolio of businesses and the performance of each line of business; capitalizing on Intact's risk selection, analytics and claims expertise across the OneBeacon platform; and capturing synergies across our businesses including reinsurance, shared services and supply chain. We continue to aim at a combined ratio in the low 90s within 2 to 3 years.

A few words on our financial position and the financing of OneBeacon. Our balance sheet remains very strong, with MCT of 224% at quarter end and total excess capital over $1 billion. This excludes any proceeds from the financing of OneBeacon. We expect our MCT to remain above 200% after closing of the transaction. We have secured the majority of the financing for OneBeacon at favorable terms. We issued $425 million of 10-year notes bearing interest at 2.85% and $150 million of perpetual preferred shares that yield 5.2%. The proceeds from these issuances are reflected on our balance sheet. Our subscription receipt offering raised gross proceeds of $754 million. This transaction is not yet reflected on our balance sheet at quarter end, as the funds are held in escrow and the issuance is conditional upon close. At close, the subscription receipts will be converted into common shares and added to our book value. The balance of the $2.4 billion purchase price, including transaction costs, is expected to be financed with a combination of excess capital, bank debt and preferred shares. Our debt to total capital ratio was 22.8% at quarter end, slightly above our target level of 20%, due to funds raised in relation to OneBeacon. We expect to reach 25% at closing. Our ratings were affirmed by all agencies after the announcement. Current -- concurrent with the OneBeacon announcement, we suspended our NCIB in order to direct excess capital towards the transaction. Our priority post-closing will be to use excess capital to bring our leverage back below 20% within 2 years. We structured the financing of the OneBeacon transaction conservatively to maintain our balance sheet strength post-close. This is important as we believe that consolidation opportunities in both manufacturing and distribution will continue in Canada, and we want to be in a strong position to participate as these opportunities arise.

In conclusion, our personal auto profitability plan is gaining traction, commercial lines performance remains strong and personal property remains resilient despite elevated catastrophes. Our operating earnings are supported by consistent investment income and bolstered by increasing distribution earnings. We expect this will lead to higher ROEs. With the OneBeacon transaction, we're opening up a significant new growth and profitability pipeline while maintaining our financial flexibility to capture additional opportunities as they arise.

With that, I'll return the call back to Ken.

Kenneth Anderson
VP of Investor Relations & Treasurer
Thank you, Louis. [Operator Instructions] So Cheryl, we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So first question is on the mid-single-digit auto -- personal auto improvement in the second half of the year. Could you tell a little bit more detail in terms of what driver behind that mid-single-digit growth, in term of both the core loss ratio as well as the expense ratio?

Charles Brindamour
Chief Executive Officer and Director

Yes, we'll ask Darren to give you a perspective on what's in the pipeline from the loss ratio point of view and we -- you can throw in your comments on the expense side of thing, which by the way is not really part of the improvement plan but we're certainly pressing on expenses as well in that sort of environment. Darren?

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Thanks, Charles. In terms of the improved plan in the second half of the year, we've talked in past quarters about the momentum we have from a rate increase standpoint. So if you think back to last quarter, we had earned rate increases of close to 2%, 1.8% in particular. We saw earned rate increases in the second quarter of just over 3%. That will actually continue to grow into Q3 and Q4. The gap between written and earned was 3 points, in Q2. Our written increases will continue but peak in Q3, and that gap will start to shrink as the earned premium gains momentum. So we have a lot of -- a lot further additional earned rate increases flowing into the second half of the year. What are the actions we're taking from an underwriting standpoint, from a risk selection standpoint? Value will also continue to build as the year progresses and then obviously, the action from Patrick's team in claims as well, will continue to gain momentum. So we're very encouraged in terms of what we see in the second quarter with 2 points of improvement before pools. Not satisfied obviously, but that momentum is building and our actions are gaining traction for the latter half of 2017.

Charles Brindamour
Chief Executive Officer and Director

And if I can add, I think one of the things that's interesting in the quarter is you see that the frequency and the severity in the markets where the action plans are bolder have actually started to come down, which is in my mind a reflection of the nonrate action. And it has offset some of the bumps we've seen in other jurisdictions where there's no need really for action plans at this stage. So that's encouraging, and I think the written mix changed to a certain extent, which will get earned in the remaining part of the year hopefully will have a positive impact on frequency and [severity]. Louie, you have done a lot of work on the expense front with the region in the past 10 years, but in the past year in particular. Maybe you want to give a bit of color there?

