S&P Global
Market Intelligence

Intact Financial Corporation TSX:IFC

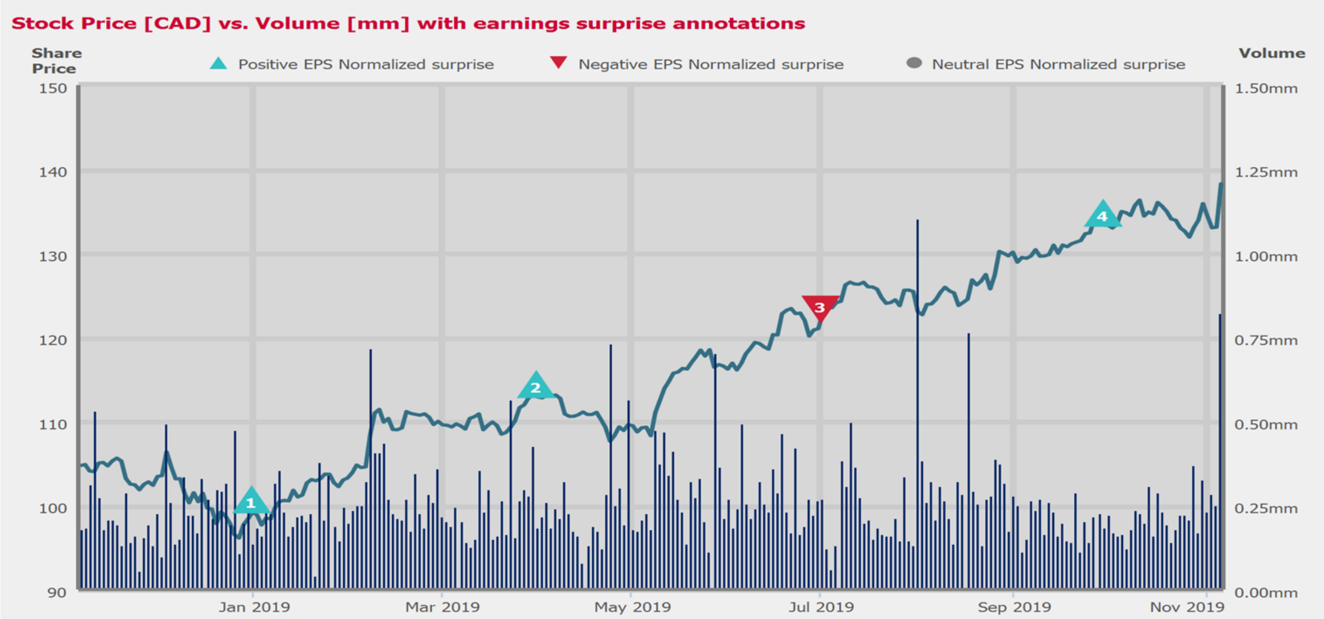
FQ3 2019 Earnings Call Transcripts

Wednesday, November 06, 2019 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.78	1.91	7.30	2.06	6.13	8.07
Revenue (mm)	2594.57	2581.00	(0.52 %)	2609.00	10196.98	11329.65

Currency: CAD
Consensus as of Nov-06-2019 12:05 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2018	1.74	1.93	10.92 %
FQ1 2019	0.60	0.73	21.67 %
FQ2 2019	1.76	1.44	(18.18 %)
FQ3 2019	1.78	1.91	7.30 %

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved
spglobal.com/marketintelligence

Table of Contents

COPYRIGHT © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved

Call Participants

EXECUTIVES

Charles Brindamour
CEO & Director

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Kenneth Anderson
VP of Investor Relations & Treasurer

Louis Marcotte
Senior VP & CFO

Unknown Executive

ANALYSTS

Doug Young
Desjardins Securities Inc., Research Division

Geoffrey Kwan
RBC Capital Markets, Research Division

Jaeme Gloyn
National Bank Financial, Inc., Research Division

John Aiken
Barclays Bank PLC, Research Division

Mario Mendonca
TD Securities Equity Research

Meny Grauman
Cormark Securities Inc., Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Paul David Holden
CIBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Intact Financial Corporation Third Quarter 2019 Results Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today Ken Anderson, Deputy Senior Vice President, Investor Relations and Group Treasurer. Thank you. Please go ahead.

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.

Before we start, please refer to Slide 2 for cautionary language regarding the use of forward-looking statements, which form part of this morning's remarks. And Slide 3 for a note on the use of non-IFRS financial measures an important note some adjustments terms and definitions used in this presentation.

Joining me here in Toronto 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 Q&A.

With that I will turn the call to our CEO, Charles Brindamour. Good morning, everyone. Thanks, Ken, and thank you for joining us today.

Charles Brindamour
CEO & Director

Good morning, everyone. Thanks, Ken, and thank you for joining us today. Last night, we announced strong third quarter results with net operating income per share increasing 18% to $1.91.Our underwriting performance in both personal and commercial lines to deliver a strong combined ratio of 92.3%. Favorable market conditions continued in the third quarter with significant rate momentum across all our lines of business. Top line growth accelerated to 11% with double-digit growth on both sides of the border. In Canada, the [hung] market is not a surprise on the back of estimated industry ROE running below 4% in the 12 months to June 2019. We continue to outperform the industry ROE by over 800 basis points, and we're exceeding our 500 basis points outperformance target, but our focus is firmly on returning operating ROE to the mid-teens. So let's look in more detail at our results by line of business starting here in Canada.

