Intact Financial Corporation TSX:IFC

Earnings Call

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Call Participants

EXECUTIVES

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CEO & Director

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Kenneth Anderson
Executive Vice President & CFO of UK and International

Louis Marcotte
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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Intact Financial Corporation Q1 2023 Results Conference Call. [Operator Instructions] This call is being recorded today, May 11, 2023.

I would now like to turn the conference over to Shubha Khan, Vice President, Investor Relations. Please go ahead, sir.

Shubha Rahman Khan
Vice President of Investor Relations

Thank you, Michelle. Good morning, everyone, and thank you for joining the call to discuss our first quarter 2023 financial results. A link to our live webcast and materials for this call have been posted on our website at intactfc.com under the Investors tab.

Before we start, please refer to Slide 2 for cautionary language regarding the use of forward-looking statements, which form part of this morning's remarks and Slide 3 for a note on the use of non-GAAP financial measures and important notes on adjustments, terms and definitions used in this presentation. As you are aware, we are reporting quarterly results under the new IFRS 17 and IFRS 9 accounting standards for the first time.

Our disclosures, including our supplementary financial information, provide restated Q1 and full year 2022 results. Our MD&A contains reconciliations between non-GAAP measures and their closest GAAP counterparts as well as transition impacts on opening shareholders' equity and earnings. We invite you to consult the teach-in materials previously posted to our website for details on the impact of the new accounting status.

To discuss our first quarter results today, I have with me our CEO, Charles Brindamour; our CFO, Louis Marcotte; Patrick Barbeau, Executive Vice President and Chief Operating Officer; Darren Godfrey, Executive Vice President, Global Specialty Lines; Guillaume Lamy, Senior Vice President, Personal Lines; and Ken Anderson, Executive Vice President and CFO, UK&I. We will begin with prepared remarks, followed by Q&A.

With that, I will turn the call to Charles.

Charles J. G. Brindamour
CEO & Director

Thanks, Shubha. Good morning, everyone. Thanks for joining us today. We've accomplished a great deal in the first quarter. We took significant strides towards enhancing the profitability of the business and further derisking the RSA acquisition.

In February, we entered into a buy-in agreement for our U.K. pension plans, removing pension risks and improving capital efficiency. And in March, we announced initiatives to accelerate our path towards low 90s performance in the UK&I, including our exit from the U.K. personal lines motor market. At the same time, we delivered another quarter of solid results. Net operating income per share in the first quarter was $3.06, up 4% from a year ago. This performance was underpinned by top line growth of 5%, excluding strategic exits, which reflected healthy rate momentum in all geographies. The overall combined ratio for the quarter was 87.4%, driven by strong performance across most lines. Together with robust investment and distribution income, we again delivered mid-teens operating ROE in the quarter. Our combined ratio on an undiscounted basis was 91.9%. This is aligned with the presentation of our underwriting results by line of business as well as our guidance, which remains unchanged.

Let me therefore provide some color on the results and outlook by line of business, starting with Canada. In personal auto, premiums grew 5%, a 3-point improvement compared with the preceding quarter and more than 5 points improvement over the last 2 quarters. Top line momentum was a function of both rate actions as well as our improving competitive position. Retention levels remain strong, and we see positive signs in new business volumes. We're comfortable growing in this environment.

Our underwriting discipline resulted in a combined ratio of 97.1% in the quarter, which reflected nearly 3 points of winter seasonality, largely in line with our expectation. We remain very comfortable with our sub-95 guidance for personal auto. Inflation pressures have continued to abate with the increase in claim severity slowing to 9% in Q1, down 2 points from a quarter ago. This was driven by improvement in the cost of repairs, which in part reflects the benefits of our integrated supply chain, where 2/3 of repairs are handled by our preferred network. Furthermore, we're yet to see any meaningful signs of inflation in long-tail coverage. As such, the environment is evolving as expected.

At the same time, claims frequency remains benign relative to pre-pandemic levels. Though our pricing assumes it will gradually increase. And our early rate actions are paying off. In aggregate, written rates and insured values increased by close to 9 points in Q1. Meanwhile, earned rates accelerated to 6% and are expected to catch up with written rates by midyear. So in a world where severity abated to 9% and rates earned at 6% heading towards 9% by midyear, being now in the sub-95 zone today should give confidence that will remain in that zone for the foreseeable future. Favorable prior year development in auto up 7 points was in line with the full year 2022 levels. As before, this reflects the caution embedded in our reserves. The current accident year loss ratio continues to reflect a similar degree of prudence. And as such, we remain of the view that these 2 elements have to be evaluated together, not separately.

Moving now to personal prop. Premium growth of 6% was driven by our rate actions in a favorable market. The combined ratio of 84.5% in the quarter was better than the sub-90s average over the last 5 years. I do expect challenging weather over time and inflation to sustain firm market conditions over the next 12 months.