Louis Marcotte
Senior VP & CFO

Sure, thanks, Charles. So on the expense front, what we have done is shaved some expenses from last year, at the end of last year and that has impacted this year's expense ratio. I would say that probably is a bit less than of 0.5 point of the improvement, and it flows through all lines of business. The other big chunk that's impacting this quarter in particular are the variable expenses. Those include both the variable commissions as well as variable compensation. So those are linked to current profitability and because it's been lower than expected, those variable expenses are reduced. I'm hoping that as we increase the profitability, some of that will flow back through. But the structural, what I would call the structural, which is really what we have shaved in expenses is nearly 0.5 point of overall general expenses.

Charles Brindamour
Chief Executive Officer and Director

I think the other piece that is not to be neglected is the work that we're doing in claims to address inflation in automobile. And maybe Patrick you want to take a minute or 2 to give a perspective of what's in the pipeline in claims that should pay off over the next 12, 24 months?

Patrick Barbeau
Senior Vice President of Claims

Yes, so over the past 6 to 9 months, we've also implemented a list of actions trying to address the different sources of cost pressures we're seeing in this line of business. If I group some of those actions into wide categories, the first one is tighter [indiscernible] controls, leveraging our national IT platform that we deployed over the past 2 years. Those are controls that are deployed and supporting the operations and identifying opportunities to reduce cycle times or reduce cost like rentals and also controlling better the process of the repairs with the networks in terms of parts used and the like. We also have accelerated our data analytics deployment in the fields of subrogation, fraud detection, supply chain management, which is starting to bring benefits. And lastly, maybe I've mentioned, too, we have also action plans specific to the longer tail lines like accident benefits in Ontario where we're focused on leveraging our Health Rely networks. So those clinics have a better track record than average in bringing our clients back to work, which also helps on our cost side. And on the BI, we're very focused on maintaining settlements within minor injury regulation by increasing staff and trying to sell those claims very early before they get too [indiscernible]. And that's without mentioning also, as a reminder, that the Ontario reforms launched last June have not fully been reflected yet in our results. Some of it was applicable upon renewal so we finished that cycle of renewal in June. And as well, the new cat definition was implemented for all accidents after June 1 of last year and given the long tail profile of those claims we haven't seen the full impact yet but this is building up.

Kai Pan
Morgan Stanley, Research Division

My follow up question is on the reserve side. And personal auto this quarter have an adverse development, which is probably the first one in quite a while. I just wonder you saw some -- #1 is that would these sort of the underlying trend impact your current accident year loss pick? And secondly, is the indication that the future reserve releases will be smaller than in the past that could impact your reported combined ratio in personal auto?

Charles Brindamour
Chief Executive Officer and Director

Darren?

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Yes, I can take that one. So just a little to unpack the adverse prior year development we saw in the quarter. As we've mentioned in past quarters, we tend to get a little bit of noise from quarter-to-quarter from pools. Q2 of '16 and '17 were 2 such quarters in particular, with prior year development. So as Louie mentioned, pools contributed 1.6 points of the 4.2 points deterioration in the PYD quarter-over-quarter. So with respect to the quarter itself, when we look at it before pools, we saw unfavorable PYD of about just shy of 2 points, 1.8 points in particular. And this was largely driven through deterioration in Ontario accident benefit large losses. These were mostly on older accident years, in particular 2013, 2014, stemming from the combining of psychological injuries on top of physical injuries. So this, what we call the stacking effect, was addressed as Patrick mentioned with the change in the definition in June of 2016 in those reforms but only obviously, for new claims beyond June 1, 2016. So definitely, we saw some pressure there from the nature of those AB claims, which the reforms are now addressing. In terms of the impact on our plan, our plan is not dependent upon favorable PYD.

Charles Brindamour
Chief Executive Officer and Director

You mean our action plan.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Sorry, our action plan is not dependent upon favorable PYD. So at this stage, we're comfortable in terms of what we have projected out into the latter half of this year. With respect to guidance, we don't tend to give guidance by line of business. But for -- when we look at all lines, IFC, we continue to expect PYD close to 3 to 4 points of opening reserves but clearly, with a little bit of noise from quarter-to-quarter.

Charles Brindamour
Chief Executive Officer and Director

Yes, and I think, if you analyze the first 6 months of '17, we're at the bottom end of that range at 3 point something percent, 3.1%.

Operator

You're next question comes from the line of Geoff Kwan from RBC Capital.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Just my first question is, what we're seeing so far in Q3, just if you have any color on cats, if it's good or bad. And I know out here in BC there's been wildfires, but largely more in rural areas so I'm guessing it's probably not a huge impact for you?