Personal auto premiums grew 12%, a significant step-up from the 6% we recorded in Q2, and 1% in Q1. Growth was again fueled by rate increases and was bolstered by a 2% increase in units in the quarter as our competitive position continue to evolve favorably. The combined ratio improved 5.6 points from Q3 last year to 93.4%, our best third quarter performance in auto for 6 years. The underlying performance was excellent, on the back of lower frequency and substantial rate increases. Our actions in auto are working quite well. Market conditions remain hard. The industry grew north of 8% in the first half of '19, and we saw further rate increases across the country in the third quarter. Our focus remains on portfolio quality, and we're well positioned to capitalize on market conditions and continue to grow personal auto at a mid '90s combined ratio moving forward. Personal property premium growth also accelerated to 8% with rate increases and improving unit growth. The combined ratio of 89.1 included lower than expected cat losses [indiscernible] close to 4 points of above average non-cat weather losses. The actions we've taken over time in property have been successful. While we can anticipate some quarterly fluctuations, the fundamentals are strong, and property is positioned for low '90s performance moving forward, consistent with our 5-year track record. The industry in this segment grew in excess of 6% in the first half of '19, and we expect growth to continue in this range in the coming year. Looking at in both personal and commercial lines to deliver a strong combined ratio of 92.3%.Favorable market conditions continued in the third

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

quarter with significant rate momentum across all our lines of business. Top line growth accelerated to 11% with double-digit growth on both sides of the border. In Canada the hard market is not a surprise on the back of estimated industry ROE running below 4% in the 12 months to June 2019. We continue to outperform the industry ROE by over 800 basis points and we're exceeding our 500 basis points outperformance target, but our focus is firmly on returning operating ROE to the mid-teens. So let's look in more detail at our results by line of business starting here in Canada.

Personal auto premiums grew 12%, a significant step-up from the 6% we recorded in Q2. And 1% in Q1.Growth was again fueled by rate increases and was bolstered by a 2% increase in units in the quarter as our competitive position continue to evolve favorably. The combined ratio improved 5.6 points from Q3 last year to 93.4%, our best third quarter performance in auto or 6 years. The underlying performance was excellent, on the back of lower frequency and substantial rate increases. Our actions in auto are working quite well. Market conditions remain hard. The industry grew north of 8% in the first half of '19 and we saw further rate increases across the country in the third quarter. Our focus remains on portfolio quality and we're well positioned to capitalize on market conditions and continue to grow personal auto at a mid '90s combined ratio moving forward. Personal property premium growth also accelerated to 8% with rate increases and improving unit growth. The combined ratio of 89.1 included lower than expected cat losses but close to 4 points of above average non-cat weather losses. The actions we've taken over time in property have been successful. While we can anticipate some quarterly fluctuations. The fundamentals are strong and property is positioned for low '90s performance moving forward, consistent with our 5-year track record. The industry in this segment grew in excess of 6% in the first half of '19 and we expect growth to continue in this range in the coming year. Looking at commercial lines in Canada, all segments contributed to the top line growth of 13% in the quarter. We saw double-digit rate increases and continued strong new business and renewals. The combined ratio of 91.8 were solid despite lower-than-expected prior-year development. The fundamentals in commercial lines are very good, and rate increases are continuing to flow through the system. The industry outlook for Canadian commercial continues to improve, and we expect the current hard market conditions to sustain upper single digit to low double-digit industry growth over the next 12 months. We're positioned for growth and expect to run this business at our historical low '90s combined ratio moving forward.

Turning to US commercial, so premium growth in the third quarter was strong, 10% on a constant currency basis. With over 20% growth in the segments not undergoing profitability improvement. The combined ratio of 95.9 include some increased claims activity which reflects quarter-to-quarter fluctuations, which can be expected. The year-to-date performance at 94.9% has been dragged by weak performance in lines under profit improvement. After a careful [indiscernible] of these businesses effective July 1st, we took the decision to exit the health care segment, which represents approximately 5% of our annual premiums in the US. Pro forma, the year-to-date combined ratio in US commercial was 92%, keeps us on track to achieve our goal of sustainable low '90s performance by the end of 2020. The US market is also evolving in our favor with hardening conditions now evident across a number of lines. We expect the US commercial industry to grow at a mid-single digit rate in the coming year, and we expect strong growth to continue in the profitable segments of our portfolio. Turning to strategy, while we've been successful in delivering on our financial objectives over the past decade, and our aim is to deploy strategies to sustain this performance in the decade ahead.

During the third quarter, we advanced meaningfully in my view. We deepened our presence in the supply chain with the acquisition of on-site restoration, which closed on October 1st. This is a big move to improve customer experience while capturing margins in a business, which helps customers get back on track. In August, we also reached an agreement to acquire both the guarantee company of North America and Frank Cowen Company. With this transaction we hit a number of strategic objectives. We bolster our Canadian leadership position and add new products catering to high net worth individuals. We enlarged our North American specialty platforms on both sides of the border and cement a top-6 position in the attractive surety segment in North America. With Frank Cowen Company, we acquire an MGA platform to manufacture and distribute specialty insurance products in Canada, which comes with a stable stream of distribution earnings. Frank Cowen also expands our presence into the public entity space in Canada, a specialty we already know well in the US. Most approvals have now been received and closing is on track or before year-end. Transition planning with the guarantee in Frank Cowen teams is already well

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

underway. The financial merits of these transactions are also compelling in our view, with each delivering an IRR in excess of our 15% threshold. Together we expect immediate NOIPS accretion increasing to mid-single digit within 24 months. So on conclusions, results in the quarter were strong, and the fundamentals continue to improve in all lines of business. We're focused on portfolio quality, while taking advantage of the momentum we see in the current market. Our competitive position also continues to improve and with strong third quarter performance, we're on the path to return operating ROE to our historical mid-teens level. We're now posting double-digit organic growth and improving market conditions. At the same time, we bolstered our earning power further with measured and strategic capital deployment. We're maintaining a strong balance sheet and stand ready to deploy capital should further opportunities arise. So we're well positioned to exceed on our financial objectives to beat the industry ROE by over 500 basis points, every year and grow net operating income per share by 10% annually over time as we have in the past decade.

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

Louis Marcotte
Senior VP & CFO

Thanks, Charles, and Good morning everyone. We delivered strong net operating earnings of $277 million in Q3, up 17% from last year, driven by premium growth, higher underwriting margins, improved distribution results, and benign weather. Underwriting income was up 30% over last year to $198 million, driven by strong performance in Canada where we delivered a 91.8 combined ratio. Net investment income grew 7% over last year to a $146 million driven by an increase in assets under management and marginal year-over-year yield improvement. We expect full-year net investment income to increase by about 6%. Distribution EBITDA and other income grew 37% to $56 million as hard market conditions are fueling higher broker commissions and better margins. In addition, 2019 continues to be a strong year for broker M&A with a 25% increase in transactions completed year-to-date in a robust deal pipeline. We expect full-year 2019 distribution and other income to grow north of 20% versus 2018.