In commercial lines, top line growth was muted by targeted actions to optimize our portfolio as well as the loss of a few large accounts in specialty lines. Market conditions continue to be favorable with strong price increases consistent with past quarters despite nearly 6 points of CATs. The combined ratio was 90.8%, primarily driven by our profitability actions over time. Looking ahead, our business remains very well positioned to deliver sustainable low 90s or better performance.

Moving now to our UK&I business where we delivered a combined ratio of 94.6% in the quarter. In personal lines, premiums were largely flat year-over-year after adjusting for the U.K. motor exit. Though it continues to be very competitive, the U.K. personal lines market is gradually firm. We continue to exercise pricing discipline against this backdrop. The combined ratio of 107.3% included 4 points of adverse prior year development related to December freeze. For the balance of this year, we expect the UK&I personal lines performance to be in the upper 90s despite inflation pressure, which should continue to support a firm market.

In commercial lines, underlying premium growth was 6% in the quarter after adjusting for strategic exits. We continue to benefit from hard market conditions which are supporting mid- to upper single-digit rate increases. The combined ratio of 88.2% reflects the strength of our platform in the U.K. and prevailing market conditions. We expect to operate this business in the low 90s over the next 12 months.

We had already made much progress towards improving UK&I performance last year including true investments in pricing and segmentation, better governance as well as initiatives to optimize our footprint. We've now upgraded towards low 90s performance in the UK&I. The exit of the U.K. personal lines motor market was a crucial step in this regard, but not our only one. We're expanding our direct offering in home and set while at the same time, managing partnerships for value. And we're investing in technology and are focused on simplifying the business to drive cost improvements.

We now expect to achieve a low 90s run rate in the U.K. by the end of next year.

In the U.S., our business grew 15% in Q1, driven by strong growth in high-performing businesses, solid rate increases and last acquisition of Highland and MGA in the builder's risk business. The combined ratio was strong at 89.1%, reflecting our profitability actions over time. We expect hard market conditions to persist in most lines supported by higher reinsurance costs and innovated CAT losses. We remain well positioned to deliver sustainable low 90s performance or better in the U.S.

Turning to our strategic initiatives. We remain focused on expanding our leadership position here in Canada. Earlier this year, we launched for instance new features on our mobile apps aimed at encouraging more eco-friendly driving by our customers. These features have increased active engagement with customers by nearly 50%. We also strengthened our supply chain capabilities in the quarter through the continued expansion and enhancement of our On Side home restoration business. On Side is employing innovative techniques, including improved drying technologies to speed up cycle times, reduce claims cost and improve the customer experience. It also has the added benefit of contributing to our distribution income growth, in fact, close to $30 million in the last 15 months.

In April, we published our 2022 Social Impact Report which includes expanded climate-related disclosures. And it highlights how we continue to play a leading role in building resilient communities. Our ambition is to have 3 out of 4 stakeholders recognize us as a leader on this front. The results of stakeholder surveys, including investors, indicate that more than half already see it. Overall, we're rough to a solid start in 2023.

Top line momentum in personal lines is improving and underlying growth in commercial lines remained strong. The business is operating at the low 90s combined ratio. The outlook for both investment and distribution income remains quite favorable and operating ROE is in the mid-teens. Last year, we exceeded the industry ROE by more than 1,000 basis points, including 200 basis points from the sale of Codan Denmark.

Over the last 5 years, we've outperformed the industry by 750 basis points on average and have grown net operating income per share by 16% annually. We're confident in both the growth outlook and the earnings power of our business.

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

Louis Marcotte
Executive VP & CFO

Thanks, Charles, and good morning, everyone. This quarter is our first one under IFRS 17. And as we have said before, there is limited impact on net operating income per share. with the biggest changes being geography changes between underwriting and investment income.

I will highlight major changes as I go over the results, but keep in mind that the results reported today for 2023 and 2022 are entirely comparable, that is they are on an apples-to-apples basis, both being under IFRS 17. The overall combined ratio for Q1 was 87.4% after reflecting a 4.5-point favorable impact from discounting. Last year's discounting impact was lower at 3.2%, reflecting a lower discount yield at the beginning of 2022.

When we look at the underwriting performance of our business, we will use the undiscounted combined ratios, which is more comparable to our historical results and our guidance. At 91.9% for IFC in Q1, it is slightly better than last year's and reflects solid underwriting results in all geographies. CAT losses in the quarter were $108 million, driven by a freeze event in Canada and a couple of higher losses in commercial lines. This was below our expectations for the quarter, but we remain comfortable in our annual guidance of $700 million.

Favorable prior year development was healthy at 5.3% for the quarter, above our revised midterm guidance under IFRS 17 of 2% to 4% overall for IFC. This is slightly lower than last year's Q1 PYD, which was 5.9% but consistent with our prudent approach to reserving throughout the pandemic and still true today. Net investment income increased by 44% in the quarter on the back of higher portfolio turnover and rising rates, particularly on floating rate securities. For the full year and based on the Q1 experience, we now expect investment income to be north of $1.2 billion for the year. As we indicated in our IFRS 17 transition materials, the unwind of discount on claims liabilities is now netted against investment income, whereas the discount build continues to be reflected in underwriting income, albeit in the corporate segment.