Patrick Barbeau
Senior Vice President of Claims

No, exactly, as Charles mentioned, if I go back a bit to Q2, it was very wet in the East part of the country, with a lot of rain events that [cost] $105 million of cat during Q2. But in the West it was very different for the latter part of the spring and the early summer. It was very hot and dry, which led to the situation at the beginning of July where lightning strikes have started a lot of forest fires in the province. So at the peak of the threat, by middle of the month, there was more than 30,000 residents in BC who were evacuated, and we were monitoring more than 200 different forest fires in the province. But the situation has improved significantly over the past 2 weeks. Now most of the fires are under control. The majority of the evacuation orders have been lifted and people have been able to reenter their premises and communities. Our claim's operation are deployed in all those locations, so we have good visibility on what we're facing. And the outcome is much better than we could have anticipated based on what we saw in the media. In fact the property damage is very limited. Most of the claims we had in the area are for additional living expense for the families that were evacuated. But at the same time we had a few hail storms in Alberta during the month, but when we combine all those costs it's very much aligned with what we expect for the month of July. So no change in our forecast for Q3.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

And just my other question is the ICBC, there's been some talk, there was a report out suggesting that auto premiums out here for the basic auto make need to go up 30% over the next 2 years. And my question is more any -- if there's any insight that you may have of when you have that type of potential shock in terms of increased rates for drivers, does that have an impact on kind of the industry in terms of demand, profitability? Just recognizing also, too, BC is a little bit different out here as to how we do the auto and obviously, Intact's exposure specifically, isn't as material as other provinces.

Charles Brindamour
Chief Executive Officer and Director

Yes, I think that the first observation I would make is that if you let the government run what the private sector can do, you end up with shocks like all of a sudden there is a 30% gap in premiums. And therefore I think the first message would be better to have a competitive marketplace that even when there is cost pressure going up you have options to find ways to get a better deal, which in this case will be tough I think, for drivers in British Columbia. I think -- and therefore, I hope that in BC we are starting to think about introducing more competition in the marketplace as well as private operators that are in the business of trying to control costs, ahead of bumps in costs like that. So I think that's the main point I would make on that, Geoff.

Operator

Your next question comes from the line of John Aiken of Barclays.

John Aiken
Barclays PLC, Research Division

I was taking a look at the lines in the sub-pack about direct-to-consumer sales as a percentage of the total premiums, and it's actually been quite stable over the last few years. I'm a little bit surprised by that as I would have expected that to have a greater growth trajectory. But is this something that is going on in the marketplace? Or is this actually a reflection of the consolidation that you've been doing through the distribution? You actually are keeping pace with your broker sales.

Charles Brindamour
Chief Executive Officer and Director

No. I think that there's been a fair bit of growth in the direct-to-consumer business. I mean, if I look at the growth year-to-date in the direct channel, what we're seeing in personal prop is a rate of growth that is almost twice that of the brokerage business and greater than that in automobile insurance. So I'll go back and look at the number that you're talking about but there's actually been pretty steady growth in the direct channel.

John Aiken
Barclays PLC, Research Division

I know I probably caught you a little bit flat footed. And then on the OneBeacon, you're progressing forward on the transaction, you've got the financing effectively in place. You've been able to go through the operations with, I'm assuming, a finer-tooth comb at this stage in the game. One of the proposed areas that you're looking at improving the combined ratio is actually looking at the lines that OneBeacon has provided. Are you able to talk to us at this stage in game as to which lines may or may not be continued on a go-forward basis after the acquisition is completed?

Charles Brindamour
Chief Executive Officer and Director

I -- the management of OneBeacon and my team are very much aligned on the work that needs to happen. The deal hasn't closed yet and therefore, I will not talk on their behalf at this stage. But there's very good alignment on some of the work that needs to be done in certain lines and some of the work that needs to be done across all lines. And there's detailed plans that have been developed at this stage, and I feel pretty good about what we have in the pipeline. I was with Alain in the U.S. last week to meet all the business leaders to talk about talent, talk about growth opportunities, talk about the pockets of improvement and was quite impressed with the 15 business unit leaders that I've met individually. So I think there's really good alignment, but I don't want to talk about specific segments at this stage before the deal closes.

Operator

Your next question comes from the line of Meny Grauman of Cormark Securities.

Meny Grauman
Cormark Securities Inc., Research Division

Louie, you reiterated your run-rate cat loss guidance. But more broader question is just what gives you confidence that you're not behind the curve on cat losses? Definitely, quarter-after-quarter now we're getting pre-announcements. And so what's the risk that history is not a good predictor for where cat losses are going? And how do you think about that risk, as you manage the business?

Charles Brindamour
Chief Executive Officer and Director

We'll ask Patrick to give you a high-level overview of our thought process on that front.

Patrick Barbeau
Senior Vice President of Claims

Yes. So we try to learn from all the new events. Every time there is new one, we feed our models. We update those on a regular basis. And when we say that we look at the long-term trends, we adjust for the most recent observations all the time. We have to also understand that in those models we factor in our own actions. Some of them are on prevention, to help our clients face changing weather patterns but others are in our products. We implemented a few changes to our products in the past few years to contain some of those cost trends. So when we factor all of this in and we project for growth and in the coming 12 months, we still get the same ballpark figures of $250 million per year or 3 points of loss ratio, despite the fact that in 2016 and so far in 2017 we've been higher than those expectations.