I will provide further guidance on 2020 expectations during our Investor Day on November 19th. Let me provide some additional color on the underwriting results, beginning in Canada. Personal auto growth of 12% was fueled by written rate increases of 8% in hard markets. This should drive earned rate growth north of 7%, well into the second half of 2020. In addition, our competitive position in auto is improving as evidenced by a return to unit growth for the first quarter in almost 3 years. Auto profitability was solid in the third quarter at 93.4% even after adding 1 point of favorable seasonality. Prior year development was muted in the quarter, and we expect it to remain muted in the near term. Overall, with strong top line momentum and sustainable profitability, we are well positioned to drive profitable growth in auto moving forward. In personal property, written premiums grew by 8% with rates up 5%. As expected with auto unit growth accelerating, our bundled products are also bringing benefits to personal property. In this line of business, the combined ratio was strong at 89% as low cat levels were partially offset by non-cat weather and fire losses. The Canadian expense ratio was lower at 27.8% as we continue to manage expenses carefully and benefit from growing premiums. We expect the full-year expense ratio to be in line with our year-to-date figures.

Turning to US commercial, the underlying loss ratio of 58.1% deteriorated 1.1 points, driven by large losses in a few businesses. This is not a concern as specialty lines profitability can fluctuate quarter to quarter. On the non-operating side, we incurred $44 million in pre-tax equity impairment charges this quarter. Such impairments do not impact our book value or capital levels as the assets are already mark to market. A few words on our financial position and the financing of the guarantee and Frank Cowan. Our balance sheet is very strong as we ended the quarter with a total capital margin of $1.1 billion and an MCT at 195% after repaying $250 million of medium-term notes. This takes our debt to total capital ratio to 19.3% below our 20% target.

Our Q3 capital position excludes any proceeds from these subscription receipt offering completed in August, which raised gross proceeds of $461 million for the financing of the guarantee and Frank Cowan. The balance of the $1 billion price tag is expected to be financed with the combination of excess capital and bank borrowings. Our debt to total capital ratio is expected to rise a couple of points above 20% at

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

close and should be back to 20% in 2020 leaving us in good shape to capture future growth opportunities. A quick reminder on the value creation expected from the acquisition, we expect to save 10 points from the guarantees 3-year average combined ratio of 98% over 3 years, we see 4 areas of improvement. Better underwriting and data driven risk selection, claims handling and supply chain practices, at least $20 million in expense savings, and optimization of the reinsurance programs. The guarantee Frank Cowan and onside represent highly strategic, synergistic, and financially attractive transactions for IFC. In aggregate, they are expected to deliver mid-single digit lives accretion by 2021.

Before I conclude, there are 2 points I would like to cover on weather. Firstly, we're at the point in a year where we usually reevaluate our view of annual cat losses. Our annual estimates reflect a longer-term view of trends as well as our premium base and acquisitions. Reflecting these factors, we are raising our annual cat expectations to $300 million per year. We continue to expect approximately 75% to impact personal lines, and we would expect about 1/3 of the annual estimate in each of Q2 and Q3. Secondly, the cost of the heavy wind and rainstorm last weekend in Central Canada is expected to slightly exceed the catastrophe level recorded in Q4 2018. As usual, our troops are on the ground and are doing a great job to get our customers back on track fast.

In conclusion, top line is clearly showing a strong momentum, and we are yet to see the full impact on earned premiums. Earnings are solid on both sides of the border with auto showing strong signs of sustainable profitability. Book value per share increased almost 3% in the quarter, and we are on the path to return operating ROE to our historical mid-teens level. A good proof point is if we annualized the operating ROE in the third quarter, we are north of 15%. We are well positioned right now, both from a top line profitability and balance sheet point of view. We stand ready to deploy capital as opportunities arise to add further value for our shareholders. With that, I'll turn the call back to Ken.

Kenneth Anderson
VP of Investor Relations & Treasurer
Thank you, Louis in order to give everyone a chance to participate in the Q&A. We would ask to kindly limit yourselves to 2 questions per person. If there is time at the end you can certainly re-queue for a follow-up. So Cheryl, we're now ready to take questions.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] The first question comes from John Aiken of Barclays.

John Aiken
Barclays Bank PLC, Research Division

Just wanted to get a little more color on the US commercial operations. We've seen some pressure on the contribution of the last couple of quarters and on a year-over-year basis. Was hoping that you could talk about what's happening on the net earned premiums because that's been flattish over the last couple of periods and also you talked about higher claims impacting the combined ratio. But my understanding is with the health care being pulled out, it actually looks like the impact on the quarter was a little bit more damaging than just the 2 points, if you give us some color around what was happening on those higher claims, I'd appreciate it.

Charles Brindamour
CEO & Director

The performance of the US operation 9 months in, is around 94.9% that's including health care. I think if we strip out health care we're at 92.8% and well on our way in my mind towards low '90s combined ratio performance by the end of 2020. There is fluctuation from quarter to quarter, it's a business that is specialty in as a number of segments, but overall, not big issues there as far as I'm concerned, I think we are on track. I think there is a number of lines that are under profitability improvement, and there's good progress being made there, and I think in health care, we didn't see a way to low '90s performance in the midterm, and we've decided to move away from it. I'll ask, I think to give a bit of perspective on the health care decision and the US performance in general.

John Aiken
Barclays Bank PLC, Research Division

So maybe just a bit of context on the health care decision. That's a line of business unit that was already undergoing some forms of correction when we bought [indiscernible] 2 years ago, so fundamentally, the plan was to really exit long-term care, large facility, and everything.