The discount build and unwind should not have a material impact on the P&L when interest rates are stable. For example, this quarter, the gap between the unwind and the discount build was $7 million and no material impact on net operating income per share.

Distribution income was $105 million in the quarter, 14% higher than last year, reflecting accretive acquisitions and continued strong profitability. For the full year 2023, we continue to expect to grow distribution earnings by at least 10% compared to full year 2022. Overall, net operating income per share of $3.6 is up 4% from last year. If we exclude the impact of rate changes in the Q1 2022, net operating income per share growth would have been 19%, which is more consistent with the growth in all of our earnings streams.

Now let's turn to our underwriting results, starting with Canada. Again, comparisons are on an apples-to-apples basis. In personal auto, the combined ratio increased by 3.4 points to 97.1%, which includes 3 points of seasonality and higher-than-expected sales. Favorable prior year development of 7 points was very strong and once again reflected the heightened caution embedded in our reserves.

In personal property, we delivered another solid result with an 84.5% combined ratio, 3.8 points better than last year due to milder weather and lower CATs in the quarter. Unfavorable prior year development on losses, such as the December snowstorms in Ontario and Quebec tempered the results. In commercial lines, the combined ratio was 90.8% despite 6 points of CATs in the quarter from the freeze event and a large fire in specialty lines. The solid result was largely due to profitability actions and more favorable non-CAT weather. Although 4 points lower than last year, favorable prior year development was strong at nearly 7 points.

The overall expense ratio in Canada was 32%, a point higher than last year due to planned increases in marketing and technology expenses. We expect the expense ratio run rate to be 32% to 33% going forward under IFRS 17.

Turning now to the UK&1. In personal lines, the combined ratio of 107.3% included 4 points of unfavorable development from the late December freeze event and continued inflationary pressures. We remain disciplined in pushing through rate and prioritizing risk selection. For the balance of the year, we expect this business to operate in the high 90s with profitability actions having a more meaningful impact in 2024. In UK&I commercial lines, the combined ratio was a strong 88.2%, including solid results and businesses, we were strategically targeting for growth, such as the U.K. regions business.

The combined ratio improved 2 points from a year ago, mainly driven by our profitability actions and a benign CAT experience in the quarter. Looking ahead, we are happy to grow this business while focusing on the sustainability of their strong results. We are nearing the 2-year anniversary of the RSA acquisition. And when I look at all the actions taken so far to improve profitability and derisk the balance sheet, I'm pleased to see the operating ROE of this segment progressing towards the mid-teens level as we deliver on our combined ratio targets.

In our U.S. segment, the combined ratio was solid at 89.1% and included 2 points of CATs from a single fire claim. We continue to see very strong growth in our highest performing lines and are taking targeted profitability actions on the worst performing segments of the portfolio. No doubt, our U.S. business is on strong footing. The overall effective tax rate was elevated at 33% due to a reclassification of the tax recovery from the pension contribution from earnings to OCI. This was expected has no impact on book value per share or on our ability to recover taxes in the U.K.

With regards to the RSA integration, we estimate annual RSA synergies to have hit a run rate of $285 million, and we remain well on track to achieve our revised target of at least $350 million by mid-2024. Over the last 12 months, RSA contributed 16% accretion to net operating income per share, and we remain confident of this rising to 20% by 2024.

Moving now to the balance sheet. Our financial position continues to be strong with a total capital margin of $2.8 billion. This was driven by strong capital generation, including a favorable impact from investments offset by the U.K. pension buy-in. We closed the quarter with a debt to total capital ratio of 22.4%, in line with prior guidance and remain on track to take that towards 20% by the end of the year.

Our balance sheet is certainly in good shape to capture opportunities as they arise. Book value per share was down 6% quarter-over-quarter as expected. Solid earnings, favorable market movements and the positive impact from the IFRS transition were offset by the impact of the U.K. pension buy-in transaction that we completed in February.

As a reminder, the 100-basis point impact on ROE from the pension buy-in is not fully reflected in the Q1 figures as it accrues over time. Overall, the agility and bandwidth of the platform was evident this quarter as we delivered solid results while tackling inflation and executing on multiple initiatives in the UK&I. Our business is now in a more focused and stronger position, and we have a clear road map to our performance. With the platform we have in place, a strong balance sheet and an opportunistic mindset, I'm confident we are well positioned for outperformance.

Now before I give it back to Shubha, I'd like to express my gratitude to our finance, IT actuarial teams in the U.S., the U.K. and Canada, who worked so hard to get our systems and reporting across the line and on time. It's been a long journey, and they can all be very proud with our successful transition to IFRS 17, while tackling a transformative acquisition. Most of them are listening on the line today. I want to thank them.

With that, I'll pass it back to Shubha.

Shubha Rahman Khan
Vice President of Investor Relations
Thank you, Louis. [Operator Instructions] So Michelle, we're ready to take questions now.

Question and Answer

Operator

[Operator Instructions] Your first question will come from Paul Holden at CIBC World Markets.