Meny Grauman
Cormark Securities Inc., Research Division

And then just as a follow-on question, it seems clear that you've learned the lessons from the previous severe rain events in central Canada. But I'm wondering as you look at the experience from this most recent event, is it just a check mark? Do you say we did what we -- we learned the lessons from the past and we implemented them? Or are there other things that come out of this most recent experience in terms of what you can do to improve the situation going forward?

Patrick Barbeau
Senior Vice President of Claims

Well, we have improved our technology in terms of geo mapping with the experience of 2013 but also with development of new products like [overland water] over the past couple years. So for sure we're implementing this into our operation. I think we're more equipped to respond also with those geo mapping technology to support the operations. In terms of can we implement more changes? For sure, we learn from each event and one of them is how we organize our own product with the government programs, which is one learning, key learning we had with the Québec floods of this spring. But in terms of the cost of those events, I think it's very much aligned with what we are expecting from those changes in products.

Charles Brindamour
Chief Executive Officer and Director

So I think when I look back a number of years, you get roughly, to a ballpark 3% loss ratio points of cats across all lines. And that number includes Fort Mac and Calgary flood, which you could argue are 1 in 100-year type events. So the 3-ish percent includes a couple of 1 in 100-year event. But if you look prospectively, prevention product change claims action should help. And if we realize that 250 is not high enough a guidance, we'll be the first ones to change it. We'll need to take into account the OneBeacon acquisition, which helps us diversify away from personal lines, personal property, natural disaster, to translate that into proper guidance. It's too early to do that and we'll likely revisit in Q3 or Q4 what the guidance is. But at this stage, there is not a view here that we need to increase the guidance, all else being equal. We're certainly pricing and planning -- or pricing to make sure that we operate the business sub-95 in periods higher than the plan. That's what we told you guys in the past few years. A data point that I would have for you is that in 2016 with Fort Mac, we closed the year slightly above 92% combined ratio all-in for personal property, which is the most impacted line of business. So this is a data point that gives me some comfort that this is headed in the right direction. We're year-to-date in the 96% range in that line of business. So therefore, I think that we're headed in the right direction. If we view that number should go up, we'll do that in short order and we have this debate every quarter.

Meny Grauman
Cormark Securities Inc., Research Division

Are you more concerned about this issue now than in the past or would you not say that?

Patrick Barbeau
Senior Vice President of Claims

No, I'm less concerned with this issue now than in the past because of everything we've done. I mean, look at personal prop. We've been changing the product, changing how we manage claims, investing in prevention. Then we've been increasing rates for 4, 5 years in a row in the mid-single-digit range. You'll see that the quarters that are low cat in nature, that business runs in the 70s, low 80s. So I would say the residual risk of -- or let's call it the mitigated risk of natural disaster is less today than it was 3 years ago in our business. And we're looking at this business, quite frankly, as a source of opportunity. I think Canadians realize that natural disasters are more important than in the past. Protecting oneself against natural disaster now is much more tangible for people, and we view the pie as an increasing one in that segment. And I think the moves we've made to immunize the product are giving us comfort that this is a good business going forward. Now you need to be able to stomach volatility. We're quite capable of that, and that's why we're very transparent with you guys every 3 months in terms of what that means in practice. I think you ought to look past the quarter, and 2016 for me is a good example of what personal prop, in particular, can generate in a bad year.

Operator

Your next question comes from the line of Tom MacKinnon of BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

A question on distribution income, up nicely. I think we're up almost 30% year-over-year and year-to-date versus -- '17 versus year-to-date '16. What's driving that? How should we -- is there any seasonality in the number here? How should we be thinking about that going forward? I think before you sort of talked about a 15% increase but we seem to be running better than that.

Patrick Barbeau
Senior Vice President of Claims

Yes, but I will reiterate that for 2017, it's still 15% up from last year's result.

Tom MacKinnon
BMO Capital Markets Equity Research

Not year-to-date, 74 versus 57?

Patrick Barbeau
Senior Vice President of Claims

Not year-to-date, from last year. So we had 111 last year and had about [15%] a bit north of [15%] and that's what we think we'll earn this year. And it's driven by our investments. And don't forget there is a bit of lag. We acquire every year but there is a lag effect and we had a big year last year, the earnings are starting to flow in. So that's a positive momentum, and we work on the profitability as well of individual brokers. So those 2 are the drivers of the improvement.