Charles Brindamour
CEO & Director

When we look at that at the time we really felt that we were able to bring the line of business in the low '90s. I would say 20 months in the plan, it became clear that the action needed would be a lot more than what we were doing right now, and I would think -- we were seeing changes in the health care environment. Our plan was really to focus on in [indiscernible] single physician outpatient care facility, small one and what we're seeing is a lot of physicians are leaving private practice, joining larger organization, hospital are pushing acute care treatment into small medical facility for outpatient. So all of a sudden, those were picking up larger exposure that are normally in hospital, and we were shrinking the portfolio because of all the action we were thinking, we're not a large player in that field. So looking at all of that, results that needed more action, portfolio that was getting smaller, and the structural changes happening, it became probably clear for us that the best option we had was to really sell the renewal right. Okay. And basically exit the business unit, and that's what we did in September. Maybe a comment on the net-earned premium for the quarter, when you compare the quarter 2019 to 2018, you see flat, but that's because in 2019, there is no health care and in 2018, health care was included. So the net-earned premium is really picking up on the growth we're seeing.

Louis Marcotte
Senior VP & CFO

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Yes. And the other point I would make about net-earned premium is that in specialty lines not all products are yearly products that are evenly earn through month but if you compare quarters to quarter, you see that Q1 over Q1 was 314 to 353, Q2 over Q2 was 340 to 343, and Q3 over Q3 is flat. And if you go back in 2017, you see a progression as well despite I think exited. And I would echo Charles comments about the volatility of the results -- like quarter to quarter, it can fluctuate for large losses and everything. I think the more relevant number is the pro forma numbers excluding health care of 92.8. I think that's a better view of where we are in terms of profitability. To give you the comparable number for the full-year 2018, it was 93.3. So I think we're taking the actions that are necessary to bring us in the low '90s.

John Aiken
Barclays Bank PLC, Research Division

Just one further, one follow-on question if I may. And I'm not going into specifics, but are there any other the lines that are under profitability improvement that may be under review in the future to exit?

Charles Brindamour
CEO & Director

So I mean we have 3 lines under review at the moment, and the work that's being done in each of those 3 lines by the business unit leaders running those 3 lines is in my view impressive and taking advantage of the market in which we operate. And I have great faith that these lines will be back in the low '90s performance in the near to mid-term. So, no, the answer is no.

Operator

The next question comes from Geoff Kwan of RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, Research Division

Okay. My first question was. There has been a little bit more chatter In NBC about potentially looking at some point moving to more of a no-fault system like what's in Ontario, and I'm just wondering from your perspective -- from Intact perspective, if we didn't have ICBC in existence, is there one provinces kind of set up that you think is better for you?

Louis Marcotte
Senior VP & CFO

So the best solution to be is to have a private competitive marketplace and whether you have a no-fault product or a tort product, in my mind you would get better outcome for BC drivers there is absolutely no doubt in my mind there. I think that the no-fault product for both car repairs and bodily injury can be a very effective product provided that it's not overly rich, so as to invite third parties to take advantage of the richness of the product, and so I think no fault are very good characteristics provided that the coverage offered to drivers is one that's commensurate with the actual needs of the drivers, as opposed to being overly generous as we have seen historically in Ontario. And I think that some of the reforms that are in the pipelines are the ones where governments across the line are trying to take abuse out of the system and really right side or right-size the coverage that's being provided and increased care for drivers. So I think both systems can work in my mind and have proven to work in a number of provinces in Canada. I don't think no-fault is a panacea to automobile insurance issues it's calibrated one could get the job done, but far more important than my view is choice and private competition.

Geoffrey Kwan
RBC Capital Markets, Research Division

Okay. And just on the on-site acquisition, I know it's obviously like a reasonably small acquisition, but is this a sort of thing that you might see a bit more evolution in terms of a little bit more vertical integration and then also to the extent that on sides other insurance customers lay-by, I'm assuming that would get factored in, with the kind of the 2-year payout that you've structure for the transaction?

Charles Brindamour

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

CEO & Director

Yes. So I think on your vertical integration question, if you look at it from a strategic point of view, over 10 years, we've outperformed the industry ROE by 650 basis points, a third of that came from leveraging our size in claims. A big portion of that strategy is about getting customers back on track our sales to the greatest extent possible. It means in practice that we're managing ourselves 99% of claims as opposed to using third parties. We have a preferred provider network where more than 2/3 of our repairs both in home and in cars are done. We're 70% of the defense work of our customers is done by our legal team of close to 400 people. We've developed few years back a number of service centers in automobile insurance so and now our perspective is that when it comes to home repairs what is very clear is that when we look at what customers are telling us, the restoration process is the area where there is the biggest upside from a customer-experience point of view. The other key observation there is that there is a big capacity issue because the level of natural disasters has increased over time. So we see a couple of things, one, a big opportunity to improve customer experience in home restoration and two, a big opportunity to build a business in a space we know that's relevant to our core manufacturing business where there is a big capacity problem at the moment. And so should one expect to see more of that I'd say absolutely certainly in home restoration. And again, the more we can get involved in helping customers get back on track with a second-to-none experience the more will do. I'll ask Patrick to give additional color. I recognized, I sort of covered key points but go ahead.

Well, first, I think you're right on the point. The -- maybe additional comments you were referring to other clients on On Side. So far, it's going well, with all the improvements we're making by putting the 2 operations together to design better process for clients is not only for our own clients, it's for all our On Side clients. There is a lack of capacity in the market and we -- I think with on-site would bring additional capacity, so we don't expect, and we're happy to continue to service through On Side, all of their customers.

Yes, I mean it's one of our objective to make sure that On Side is the biggest and best restoration company in the country and that is to the benefit not only of in tax customers but every other customers of On Side, that's very important to us.

Operator

Your next question is from Meny Grauman of Cormark Securities.

Meny Grauman
Cormark Securities Inc., Research Division

Question on the guidance on cat losses. And if you could just give more detail in terms of what new information went into expanding that guidance? Is there a new data that you have available? Is it based on just the more recent history that you're seeing, trends increase?

Charles Brindamour
CEO & Director

[Last] I think to give his perspective because he is the one managing the cats.