Paul David Holden
CIBC Capital Markets, Research Division

I want to start on personal auto and the PYD in the quarter. Obviously, 7 points is higher than you'd normally see in that business. I want to make sure I get the message right. So as that PYD normalizes over time, we should also expect a normalization in the underlying, i.e., I think you continue to probably reserve conservatively. And so while you give back from PYD, you're also going to get a benefit, I think, on the underlying loss ratio as well. Is that the correct way to look at this?

Charles J. G. Brindamour
CEO & Director

That's absolutely correct, Paul. And you see 7-ish this quarter, you've seen close to 7 for all of last year's. We're being prudent on the current accident year. There's lots of moving pieces and your understanding is exactly right. I don't know if there's anything we need to add, but I think that was very clear.

Paul David Holden
CIBC Capital Markets, Research Division

And then my second question, just sticking with personal auto. So good to hear that severity and claims inflation is tracking in line with your expectations sequentially. Can you give us an expectation of where you think that should be by end of 2023 and/or kind of what normalized claims inflation should look like given that I think with the additional technology that goes into cars these days, maybe claims inflation is higher than it would be historically just because of the incremental costs associated with new vehicles?

Charles J. G. Brindamour
CEO & Director

So Paul, let me kick this off by first saying that our guidance from a combined ratio point of view has not changed. Our view is, we're well positioned to operate sub-95 on a seasonally adjusted basis for the foreseeable future. As we mentioned before, there's a number of things going into that. There's obviously severity, which is the heart of your question, so far so good, moving in line with what we were expecting.

There's also frequency, which has been benign so far and certainly below what we're assuming from a pricing point of view and also what we're assuming in the guidance. These rights, which -- a big chunk of it is baked heading towards 9%, and we'll do more. We'll need it. And then there's the overall caution embedded in how we're reserving because there's lots of moving pieces in this current environment. You put all that together and we're comfortable with our guidance at this stage. And I bring those 4 pieces on the table, Paul, because forecasting one element is just a portion of the equation. That being said, we're spending a lot of time on each of those 4 pieces, and I'll ask Guillaume Lamy to share his perspective on your question, I'd like to point out, this is Guillaume's first earnings call. He's SVP personal lines has been groomed for that role, and he's got the backup of 3 former SVP personal lines present on the earnings call. So Guillaume, you're in safe territory is what I would say. Go ahead.

Guillaume Lamy

Sure. So I think I'll start maybe with the rate portion where, as Charles mentioned, we've been increasing written rates in the past years or so, reached 9% in Q1, 6% of that is earned, and that's continuing to increase for the next few months, peaking in midyear this year. So as we look forward, we expect inflation to start taming down. Rates are continuing to go up. So those 2 lines should cross around midyear. That being said, there is the other pieces that needs to be taken into the equation. So starting by frequency, frequency has been relatively mild, again, in Q1, below what we're expecting, we're still pricing for some kind of an increase in frequency.

The other part, I think, that I would mention is test, which had an impact on our severity, which we're continuing to monitor and have pretty strong actions against that. And then inflation as it tames down, I think the question -- and we're not pretending that we necessarily have the answer on where it will land, but there's uncertainty as to where it will land. There's a range around that, and we're pricing in a way to make sure that depending on where those pieces fall, we're seeing sub-95 on a seasonality adjusted basis.

Charles J. G. Brindamour
CEO & Director

So I think the key point would be to your question, there's an expectation that inflation abates some more. There's -- if it was not the case, there are things going the other way, such as frequency and prudent. But then we have leverage to move rates if we feel that severity is not abating at the speed at which we're hoping for. But we're getting in the zone, there's no doubt. I think one point that's probably worth spending a bit of time on, Paul, is the levers we have to keep inflation in check. And I'll ask Patrick to provide a perspective on supply chain actions that we're taking and that we've taken in the past year, which I think has contributed a fair bit actually to inflation abating as well. Go ahead, Patrick.

Patrick Barbeau
Executive VP & COO

And maybe Paul, without pointing to a number, if you look at how -- what created a bit of a decrease in inflation this quarter, but also the quarter before that. Market values of used cars and new cars have been stabilized over 4 to 6 months. And it's the case both in U.S. and Canada. But when we compare year-on-year, it's still a significant pressure on inflation on the lost cost. So we're not necessarily assuming that the market value will go down. But as we compare 2 quarters where we've seen increases last year, that in itself reduces the year-on-year inflation.

The car parts are continuing to go up both in both countries. In U.S. and Canada as well, but not at the same pace as last year. And the capacity of the supply chain in general in Canada is in better shape. What we've done, though, over the last many years has built a competitive advantage in the supply chain, especially in the [indiscernible] area. We -- 2/3 of our repair is done through the preferred network. And over the last year, we've opened 13 dedicated shops across Canada, further enhancing the capacity to repair the cars of our clients. And in fact, we've seen the cycle times reduced in Q1 in our own book the total pending claims of car repairs, if I look at the end of December versus the end of March has reduced by 10% in our book, which is a sign of the accelerated cycle time we see here.