Charles Brindamour
Chief Executive Officer and Director

Yes, I think that new acquisitions on that front are coming in the pipeline. We're not changing our guidance for 2017 as we integrate these businesses. But obviously based on the first 6 months, we're very confident that we'll hit the guidance on the distribution income, and I think we remain keenly interested in growing that business. It's a great business. So you can expect some more in the coming quarters.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay, and as a follow-up on the personal auto, I know that you talked about for 2017, you were going to look to 4 to 6 point improvement in personal auto, the loss ratio. I think you had talked, in your earlier remarks, that you've seen 2 points so far. Is that kind of mean that we expect another 2 to 4 points improvement by the end of 2017 in these lines -- in the personal auto line?

Louis Marcotte
Senior VP & CFO

That's sort of what we're shooting for, yes, in the underlying results. The sort of action plan we have in place should get us in that sort of zone, and I think you've got the expenses tailwind that will increase the likelihood of that happening too.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And if I could just squeeze one more in, the operating tax rate looked around 19%. I'm not sure where you kind of guide, but I used to think it was in the low 20s. Is there anything...

Louis Marcotte
Senior VP & CFO

It is. And again, it's really the portion of underwriting income versus total operating income that guides this. So in a elevated cat quarter, you'd expect a bit of a lower tax rate because the nontaxable dividends become a bigger share of that. So that's essentially, the biggest driver of the lower tax rate. But on a normal basis, I would expect something between 20% and 21%.

Operator

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

Doug Young
Desjardins Securities Inc., Research Division

Personal property, the guidance that you stated and you expect mid-single-digit growth and I think last quarter was kind of mid to upper growth. Just wondering what to think about how we should read into this. Is it just that you pushed through so much in terms of price increases over the last few years that you're going to start to see a little bit of ebbing in that? And then along the same lines with personal property, we did see a deterioration in the current accident year loss ratio of just over 2 points, I believe. Just wondering, is that related to non-cat frequency? If -- any color you can provide on that. And then I've got a follow-up.

Charles Brindamour
Chief Executive Officer and Director

Yes, so I think that the personal prop mid-single-digit growth guidance we're giving is that the actions we're taking in automobile are ahead of the market. And we're, I think, comforted by some of the moves we're seeing in the marketplace in the past couple of months. But because personal automobile's growth has been under pressure because of the actions we've taken and a big portion of our portfolio combines home and auto, our view is that there could be unit pressure in home insurance for a short while and, therefore, we're saying, think along the lines of mid-single-digit here. But we're still acting on rates, and I think it's more of a unit cautionary note. But not raising big alarms here, just saying if auto is under pressure, eventually, home suffers a little bit from a growth point of view. So I think that's the main point. What was the other part of your question?

Doug Young
Desjardins Securities Inc., Research Division

Just the -- there was a deterioration in the current action of your loss ratio.

Charles Brindamour
Chief Executive Officer and Director

Sorry. Yes, yes, yes. Frequency jumped on the basis of nonweather in the quarter, 12% jump in frequency in personal prop. Darren, any color you want to give?

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Mostly driven from Ontario and Quebec with the heaviest rainfall that we've seen in many years.

Charles Brindamour
Chief Executive Officer and Director

Beyond the floods.

Doug Young
Desjardins Securities Inc., Research Division

And just on the personal auto side, and I know I've harped on this in the past, but the pools -- I know the pools are even smaller than they were back in the day when they caused you a lot of problems. But we are starting to see negative experience, I guess relative year-over-year negative experience out of the pools. Is this -- or why is this not a concern to you?

Charles Brindamour
Chief Executive Officer and Director

Darren?

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Yes. I think when we look at the pools, as we've talked in the last little bit, we obviously see a lot of noise from quarter-to-quarter. We look back, Q2 was a very, very favorable quarter last year. On the flip side though, we saw that Q4 was an unfavorable quarter for us. So when we look year-to-date, pools, you're still driving a favorable outcome to our claims ratio, just slightly less than 1 point on a year-to-date basis. We finished '16 with about 0.5 point improvement in the claims ratio due to pools. And we expect a similar sort of response in 2017 as well. So yes, we see a little bit of noise from quarter-to-quarter but generally, it impacts us favorably when we look at a full 12-month period.

Operator

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

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First question is related to -- going into personal auto. I just want to drive into the top line growth, obviously, quite a bit softer than we would otherwise expect with the rate increases and the industry not following at the same pace. What do you make of the industry's actions to be a little bit slower on this? And do you have any color of more recent, perhaps, in the last month or 2, that gives you comfort that you'll be able to drive the 4 points of improvement just from rate increases?