Yes, we outlook at those trends only in the short term. That can fluctuate obviously from 1 quarter to the other even on 1 year to the next. We look at each CATs, and we estimate to return periods, we look at an extended period of time, 5 to 10 years, and we'll make models based on that. I would say that the increase from 205 to 300 reflects some of that, but mostly the organic and the -- the organic growth and the new acquisition.

Meny Grauman
Cormark Securities Inc., Research Division

Yes, that's helpful and then just another question, just in terms of the high net-worth market in Canada. So one of the rationale for the recent acquisition. I'm just wondering how do you define high net-worth and how does this change your market share in that vertical?

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Charles Brindamour
CEO & Director

So we are not really in that vertical, quite frankly, and we've defined our appetite based on historically anyway, it's based on the size of your house, and how much your house would cost to reconstruct and past $2 million -- $2 million to $3 million, we really think that this is how the [indiscernible] of the expertise and the platform that we've built already and so anything above that is how we would define that segment. It is a rudimentary definition of the segment, but it's only a Peer one and we will build when we close the transaction unit. There will be entirely focused on that segment with a dedicated appraisal process, dedicated claim support, yet benefiting from our data, our pricing and risk selection, our claims expertise and our scale, and we're looking forward to tap into what we think is a market that is underserved today. Darren, anything you want to add.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

No, I think that's it. I mean I think we are positioning ourselves to be a meaningful player in that space, and I shall say there's not a lot of players currently in that space, and we are ready to tackle that space and be a leading player in the high net worth just as we are in the retail market as well.

Charles Brindamour
CEO & Director

As we chose historically not to play in that space because we felt we couldn't provide a second-to-none experience. Now, I think we're much closer to be able to do that, and we'll put our energy into getting there in the near term.

Meny Grauman
Cormark Securities Inc., Research Division

And how big is that market in terms of premiums?

Charles Brindamour
CEO & Director

Yes. So there is a wide range of estimate as to how big that market is, and it is a low single-digit billion dollar market.

Operator

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

Doug Young
Desjardins Securities Inc., Research Division

Just first question on the prior year reserve development 0.4%, well below what you've target 1% to 3%. I think it looks like there has been some pressure in the commercial side and just hoping to get a little bit more detail on that.

Charles Brindamour
CEO & Director

Yes it is. Doug, a little bit below 1%, which is at the lower end of the range, and I think we've said in the current interest rate environment, one should expect us to be in the near term at the lower end of that range and in deed 0.4% is below that. So you're right, there is a caution on our part in automobile insurance, we've signaled that before. And you're right that in commercial lines, there has been a bit less PYD then there has been historically I'll ask -- I'd like to share his perspective on that.

Unknown Executive

Okay. So what happened in the quarter is, as we took a basically a bit more prudent and stance on some of our commercial auto and trucking accident year which led us to revise ultimate the loss ratio by 1 point.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

It's very a minor adjustment on some accident here, commercial auto and trucking, which in total in the quarter amounted for about 4 points. When you look at it on a yearly basis, what happened is mostly what's affecting the PYD is a bit lower catastrophe, a bit more large losses in the PYD which can be very much fluctuation in lumpy and roughly about a point that's coming from the last quarter reserve review, and I would say this is really getting a bit more conservative on some of the accident here being a bit more prudent. So nothing major there, but it's -- that's it.

Doug Young
Desjardins Securities Inc., Research Division

What caused you to be more conservative? I mean this is long haul trucking, I would imagine. And is this stuff that's going across the border, just curious?

Charles Brindamour
CEO & Director

I think we were looking at different methodology or -- we are seeing a bit more claim activity on the trucking side on some aspect there and when you look at the ultimate, you're always faced with a range. Okay. So all our range were pretty much in middle of the range. I think right now, we would be in my qualification bidding -- being a bit higher in the range closer to be higher point.

It's an assessment of one segment of commercial auto done in 1 quarter, and I think that there is not an emergence of a trend there. I don't think.

Doug Young
Desjardins Securities Inc., Research Division

No, that makes sense. And then second, just personal property looked like there was elevated fire [alarming] -- I mean your combined ratio was good, but it looked like there was elevated fire losses. I think there is a similar issue last quarter, is there an issue here? Just hoping to get a little more detail.

Charles Brindamour
CEO & Director

Doug, I mean we continue to watch the fire side and you rightly point out, we've highlighted that in past quarters. Our position today continues to be like last quarter, it's a lot of noise. When I look at fire sort of province to province, some are up, some are down and it's fluctuating from quarter to quarter. So we don't see an underlying trend, we've done an underwriting review of many of our large losses, we don't have any concerns right now from a underwriting standard viewpoint. This was not a frequency issue in the quarter itself more just some movements on the severity side, so again watching very, very closely, but no underlying trend that concerns us at this point in time.

I think in the quarter. Doug, if you strip the CATs, this line is running at about 85 and there we think 4 points of non-cat weather in there beyond the historical average. So it gives you a bit of visibility on the level at which this line is priced.

Operator

Your next question comes from Michael Phillips of Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess a follow-up on that last question on reserves. So a quarter after you took the auto reserve charge anything 3 months later that makes you think that, maybe overshot that last quarter and then I guess drilling down kind of, can you talk about what you're seeing in the personal auto loss trends?

Charles Brindamour
CEO & Director

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

3 months in what we've seen is certainly an environment that gives us very good comfort in terms of where we closed Q2 as what I've seen. When I look at the trends in personal automobile, I mean the main trend in my mind is the fact that frequency is down a fair bit. I mean, it's down year-to-date 5.3% in personal auto. It's down in the quarter a couple of points. And you're seeing on the other side of the ledger rates at about 8% clip. Now there is a mix change and one should not subtract or add those 2 things to figure out where the combined ratio is going. But the big trends in my mind is that the frequency keeps coming down and as you know, partly driven if not, largely driven by the actions we've taken, and we're in an environment where in the upper single-digit rate increase. Darren.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

I think the only thing I would add to that Charley's out paid activity continues to be relatively benign as well. So that's another important point that we're watching very closely.