Charles J. G. Brindamour
CEO & Director

Yes. Thanks, Patrick. I think it's -- that's a really important point, Paul, in terms of capacity and therefore, inflation. Patrick, myself, the claims teams were totally focused on crunching the pending and closing files as fast as we can, leveraging the supply chain and then putting an extra focus on speed. So far, so good. We're seeing good progress. The Net Promoter Score in claims is climbing up again, getting close to the zone we're shooting for, which is 70% NPS for those who would be familiar with that metric, which is how we define success. And so far, so good.

Lots of moving pieces. But then again, lots of tools in the toolbox to manage and offset the additional pressure point when they'll show up. I think the key point is inflation, 9%, earned rate 6%, take 97.1%, subtract 3 points of seasonality, you're in the zone, yet you're not fully earning the rates you're writing. And that gives us good confidence, but it's all a hands on deck.

Operator

Your next question comes from Geoff Kwan at RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, Research Division

First question is, I know these happened very recently. Just wondering if there's any color insight you have on just some of the weather activities the wildfires in Alberta and then the floods in Quebec around potential impact, but also, too, obviously, it's -- Q2 is a high quarter for CAT losses directionally how this might track to how you think about normal CAT loss within Q2.

Charles J. G. Brindamour
CEO & Director

Yes. Thanks, Geoff. We're obviously on top of that, both flood and forest fires. Why don't you Patrick share your perspective.

Patrick Barbeau
Executive VP & COO

You're right, Geoff, Q2 is always one where we expect more CATs in average overall, and especially in Canada, we've seen in -- at the beginning of April, an ice storm that created some CATs in Quebec. We're following by the hour, the states of the reverse and sludges area in Quebec. It has improved over the past week in that area and the wildfires as well in the West, where not all of them are totally in control, but we're following that very closely.

Overall claims team and On Side teams are deployed where there are damages. But sitting here today with what we know, what is reported it's still within the overall envelope of what we would expect for Q2. But as you say, these 2 systems, the floodings in Quebec, the wildfires in the West are still happening as we speak. So if there was a big change, we would advise.

Charles J. G. Brindamour
CEO & Director

So I'd say, Geoff, if you look at the guidance we've provided from a CAT point of view sitting here halfway roughly in the quarter, we're within the guidance, but then there's as a quarter left to go. And if we feel that we need to provide clarity or details at the end of the quarter on CAT as we've done historically, we'll do that. we're not there yet.

Geoffrey Kwan
RBC Capital Markets, Research Division

Okay. That's helpful. And just my second question is you've talked about it before, kind of use of machine learning, AI and whatnot in terms of helping your business. Just wondering since you last kind of give an up down in there, if there's been any sort of interesting progress on things that you're working on or have been doing to improve the business and financial performance?

Charles J. G. Brindamour
CEO & Director

Thanks, Geoff. We've chosen to make a pretty aggressive shift 7 or 8 years ago in the use of machine learning, deep to a certain extent, natural language processing and so on. We built force team, a team of about 500 people solely dedicated to deploying machine learning models in the operation. We have about 300 models in operation today. We think it's generating a recurring $100 million of earnings. And we're very much focused on that. A big portion of the inflow and a big portion of the focus has been on what we would call quantitative models used in pricing and risk selection. That remains our focus, and we're deploying in the field day in, day out.

So in terms of interesting development, Patrick oversees the AI group interesting development that would not impede our competitive advantage. Is there anything you want to share with Geoff?

Patrick Barbeau
Executive VP & COO

Well, maybe a little more color on the quantum and segmentation and pricing. We're deploying as we speak, a third generation of AI models within the pricing of auto in Canada. Each of these generations have added some additional segmentation benefits. We're moving into -- we have moved in property last year as well across Canada and now we're doing the same for our commercial lines and specialty lines and expanding these models outside of Canada. So this is the trajectory. It uses about 70% of the capacity of the team. The other 30% are really helping on 2 fronts, so creating efficiencies in the operations and improving the customer journeys by automating and reducing cycle time simplifying customer-facing solutions. So we're -- in that other 30%, we're getting into natural language and some of the other things. And I think that part of the evolution will accelerate for sure in the coming months.

Charles J. G. Brindamour
CEO & Director

Guillaume, anything you want to add on this front?

Guillaume Lamy

Yes. Maybe I can add a couple of comments to, I guess, get more concrete on some of the benefit that we're seeing in the field. So Patrick was talking about machine learning and pricing. We've rolled that out in auto in many places and property. It's a bit more recent. And one thing that we've seen in property we're able to push more rates and retain more units at the same time. Usually, those 2 things kind of go against you get more rate, a bit of a cost on newness with the new techniques that -- and the new models that we've deployed, we're able to double down on that and get the benefits on both sides.

I think UBI is another area where we're investing quite a lot of efforts from the team. Again, from a pure segmentation perspective, this is very powerful. We're seeing between the best 1/3 of the drivers and the worst 1/3 of the driver, a 65% loss ratio difference. And through our latest iterations and the model, we're going to leverage more and more of that predictive power and drive segmentation benefit through retention. So those are, I guess, 2 concrete examples of the things that we do in the field with the tools that Patrick and team are developing for us.