Charles Brindamour

Chief Executive Officer and Director

Let me just say that there is nothing new with us being ahead of the curve on pricing movements. You've seen that in different lines of business over the past 10 years, 10-plus years. And therefore we've cautioned The Street that we were taking action in, first, automobile insurance and would be comfortable with unit pressure before. And nothing new in terms of The Street's -- or not The Street, but the industry's slow reaction there at moving. But there has been in the past few months, what I would call green shoots in terms of [rate] actions. And maybe, Darren, you can give sort of high-level perspective there.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Yes. I mean, we are starting to see a little bit of movement, in particular, in Ontario and Alberta. As Charles mentioned, clearly, we are still ahead of the pack and we expect to probably stay ahead of the pack for a little bit. But we are starting to see, as I say, a little bit of movement from some companies, which will help us a little bit as we move forward. But we'll probably continue to see some top line pressure here in the short term as we stay ahead of the pack.

Charles Brindamour
Chief Executive Officer and Director

Yes, and I think the phenomenon that is important to understand, and it's one we like to avoid, is that once you spot cost pressure in the system, you ought to move fast in regulated provinces. Because when people wake up and everybody feels like they need to move their rates, obviously, regulators get nervous for obvious reasons. And therefore, being ahead of the pack, it gives you an overall profitability advantage. But you can do that in a much more constructive environment than in an environment where everybody all of a sudden wants to increase their rates. And it's been our strategy over the years and certainly we've learned from that experience and acted as such last year.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. Great. And the second question, related to commercial auto. Obviously, top line growth being helped by specialty products, including Uber. So up 7% [over year]. Can you break down that growth between, let's call it, organic or core products versus specialty and sharing economy products? And what you see for commercial auto top line growth going forward.

Alain Lessard
Senior Vice President of Commercial Lines

Well, I think that overall when I look at the growth, I would say a majority of our growth is coming from the sharing economy product. Okay? We're still seeing a competitive market, with places like trucking that are firmer, and we're taking some action there that is putting a bit of a pressure on the top line. Because we think that's a natural and necessary action that we need to take to improve the portfolio there. And overall, we think that this will still continue to grow at low single digit on an organic basis at the industry level.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And in terms of -- just following up on the specialty lines or sharing economy. Is -- should we expect any sort of base effect as we go on to 2018, where this high single-digit growth rate from specialty lines subsides? Or is there still a lot of traction in the Uber? I know in past quarters, it's been a little bit too early to tell based on miles driven and things of that nature, but can you provide any color looking into 2018?

Charles Brindamour
Chief Executive Officer and Director

I think the -- indeed, we started this program in July last year and, therefore, you will have a base effect coming in the second part of this year. Offsetting that is the fact that we've been taking real harsh action on a portion of the commercial lines auto portfolio. Trucking would be an example, which has been a meaningful drag on the top line, which should subside in the coming period as well. Alain, I don't know if you want to give some more color.

Alain Lessard
Senior Vice President of Commercial Lines

Well, I was just going to add on the Uber side, like we've mentioned in the past, this is a usage-based program. So the more usage there is, the more premium there is. There was like an annualized impact for the first 2 quarters that will subsidize (sic) [subside] after that. But as the popularity and the usage of Uber continue to grow, we will see other growth on this side. On the trucking side, we've been taking very solid action on the rate side. Okay? And that will continue at least till the end of the year and will probably subsidize (sic) [subside] a bit in 2018, okay? But we're seeing some pressure on the unit side because of the action we're taking on the rate side under trucking this year.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And if I can sneak one more in then, just quickly on some of the more recent innovative or technology investments. Can you provide any color on progress with Metromile or Turo and the impact they're having in the commercial auto sector?

Charles Brindamour
Chief Executive Officer and Director

Well, I think that with regards to Metromile, I think making good progress on this front. I mean, these guys are, day in, day out rolling out their new offer. They are starting to manufacture the product per se. They were more of a distribution play to start with, moving now into manufacturing. We're giving them a bit of help on that front given it is our trade. But satisfied with the progress we're seeing on that front. And I think Turo is a separate business model, which is in the car sharing as opposed to ride sharing space, and I think good traction on that front as well. This is a smaller impact for us in terms of the insurance element of that, but this is another model. And our view is that the sharing economy is probably the most important trend that will influence the industry in the coming 3 to 5 years. And we want to be all over that trend and, therefore, our involvement with a number of these businesses.

Operator

Your next question comes from the line of Paul Holden of CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

A question for you related to the commercial P&C segment. You talk about competitive forces there impacting the premiums written. Is it possible that competitive forces will also impact the loss ratio? And if not, why not?

Charles Brindamour
Chief Executive Officer and Director

Alain, why don't you give us your perspective on this?