Charles Brindamour
CEO & Director

Yes, I think we've highlighted. That's a great point Darren and we've highlighted that in Q2. The paid is very steady. It's in the past 2 years, our caution was driven by the case activity, and I would say that 3 months in, we're seeing actually better activity on that front as well. And the paid remained stable.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That's helpful. I guess, sticking with personal lines in general. Anything else that would drive the expense ratio improvements from here besides increases in their premium.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Let's we share his perspective on the trajectory of the expense ratio, when and where we stack against the market maybe.

Charles Brindamour
CEO & Director

Sure. Thank you. So, as you know, we manage the expenses globally for all lines of business, and they benefiting now from the premium growth, certainly that's a positive impact when we manage those expenses. We're careful to hold back as much as we can, trying to leverage productivity improvements and then reinvest on the other side in technology, in AI, and other initiatives that we want to pursue actively. We're -- when we look at ourselves and compare to our peers in the industry, we clearly are successful at this, we are outperforming on the broker side of the business by 3 points on the expense ratio. And when I look at the direct business, we're actually outperforming the industry in the 700 to 800 basis points.

So we're successful there. And then if you add the premium growth to that, that's even improving the ratio itself, so it's on both sides, it's premium growth plus managing the expenses that has driven this -- the low expense ratio in the quarter. And we're going to keep pounding on managing the expenses in the same way going forward, and future premium growth will just make it a bit better.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

I think there are a number of powerful structural trends that we're focused on. And here, all the progress we're making in distribution is a separate source of distribution earnings, we need to recognize that, I think it will be above 200 million next year or this year. If you look at our core manufacturing expense ratio, in the broker channel, the expenses we control is less than 8%, and we're continually trying to improve that performance, but Intact Insurance is a very efficient operation.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

On the distribution, on the direct side of things, there is a big drive there to drive our expense ratio meaningfully below what it was historically, we've made really good progress on that point. This should help overall our expense ratio and aggregate and then across all operations both brokers and direct. We're deploying new platforms, which should help us make us more efficient over time.

Operator

Your next question comes from Paul Holden of CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

So I wanted to ask you a question regarding the potential longevity of this firm rate cycle and you've commented that you expect it to continue for another 12 months and our bench markets at a 10% ROE. So I guess my questions are, where do you think cost inflation is running across the lines of business? And how much rate would it take for the

Charles Brindamour
CEO & Director

Industry to roughly about 10% ROE.

Paul David Holden
CIBC Capital Markets, Research Division

So that's an across all lines of business.

Charles Brindamour
CEO & Director

If you can -- It's a hard one, you know what it's a good one. We'll think about it, come back on it at the Investors Day.

Paul David Holden
CIBC Capital Markets, Research Division

Second question would be a number of US commercial lines insurers have talked about loss pressure from litigation and settlements, wondering how you're thinking about that risk and if you're seeing similar pressure, I guess specifically in the US business. But maybe commercial just more broadly as well.

Charles Brindamour
CEO & Director

Yes. So I think that many people talk about inflation and liability in the recent past. And quite frankly, this is surprising to us because we have been focused on inflation and liability in Canada for many years, but in particular in the last 3 to 4 years where we've shared with investors that there was a fair bit of pressure coming from the fact that psychological damage, concussions, PTSD, and chronic pain was sort of invoked far more often than before and as a result, drove liability inflation. We've also talked about the fact that there has been over the past make it 3 to 4 years greater representation of lawyers on file -- so that inflation is not new and one we've been fighting for many years. In the US look, we've been exposed to the US now for 2.5 years, and it was very clear to us that inflation in casualty was an issue. Before we actually make the acquisition. That's why we've taken a number of measures to protect ourselves. That's why we have gone out of lines of business that we felt from a casualty point of view, at an exposure that was really difficult to price and that's why a big portion of our policies are actually claims made which reduce the tail that is exposed to liability and as you know, we bought protection also for the past in relationship with inflation. So, yes, there is inflation, I'm surprised that talked about now at something new because we think it's been percolating in the system for many years and very much reflected and the actions we've been taking over time. If it helps sustain this sort of recognition that there is inflation in liability drives harder markets, then we're all for it.

Operator

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

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

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Yes. First question is just related to the strong premium growth that we're seeing and how that's expected to impact the underwriting leverage in the business. Do you see room for that to expand and to what level do you think that could expand to within the next 12 months?

Charles Brindamour
CEO & Director

Listen, at this point, I don't see that expanding significantly. We're running at the -- an underwriting leverage of 1.5 roughly. I don't see that expanding meaningfully, we're careful that our capital position is strong and able to absorb the growth but not necessarily a significant increment in the deleverage itself.

And the way I think about leverage is really relationship. If you think about how leverage can evolve over time. Naturally, the relationship between the speed at which you're growing the earnings you're generating, which helped your book value growth, and I think that what we're aiming for in terms of ROE is above the speed at which we're growing as an organization. Of course, we're paying dividends in the exercise, but we feel like the capital generation of the organization can sustain the growth we're seeing in the top line. The other thing is a big chunk of it is rate driven.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And second question kind of on the will start on the ROE topic. Charles, you've talked previously about starting work on Monday morning with an 8% ROE from non-insurance operations essentially, given the growth in distribution, is there a shift in strategy? Or is there a sort of an unwritten strategy to increase that 8% through distribution and at what level do you think would be reasonable to think about?

Charles Brindamour
CEO & Director

Yes, that's a good question. It is not a shift in strategy, but there are side benefits to our strategy, and I'll let Louis give us perspective on that.

Louis Marcotte
Senior VP & CFO

So thanks for the question. As you point out, it's 8% Monday morning as we start the week. And I think the view here is to get that or mid-teens ROE more stable. We'd like to push that 8% we would be aiming to take it as high as 10% overall. And so there are sources of earnings that we can add to the investment to the distribution to increase -- that Monday morning ROE. I think those are initiatives we'd like to take. And so it is, you may say unwritten but it's clearly in our thought process to strengthen the base of the ROE. I wouldn't call this a shift in strategy. I think we've said that we would build a very strong distribution platform. The benefit is that you generate stable earnings growth, but the reason why we're scaling up our distribution is to make sure that we've got scale and distribution to invest in response in technology, put our product in front of Canadians in as many ways as possible and our view is scaling up distribution, the best way to fight disruption. And when you look at the earnings stream we're building in home restoration, it is countercyclical to the insurance product in property, but our objective there is really to make sure that we raise the bar in terms of the customer experience that we're providing tapped into a market that has the capacity issue. And yes, add to a stable stream of earnings, but it's part of a broader strategy.