Charles J. G. Brindamour
CEO & Director

So -- and I don't know, Geoff, is behind your question, the recent advances in generative AI. If we go back to our thesis 7, 8 years ago, what's happening is not surprising. I mean you could foresee that this is what AI would do. There's been a step change in the past 3 months. There's absolutely no doubt about it. I think from an impact point of view, less so in the quantitative world. But certainly, in the world of human interaction language, video, text, et cetera, change there. So our work today is to figure out, as Patrick has pointed out, how we can accelerate outside the quant world, some of the techniques that we've deployed. And so, we're excited by this evolution.

Operator

Your next question comes from Doug Young at Desjardins Securities.

Doug Young
Desjardins Securities Inc., Research Division

I wanted to start just in Canadian commercial. I think there was mention in the MD&A and maybe in the discussion that you're seeing increased competition in large accounts, specialty lines. Hoping you can elaborate a little bit, where are you seeing more pressure? And how are you counteracting that?

Charles J. G. Brindamour
CEO & Director

Thanks, Doug. I'll ask Darren to share his perspective. But in aggregate, the market conditions haven't changed much. I think in Q1, we've lost a few large accounts in large accounts in specialty lines. As a result, these are needle mover. Is this increased competition or a few one-offs. I'm not sure, but Darren, you're closer to the field, maybe you have color.

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Yes. Thanks, Doug. I think before I go there on the large account space, just a few comments on the -- what we call the regular commercial lines book. So that's both our SME and our middle market portfolio. Like in the specialty lines space, as Charles alluded to, market remains hard there. I mean, retention remains strong, though at the same time. And our pricing strategy, our risk selection strategy very much continues. We are seeing a pickup in quotes, which is encouraging, and that's very much a function of the service and speed of which our teams are operating at in the, as I say, the SME and also the mid-market. Really, the pressure point, as we've highlighted, is specialty lines, and we did see negative growth, premium growth in the quarter. And it was about 5 points impact due to, I shall say, profitability actions. And that's a scenario of in one particular case, a large account where the risk profile changed and deteriorated, and our decision was made to not offer terms or in a few other cases where the terms and conditions that we did offer in the market were not accepted from a renewal standpoint. So we did not successfully place the renewal.

We do see that these are largely onetime in nature. However, obviously, you had picked up a notion of large account. That's a little bit reflecting some of these onetime things that definitely is a little bit more competition coming into that space, a little bit more capacity coming into that space. But our message to our underwriters and they're executing exceptionally well, which is we're maintaining our discipline, and we'll continue to operate accordingly in the marketplace.

Charles J. G. Brindamour
CEO & Director

Yes. So quite favorable market conditions still in CL and SL across the board.

Doug Young
Desjardins Securities Inc., Research Division

And just a follow-up on that. I know you gave pretty good detail on written and earned premium increases in personal auto. Can you talk a bit about what you're getting in commercial from an earnings and written perspective?

Charles J. G. Brindamour
CEO & Director

Sure. When I look at really both written and earned, very consistent with past quarters, up in the high single-digit range. When you reflect changes in exposure, in other words, increases in the amount of insurance due to rebuild costs and so forth. We're up in the low double-digit premium change range, and that's consistent both from a written and an earned standpoint. And as I said, beyond that a little bit of challenges in the large accounts space is consistent very much with all of '22 and even before that as well.

Doug Young
Desjardins Securities Inc., Research Division

And then second, just on the U.K. commercial, I think last quarter, I think it was written, the industry premiums were expected to grow in the upper single digits and now it looks like the outlook is for mid- to upper single digits. So a little tweaked, just wondering if there's something to read into that on the UK&I commercial? And if so, where are you seeing some pressure in that line?

Charles J. G. Brindamour
CEO & Director

Darren or Ken. Yes, Ken why don't you share your perspective...

Darren Christopher Godfrey
Executive Vice President of Global Specialty Lines

Yes, on the U.K. market from a commercial lines point of view, I would say, firstly, overall, the specialty and domestic commercial lines market broadly remains hard. We're continuing to see that favorable rating environment at that mid- to upper single-digit rate. I would say notably in property and liability portfolios. And there are a few pockets of the market that are seeing some rate tempering, I would say, notably, Profin and the D&O lines, which I think is consistent with North America. And that's after multiple rate hikes over the last number of years. Looking ahead, I think the expectation would be hard market conditions broadly to continue given hard reinsurance market inflation, CAT activity, and we see continuing capacity is entering the market, which is increasing competitiveness, but we expect that those pressures will broadly keep the market discipline over the next 12 months.

Charles J. G. Brindamour
CEO & Director

Yes. And we're thrilled with the performance of the commercial lines business and the specialty lines business in the U.K. Ken, maybe you want to provide perspective on combined ratio and what you're seeing in the field?