Alain Lessard
Senior Vice President of Commercial Lines

Okay. I think competitive -- the situation in the commercial P&C market is, we're in a much softer market than we were a year ago. And going into that, it's very important to us to protect and maintain on our underwriting margin. And in fact, in Q2, despite a competitive market, we've passed on rate increase to the tone (sic) [tune] of about 3%, and that has really had an impact on the overall growth. And although we're not happy with the overall growth, when we split our portfolio, let's say, into 2 parts, the parts where we're quite happy with the profitability level and everything. That part has been growing to the tone (sic) [tune] of about 4%. The part where we see action still needed, classes where you need a rate action or account that have been unprofitable and we've taken nonrenewed or things like that. This part has shrunk by 20%. So overall, when we look at that, the quality of the portfolio, in our minds, has improved a lot and has more than offset the impact of the negative growth in the quarter.

Charles Brindamour
Chief Executive Officer and Director

So -- and I think that we're seeing very strong performance. There are pockets of the market that are, indeed, quite competitive. And where we're taking action, we're improving the quality of the portfolio. So I'm certainly not concerned about the margin in that environment. And keep in mind that we are seeing 3% rate increase for the fifth year straight in that segment. So it is competitive but we're growing where we want to grow. And therefore, that's good for the margins.

Paul David Holden
CIBC Capital Markets, Research Division

And then second question would be related to OneBeacon. And I know there's probably a number of things you can do ahead of transaction closing to help set yourself up for quick execution post-closing. So maybe if you can, quickly give us some color on some of the things you're able to do over the next few months?

Charles Brindamour
Chief Executive Officer and Director

You mean what to expect upon closing, Paul?

Paul David Holden
CIBC Capital Markets, Research Division

Well, no, I mean -- or if you're -- you mentioned you were down there for a week recently. Like, what kind of things are you working on with the OneBeacon team today so that you can execute quickly postclosing? Or are there things you're able to execute even on today, before closing?

Charles Brindamour
Chief Executive Officer and Director

Yes, I think that we let them run their business until closing, for sure, and then we'll work with Mike Miller, who's a great leader, and his team post-closing. But there's a lot of work and cooperation going on at the moment. We have 10 different transition teams that have been working since May to prepare the transition that will start upon closing. We have an operational group, an IT group, a claims group, a finance group, an HR group, et cetera, that are making sure that we hit the ground running upon closing. We'll announce a new structure that will sort of reflect the addition of OneBeacon to the Intact family in the coming weeks. We expect to have a profitability improvement action plan that will take place, if they're not already in the pipeline upon closing. We expect to have new products by the end of the year. Here in Canada, we expect to have a cross-border capability or service that will be offered to brokers in 2017. So while we haven't closed, there's a ton of work that's gone into preparing us welcoming the OneBeacon team in the coming weeks when we close. And so on all fronts, I think there's -- we're not waiting upon closing to establish the base to build a leading North American specialty lines insurer. And we're sort of all hands on deck working with these guys now.

Operator

Your next question comes from the line of Meyer Shields of KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Just one quick question if I can. When you look at the various sharing economy products that you're writing and that you're planning growth within, do they have a different loss ratio-expense ratio mix than the legacy business?

Charles Brindamour
Chief Executive Officer and Director

There is an important difference in the loss ratio-expense ratio mix than the traditional business, absolutely, first point. Second point, it is a business that is performing well and that is consistent or better than the overall results you're seeing in commercial lines. And so when one looks at the underlying loss ratio of commercial auto, for instance, one has to realize that the loss ratio-expense ratio mix is quite different from the rest of the book. And therefore, I'm encourage people to look at the underlying combined ratio in commercial auto to better understand the trajectory of the margin there. Is that what you were looking for?

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. I mean, my assumption -- and please correct me if you're comfortable, if I'm wrong, is that the expense ratio is lower, the loss ratio is higher but the profitability margin bottom line is still better. Am I inferring correctly?

Charles Brindamour
Chief Executive Officer and Director

I think you're in the ballpark, yes.

Operator

Your next question comes from the line of Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Meyer got my first question right there, but second one, can you talk a little bit about what's going on with the distribution income? I notice that the acquisitions there have slowed pretty dramatically first half. Is that just a function of the pipeline or is that purposeful, given the OneBeacon transaction? And what should we expect here going forward?

Louis Marcotte
Senior VP & CFO

So you're right, in Q2, it was $42 million, about 1/2 of what we had last year at the same time. It is not related to the OneBeacon transaction. It's more the environment, the pipeline. We're still very active there. And it can be choppy quarter-to-quarter, but we still have expectations to be able to make deals over time.