Operator

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

Tom MacKinnon

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

BMO Capital Markets Equity Research

Just a couple of questions here. With respect to distribution income I think Louis, you said you would expect it to be growing north of 20. I assume that's organically because you are adding Frank Cowan to this going forward. That's the first question, is just got a couple of follow-ups.

Louis Marcotte
Senior VP & CFO

Yes. So my north of 20 was for full year 2019. Just to give a sort of where finished the year. I have not yet commented on 2020 we're keeping that for Investor Day. And the transaction is not closed yet as you know, we're expecting that to happen in Q4 before the end of the year so we'll pick it up next year.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. I think there was some comments about [indiscernible] growth north of 7% in the second half of 2020. Was that with respect to a particular line or was that for overall.

Louis Marcotte
Senior VP & CFO

That's just with respect to personal auto.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. Is there any commentary you can give on what you're looking for like organically for the entire company then in this regard?

Louis Marcotte
Senior VP & CFO

So if we look at all lines of business combined in Canada, so bear in mind, I won't make a US commercial point, but the best data point I would offer on that is, we are writing right now, our written rate change is 7.4% at the moment across all lines of business in Q3. So from that point of view, that's the kind of level one should expect will be earned in '20.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. So at the personal lines, I think it's north of 7 and overall it seems to be north of 7 then, and is there any reason why in the, you mentioned in the second half. Would it be lighter than that in the first half?

Louis Marcotte
Senior VP & CFO

I think the comment was, it would extend all the way through the second half. So not necessarily that...

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And then with -- In corporate, there is a negative 15, there is an expense of 15, it seems to be at least twice what you kind of run at, is there anything funny that happened in the quarter with respect to this other expense that you have in corporate?

Louis Marcotte
Senior VP & CFO

I wouldn't call it funny, I would say 2 non-recurring items both less than $5 million that just happened to happen here. So I wouldn't read too much into that. These are non-recurring items essentially that hit our

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

results in Q3. But I would. I would think of this going to be lumpy during the year, and I would look on a year-to-date basis as a better reference.

Operator

Your next question comes from Meyer Shields of KBW.

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

Great. I wanted to go back to health care, just because I'm a little confused. You talk about the issues that are impeding the improvement to a low '90s, those issues like with the physicians joining bigger practices, those sound like issues in terms of premiums as opposed to losses, if I'm reading that correctly?

Louis Marcotte
Senior VP & CFO

I think that where you have to read it is what we were -- all the plan on the health care to bring it back to the low '90s was to exit really exposed class going to [indiscernible] classes which means out of patient care facilities, small physician situation in all of that and what's happening in the structural health care system in the US is these tend to a bit disappear, there is less and less private practice disposition, they're moving into larger organization, and hospital are sending acute care patient to outpatient facility. So all of a sudden, those facilities that were basically very small classes that really low exposure are now are picking up hospital-type exposure. So we felt that this was a bit the market we were going after with a bit shrinking, disappearing and that made it very difficult for us to get that line of business back to the low '90s and would have cost a lot of volume. So we were getting smaller and smaller and smaller, so at some point you have to figure out, that it makes more sense to sell the renewal rate and get out of the business complete.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Our view is exposure was changing in the facilities, which we thought were low risk basically and so difficult to think that we can run that business in the low '90s, and liability associated with those facilities is really hard to price for.

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

Okay. That's helpful. Second question, and I don't know if it's related, but there was about $15 million of ceded adverse development, was it health care-related, and can you let us know how much limit remains on the, when do you can ADC?

Darren Christopher Godfrey
Senior Vice President of Personal Lines

So I guess we have never provided the exact figures on the ADC we -- what we're saying is there is plenty of room on the ADC at this point in time, particularly as we're further into the transaction. So there is nothing specific to add to that. I think the view is -- there is still quite a bit of room on that.

Louis Marcotte
Senior VP & CFO

But it is fair to say though that the bolt of the ADC usage to date is driven by the exited lines.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Absolutely.

Operator

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Your next question comes from Mario Mendonca of TD Securities.

Mario Mendonca
TD Securities Equity Research

Louis, just a quick clarification, you said that distribution income would be up about 20% full-year '19 versus '18, now some of the growth we've seen this year has been pretty strong, it's possible, but I'm not looking at the restated numbers. So when you offer the 20% over the other I think you're doing this is off some restatements in 2018.

Louis Marcotte
Senior VP & CFO

Because of the, there was a reclassification. Let me just put the right number here. Because we moved from the EBITDA, remember we moved some of the earnings in the past to the EBITDA and you're right. So [indiscernible] right number. In the end -- do you have another question Mario, I'll pick up the number and then --

Mario Mendonca
TD Securities Equity Research

It's not a huge number. I just be clearly, you're talking about 2019. And I think if you could just clarify when you can either now or in other time that you're talking on restated numbers? And then maybe a more general question. The performances here have obviously been very good. And it is interesting to see that every segment is delivering -- is exhibiting hard market conditions. So where I'm going with this, Charles is I mean the last time something like this was true, was industry ROE above 10% do you recall? And I don't mean specifically in personal, I mean, just generally and what are the conditions that cause something like this to eventually -- what upsets such a great market? What sort of conditions would drive a change?

Charles Brindamour
CEO & Director

So to find similar conditions Mario, you want to go back in 2002, 2003 where the industry ROE dipped, I recall to 2.7% is the number that stuck with me and you're sitting today in a market that is sub-4 whether you look at the first half of '19 or '18 and you're in an environment where the industry who is heavily invested in fixed income securities as a duration of 3 years is sort of seeing not only underwriting pressure from the past, that's being corrected, but it's coming at the same time as there is a headwind on the investment side of things for the industry. And so, in my view, you have a good 12 to 18 months pretty comfortable thing that of industry, trying to get out of what is the pretty tough profitability situation.