Kenneth Anderson
Executive Vice President & CFO of UK and International

Yes. Well, in terms of commercial profitability, Q1 indicative of the last number of quarters, an 88% combined ratio, we're seeing a little less CAT activity. But overall, the expectation is that, that business is running at that 90% or thereabouts combined ratio moving forward.

Charles J. G. Brindamour
CEO & Director

Yes. I mean 2 things that I would observe in the U.K. One, the London market business under Steve Watson's leadership is really making the most of the environment and the performance is super strong. And then in the regions, we worked a fair bit on service and value proposition with brokers. We're appointing new brokers in the mid-market regional business in the U.K. under Lemonis leadership and volumes are picking up there. And so for me, that's concrete sign that the opportunity we see in the mid-market business in the U.K. is really there and starting to pay off with bottom line that's really strong.

Operator

Your next question comes from Tom MacKinnon at BMO Capital Markets.

Tom MacKinnon
BMO Capital Markets Equity Research

Just a quick one here. Just some clarification. I think you said for all of your UK&I that you'd be looking for high 90s combined for 2023 and a low 90s combined by the end of 2024. Do I have that right? And what would be driving that improvement?

Charles J. G. Brindamour
CEO & Director

No, Tom, we said upper 90s in PL in UK&I. And just UK&I overall in Q1, what I would consider results in PL that are not at the level. We want them at 94.6% in aggregate, not a bad performance, but Ken, why don't you provide a bit more color so that...

Kenneth Anderson
Executive Vice President & CFO of UK and International

Yes. Indeed, the PL performance in Q1 at 107% was clearly elevated. I think out a few things, though. Firstly, it was unusual adverse prior year development of about 5 points, largely driven by the strengthening on that December freeze event. I would also point out, Q1 is a seasonally higher quarter 2 to 3 points of seasonality this year. So overall, I'd say the underlying PL business is running around 100% core currently reflecting that inflationary environment that we're in.

But as we look out further, the pricing and risk selection actions that we've been taking should start to bring benefits in the coming quarters. there's double-digit written rates going through and they will start to earn, as I say, in the coming quarters. Also, we've been investing in technology in PL, both on the claims and the policy admin side and those will start to come on stream improving our capabilities. So with this, that upper 90s core overall for the rest of 2023 is...

Charles J. G. Brindamour
CEO & Director

In PL.

Kenneth Anderson
Executive Vice President & CFO of UK and International

In PL, improving further as you look out into 2024 in PL towards a mid-90s PL objective, and that should be contributing overall to a UK&I end of 2024 sustainable low 90s performance.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And part of that, does any of that remaining run rate of synergies help there? Or is that largely a Canadian piece? Or is that largely not in your combined ratio expectations?

Charles J. G. Brindamour
CEO & Director

Louis?

Louis Marcotte
Executive VP & CFO

Mostly Canadian at this point, maybe a bit of loss ratio improvement but largely Canadian.

Operator

Your next question comes from Brian Meredith at UBS. .

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them here for you. Just first, just a clarification on the commercial lines business. The targeted portfolio actions, was that the large commercial business you're talking about? And if you kind of strip out that stuff, what premium growth would look like? And will that continue going forward?

Charles J. G. Brindamour
CEO & Director

Brian, we'd be more in the upper single-digit range in Canada and would be our expectations going forward as well.

Brian Robert Meredith
UBS Investment Bank, Research Division

Perfect. That's helpful. And then the second question, I'm just curious, Charles, can you talk about your competitive positioning right now within the personal auto space, and you continue to see declines in units, policies in force. At what point do you think here you're going to be in a position to start gaining some market share?

Charles J. G. Brindamour
CEO & Director

So first of all,, one of the points we've mentioned about, I don't know, 6 months ago, something like that, is that we expect competitors to increase the speed of reflecting inflation and pricing, and that's happening. And therefore, you've seen us shrinking by 3, 4-ish percent 6 months ago, and we're now growing at about 5%. The units are not there completely. I expect that to turn, but I'll let Guillaume provide his perspective at this stage. But there's clearly momentum Brian, in the top line in auto in an environment in which we're comfortable growing.

Guillaume Lamy

Yes. I guess to put some numbers on what Charles was describing. So growth was 5% this quarter, up from 2% last quarter and minus 1-ish 2 quarters ago, coming mostly from rates, but that's been supported by very strong retention despite us increasing rates. And new business level has been improving. We start seeing increase in shopping activity, especially in digital and direct channel. So if you remember last year, we're saying core volume was very low. We're expecting it to resume as the industry was taking action. We slowed marketing investments at the time as the cost to drive submission didn't make really kind of make sense. And now we've seen the movement there that we're expecting, more people shopping for insurance, and we're seeing the top line momentum as a result.

That being said, I think we're not done on rates. I was mentioning like we're at close to 9 points now, and we expect to maintain that in the near future. So we plan to keep that momentum as stay ahead of inflation. So premium growth should remain strong. But until the industry is fully caught up on rates, we expect unit growth to stay relatively muted. We expect that to move in the short term, but stay but stay relatively muted given we're still active on the rate front.