Charles Brindamour
Chief Executive Officer and Director

Yes, the guys who make the deals happen don't have a deal objective number. We have hundreds of relationships from coast-to-coast. In the same way we think about M&A broadly, we go with the flow. We go with the relationship, and that's the best way to transact. And I think from quarter-to-quarter, you'll see fluctuations. Our view is that there's a lot of consolidation in distribution still to take place for the coming midterm for sure, and we're very keen. And there's not been constraint imposed on the distribution consolidation activities or in us financing entrepreneurs who want to get bigger in distribution, whatsoever, because of the OneBeacon transaction. We like the margins we're seeing there. So long as the margins and the returns are in line or above what we're looking for, we'll find a way to deploy capital in that space.

Brian Robert Meredith

UBS Investment Bank, Research Division

Great. And then lastly, I was just curious, does the OneBeacon transaction constrain you guys at all financially from potentially doing a transaction up in Canada if something becomes available?

Louis Marcotte
Senior VP & CFO

No. That's why we structured our financing conservatively. And we feel comfortable, if something comes up in Canada, to be able to participate in the opportunity, no doubt.

Charles Brindamour
Chief Executive Officer and Director

Yes. The way we think about that, Brian, right now in terms of capital deployment is a pause on non-Canadian stuff, focus on improving the -- or working with Mike Miller to make sure that our specialty lines operation is top quartile in terms of the combined ratio performance that's outside Canada is the priority. But here, we're very keen to expand our position in Canada both in manufacturing and distribution and we have some resources we can leverage. And if not, we'll convince investors that putting some more capital in Canada is a good idea when we're convinced it is.

Operator

Your last question comes from the line of Mario Mendonca of TD Securities.

Mario Mendonca
TD Securities Equity Research

Charles, I'll try to be quick. I want to go back to personal auto, the adverse development. What gave rise to it? Was it in individual claims, actual claims that were resolved in a way that was higher than expected? Or was it an event that played out in the quarter that caused you to review the assumptions on those older policies in '13 and '14?

Charles Brindamour
Chief Executive Officer and Director

So beyond the pools, it's largely a flow of large losses.

Mario Mendonca
TD Securities Equity Research

So no specific event like litigation that would've caused you to review assumptions?

Charles Brindamour
Chief Executive Officer and Director

No.

Mario Mendonca
TD Securities Equity Research

And going to then Q2 -- sorry, Q4 2012, and I know that's a way back, but I figured there's enough institutional memory on this call. That was the last time there was adverse development in personal auto, and it -- sort of it disappeared by the very next quarter. By the very next quarter, we were back to positive development. Do you recall what it was that caused the adverse development and why you recovered so quickly?

Charles Brindamour
Chief Executive Officer and Director

I think that this was the -- and Darren is there, who used to run personal lines in Alberta or claims at that time in Alberta, so you're right about the institutional memory. I think it was the Sparrowhawk decision in

Alberta related to -- a decision related to, if you had jaw damage, you would be deemed non minor injury claims, and this led to a change in assumption in reserving claims on that front. Maybe you want to give some more color? I'm -- I mean, this is a long time ago but I think that's what it was.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

That's exactly it. I mean, we had that one decision sort of reposition the minor injury cap and the definition, given that judicial decision. And at that point in time, we did exactly as you said, Charles, looked at the reserving level and made that move to increase reserves in Alberta because of that adverse decision.

Charles Brindamour
Chief Executive Officer and Director

Yes.

Mario Mendonca
TD Securities Equity Research

So I'd be right in saying that this time around, the causes are very different? It has nothing to do with decisions or anything of that nature.

Charles Brindamour
Chief Executive Officer and Director

Well, I think that's right, that this time around the decision is -- or the court decision is not something that happened. There has been a weakening through common law over the past 3, 4 years in Ontario. And a number of the large losses we've seen are a result of some of these past decisions. But it's not something that's happened in the quarter that leads us to reassess our outstanding reserves in its entirety. Some of these decisions that were '13 and '14 in nature, I forget the exact dates, have been tackled by the June 2016 reforms.

Mario Mendonca
TD Securities Equity Research

Okay. But you don't feel any big need to go back and review files throughout '13 and '14 and reassess assumptions as a result?

Charles Brindamour
Chief Executive Officer and Director

I don't think so. I think we're reassessing every quarter the flow of claims that we're getting to see if it changes our ultimate view of those accident years. We have been sort of increasing reserves for those accident years throughout the past year, which has put a bit of pressure on our PYD. But it's not a common-law decision that has taken place in the quarter per se that is leading to a fundamentally different view on the ultimate.

Operator

There are no further questions at this time. I will turn the call back over to Ken Anderson.

Kenneth Anderson
VP of Investor Relations & Treasurer

Thank you all for joining us today. Following this 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 & Filings archive. Our third quarter 2017 results are scheduled to be released after market close on Tuesday, November 7. Thank you again, and this concludes our call for today.

Operator
This concludes today's conference call. You may now disconnect.