And so I think there is a lot of digestion taking place at the industry level where the momentum is still good, it's not dissipating at this stage, and the asset side comment that I'm making is one that gives me a certain amount of comfort that there is more of it left in the system here. And so what could upset that because it is tough across all lines of business, the odds of upsetting the momentum we're seeing in my mind are fairly small.

Mario Mendonca
TD Securities Equity Research

But clearly an ROE approaching and I mean it sounds like pie in the sky now. But an ROE approaching 10% would be the sort of level where this sort of hard market couldn't persist. Is that fair?

Charles Brindamour
CEO & Director

I think it's fair. And we're not there.

Mario Mendonca
TD Securities Equity Research

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Maybe just a quick follow-up then. Do you see anything from a new entrants perspective. Like any potential change in competition for new entrants and what do you feel like the regulators view on an issue like that is the concept of new entrants into this market?

Louis Marcotte
Senior VP & CFO

I think the regulators, I personally, find are quite constructive when it comes to new entrants, there are quite constructive when it comes to us coming up with new products stuff like UBI products that combine both personal and commercial lines. We have found in most jurisdictions across the land in regulated line, so automobile constructive regulators. So I think they'd be open to see even though it's super competitive they are open to new forms of distribution, especially when consumers respond to it and I think it's true of distribution. It's true of manufacturing as we seen anything of substance taking place hard to say yes. Part of it might be driven by the fact that it's been an environment that was tough to navigate in the past few years, and it makes it harder for new entrants to find a niche. What we've seen Mario is what we think should take place is consolidation of distribution, and we might not call that disruption but consolidation of the distribution level is certainly a powerful trend in the industry, one in which we play and lead. And I think we'll prepared the industry for disruption, because I think the vulnerability at the industry level is that you've got a bunch of sub-scale distributors who have a hard time investing in response and technology.

Mario Mendonca
TD Securities Equity Research

One final, just real detailed question that it might be best positioned for the closing of the guaranty acquisition, do you see any risk of this could spill into the new year, or are you confident this is by the end of the year.

Louis Marcotte
Senior VP & CFO

Mario. We had to get 4 approvals. We have 3 approvals, and the Competition Bureau being part of the approvals we've received to date with regards to our prudential regulator OSFI. We've worked with them for many years on acquisition and the odds of -- of having an issue, are very, very small as far as I'm concerned. So we're doing everything we can to close this ASAP.

Charles Brindamour
CEO & Director

And I'd be very disappointed if it didn't close before year-end.

Mario Mendonca
TD Securities Equity Research

Yes. So we expect a full-year next year.

Louis Marcotte
Senior VP & CFO

That I will see OSFI was extremely helpful as well to get the file and to move it rapidly for an approval this year. So we're thankful there, just on your first question, so all the numbers have been restated. You might remember to EBITDA numbers, pure EBITDA numbers for distribution. So the 20% I referred to is based on the EBITDA figures that we've restated for the prior years. So if you look at 2018, just to be clear, we reported 175 to which I would add 20% for the 2019 estimate.

Mario Mendonca
TD Securities Equity Research

I think I was, I may have been looking at numbers, they weren't receded. I got it though.

Louis Marcotte

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Senior VP & CFO

All right.

Operator

Your last question comes from Michael Phillips of Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Just a real quick one. My own -- Sorry, my own confusion on one more thing on the health care. You kind of moved into non-operating on July 1. You gave the year-to-date [indiscernible] to about 2 points. But was it in the 95.9 in the third quarter?

Louis Marcotte
Senior VP & CFO

No. Nothing in the...

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. All right.

Louis Marcotte
Senior VP & CFO

Thank you. And maybe before we close the conference, I want to take this opportunity to thank [indiscernible] our SVP commercial lines who joined us from Exxon 2012 [indiscernible] gave us a heads up. I don't know, 18 months ago, probably Eileen that you were considering retiring. And that will take place in the coming weeks. He has been an exceptional leader recognized for its debt in commercial lines of speed as unwavering drive to improve performance, but more importantly for being very kind. And I wanted to thank [indiscernible] , because she's made a huge difference for us, for our platform, both product pricing segmentation as well as technology. He, of course, will remain involved coaching, mentoring our leaders in commercial lines as well as assist us in our expansion in specialty line. In -- what I think is a long tradition of developing, our succession internally Darren Godfrey, who you know very well will move to commercial lines to oversee our Canadian operations and continue to build on our outperformance there. Darren, tremendous track record in personal lines and claims in distribution led

Charles Brindamour
CEO & Director

The personal auto improvement plan. So bringing him in commercial lines is clearly a move that will help us deepen our commercial lines knowledge at the top of IFC, and I want to thank Darren for taking up that challenge. Darren will be succeeded by [indiscernible] who drove a big portion of the personal automobile improvement plan you've seen in the past few years. Many investors actually met Isabel [ ] in the last year. This was deliberate on our part as one of a good number of exceptional young leaders at IFC, and she will join the earnings call in 2020 and shall have plenty of help because out of 5 people on the earnings call, 4 people are or have been as VP first line, so she should be fine. So I want to thank [indiscernible] for all his contribution and good luck to Darren and Isabel [ ] . On that, I'll turn the call back to Ken.

Kenneth Anderson
VP of Investor Relations & Treasurer

Thanks, Charles. So, thanks everyone for joining us today. So 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 & Filings archive. Our fourth quarter 2019 results are scheduled to be released after market close on Tuesday, February 4. Lastly, as already mentioned, we will be hosting our Investor Day on Tuesday, November 19, with presentations by senior executives,

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

beginning at 9:00 AM Eastern. The event will also be accessible live via webcast, and we invite you to visit our website for more details. And we look forward to welcome you -- welcoming you at that event. So that concludes our call for today.

Operator

Thank you for your participation, you may now disconnect.

Copyright © 2019 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Copyright © 2019 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2019 S&P Global Market Intelligence.