Operator

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

Grace Helen Carter
BofA Securities, Research Division

I have a follow-up to the last question. The policy count and personal property held up pretty well relative to what was going on in personal auto. I was just curious if you could give us any color on what's going on there? And if there's any sort of mix shift going on between bundled and nonbundled customers that would drive that?

Charles J. G. Brindamour
CEO & Director

I think in personal prop, Grace, the market was harder to start with. I think the industry has been on a multiyear journey to move rates. And as a result, the environment and with average premiums going up in personal property on its own, it's a product that customers are focused on. It's quite different from a behavior point of view from where we were 10 years ago. So I think the market was further in dealing with inflation and natural disasters in home insurance, and that's why units held to a greater extent. We have from a bundling point of view, I think we're north of 50-ish 50% to 60% bundling, but we've had a push to grow, in particular, in the direct channel, the home insurance portfolio, and we're happy with single home policies as well. You put all that together and I think you get the sort of results that you're seeing. Guillaume, any color you think is warranted?

Guillaume Lamy

No. I think I'd just point back to what I was describing a bit earlier, where we're deploying the new machine learning models in personal property, and that's been done last year and in the past few quarters. And as I said, this has drove retention lift for a similar level of premium and new business competitivity has also increased as a result of that. So I think it's both a combination of the market being receptive as well as our own action driving benefits there.

Operator

Your next question comes from Nigel D'Souza at Veritas Investment Research.

Nigel R. D'Souza
Veritas Investment Research Corporation

I wanted to circle back to PYD, and I understand that there's a benefit under IFRS 17, the PYD looks like it's about 1 to 2 percentage points. So I was just wondering if you could highlight what the PYD ratio would have been this quarter if you was still under IFRS 4. And my understanding is that the profitability in IFRS 17 is the same over the long term. So is there an offset to that favorable impact of PYD either in the short term or long term under IFRS 17?

Charles J. G. Brindamour
CEO & Director

Yes, there's an offset to the current accident year. And that's one additional reason why we think you should look at both combined. Louis is the expert on IFRS 17, so I'll let him share his perspective.

Louis Marcotte
Executive VP & CFO

Yes. So I will say, generally speaking, we expect to be neutral overall on combined ratio, but the big change is the -- when you take out the unwind and move it, that has been the impact on the PYD. So you mentioned 1 to 2 points. That's roughly where we thought we'd land in terms of improvement to the PYD. It's reflected in the numbers. We haven't back tracked 2023 into 2022, frankly speaking, but the 1 to 2 points is probably a bit of a proxy. So it's a bit more elevated than it was in the past.

You've seen a rise in the PYD on the restated basis between '22 and '23, but that's a true rise in an undiscounted PYD basis that gave -- landed at 7% overall. So in the long term, clearly, there is a shift of the unwind into the investment income that will improve the overall combined ratio neutral on NOIPS and lead to a slightly higher PYD percentage that we will report going forward.

Charles J. G. Brindamour
CEO & Director

That's in part why we upgraded the aggregate guidance last quarter from 1 to 3 to 2 to 4 to take that into account. At that point, is a drag to current accident year and therefore, in balance, everything is the same.

Louis Marcotte
Executive VP & CFO

Correct.

Nigel R. D'Souza
Veritas Investment Research Corporation

Okay. That's helpful. And then if I could -- second question was on operating net investment income. I believe you guided to $1.1 billion annualized for 2023. And this current run rate would imply something a bit above that. So just wondering if that guidance has been updated. And also, is there any impact to how trading activity is recorded into IFRS 17?

Louis Marcotte
Executive VP & CFO

So our revised guidance now is north of $1.2 billion. So you correctly picked up, we have beat our guidance in Q1 with a 44% increase in investment income, driven clearly by higher yields and, I would say, higher turnover. So it's a good tailwind, and that will lead to the north of $1.2 billion for full year. So it is an increase in the guidance of more than $100 million, and you'll see that in the run rate in the future quarters continuing. And here, essentially on the investment income itself, no impact from IFRS 17. Now that's the investment income. The words investment results are after deducting the unwind that obviously changes, but the investment income itself, dividend and interest is unimpacted.

Operator

There are no further questions at this point. I will turn the conference back to Shubha Khan for any closing remarks.

Shubha Rahman Khan
Vice President of Investor Relations

Thanks, everyone, for joining us today. Following the call, a telephone replay will be available for 1 week, and the webcast will be archived on our website for 1 year. A transcript will also be available on our website in the Financial Reports and Filings section. We will be hosting our virtual 2000 -- 2023 Annual and Special Meeting of Shareholders at 1:00 p.m. Eastern Time today. You may join the meeting via the live webcast on our website. Our 2023 second quarter results are scheduled to be released after market close on Wednesday, August 2, with an earnings call starting at 11:00 a.m. Eastern, the following day. Thank you again, and this concludes our call for today.

Operator
Ladies and gentlemen, this does conclude your conference call for this morning. We would like to thank you all for participating and ask you to please disconnect your lines.