S&P Global
Market Intelligence

Intact Financial Corporation TSX:IFC

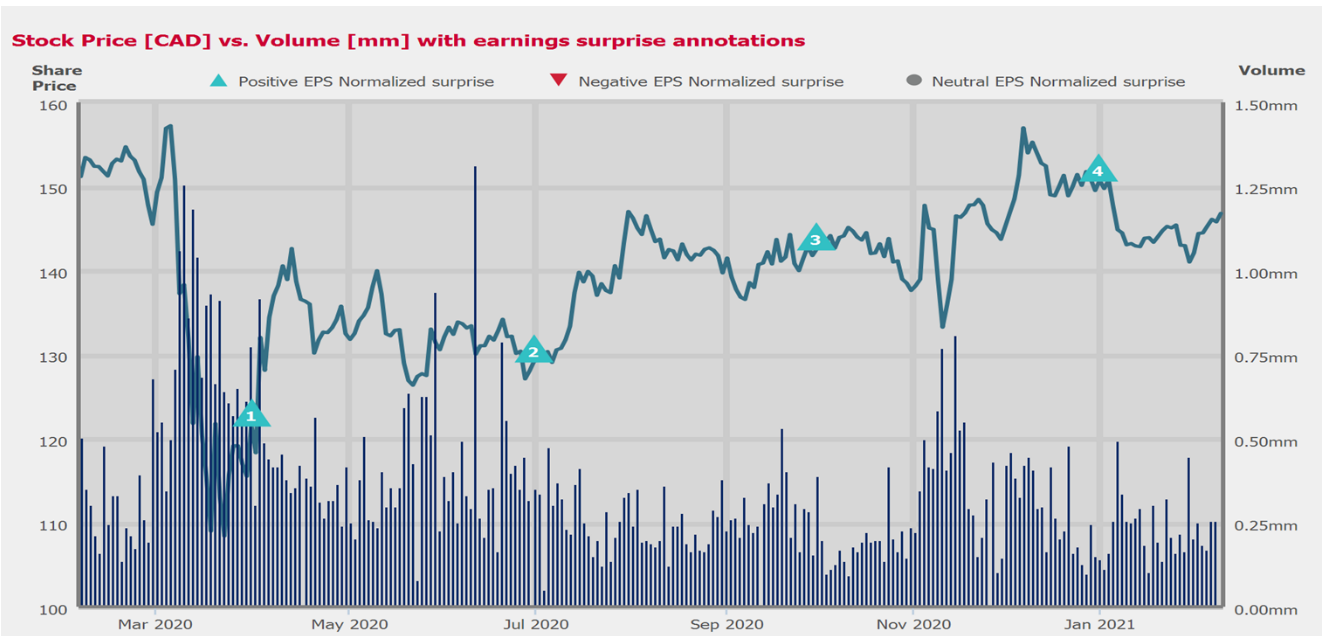
FQ4 2020 Earnings Call Transcripts

Wednesday, February 10, 2021 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.36	3.18	▲34.75	2.03	9.11	9.92	▲8.89	9.29
Revenue (mm)	2829.75	2879.00	▲1.74	NA	11228.86	11220.00	▼(0.08 %)	16427.00

Currency: CAD
Consensus as of Feb-10-2021 1:45 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	1.53	1.61	▲1 5.23 %
FQ2 2020	1.94	2.35	▲2 21.13 %
FQ3 2020	2.14	2.78	▲3 29.91 %
FQ4 2020	2.36	3.18	▲4 34.75 %

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EXECUTIVES

Charles J. G. Brindamour
CEO & Director

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Isabelle Girard
Senior Vice President of Personal Lines

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Louis Marcotte
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Doug Young
Desjardins Securities Inc., Research Division

Geoffrey Kwan
RBC Capital Markets, Research Division

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Mario Mendonca
TD Securities Equity Research

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Intact Financial Corporation Q4 2020 Results Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Ken Anderson, Senior Vice President, Investor Relations and Corporate Development, Intact Financial Corporation. Thank you. Please go ahead.

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Thank you, Mike. Good morning, everyone, and thank you for joining the call today. A link to our live webcast and published information for this call is posted on our website at intactfc.com under the Investors tab.

As usual, 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 and important notes on adjustments, terms and definitions used in this presentation.

Our executives are, again, joining virtually today from across the country. In Toronto, we have our CEO, Charles Brindamour; Here in Montreal, are Louis Marcotte, CFO; Isabelle Girard, SVP of Personal Lines; and Patrick Barbeau, SVP of Claims. And from Calgary, we're joined by Darren Godfrey, SVP of Commercial Lines.

As usual, we'll begin with prepared remarks followed by the Q&A.

With that, I'll turn the call to our CEO, Charles Brindamour.

Charles J. G. Brindamour
CEO & Director

Good morning, everyone, and thank you very much for joining us today. So we're in the second wave of the COVID-19 pandemic and the hardship on society continues to be significant. Health care professionals and frontline workers have shouldered a lot, and we're very grateful for their dedication.

While the vaccine rollout provides a glimmer of hope, it's important that businesses continue to protect and support their employees and communities through these difficult times. We've stepped up by providing $530 million of relief to 1.2 million customers this year. I will continue to embed longer-term relief measures into our offerings, including rate strategies and product enhancements to protect and support our most impacted customers.

Our relief measures remain risk and needs-based.

Our outperformance and strong capital management over the years enables us to provide substantial support to our customers.

Now let's turn to results. Yesterday evening, we announced fourth quarter net operating income per share of $3.18, a significant increase over Q4 2019.

For the full year, net operating income per share was up 61% to $9.92 on strong underwriting and distribution performance. Our strong results translated into an operating ROE of 18.4%. ROE outperformance versus the industry continues to exceed our 500 basis point objective, with 600 basis points for the first 9 months of 2020 and closer to 700 basis points over the last 3 years.

Top line growth was solid 8% in the quarter, with Canada up 6% and the U.S. up 19%. The strong combined ratio of 85.6% included $74 million of CATs with $23 million related to COVID-19. The increase to our COVID-19 provision is related to our exposure in liability and entertainment, and reflects the intensity of the second wave.

In Canada, the combined ratio of 84% was strong, while our U.S. commercial lines delivered solid 92%.

Let's now look at our results by line of business starting right here in Canada. In personal auto, premium growth was solid at 5%. Our competitive position remains strong with north of 3% unit growth after adjusting for our exit from British Columbia. The combined ratio of 82.6% benefited from reduced driving, our profitability actions and more favorable weather, offset in part by customer relief measures and increased severity. Overall, our personal auto business is solid, and I expect it to operate in the low end of the mid-90s range in 2021 as claims activity gradually returns to normal and as our customer relief is earned.

Looking at the industry, rate momentum has been impacted by the crisis, and we've seen some short-term softening. However, with an industry combined ratio close to 100% for the first 9 months of 2020, we expect corrective rate measures to resume as claims frequency returns to historical levels.

In personal property, premiums grew 10% driven by unit growth, firm market conditions and the GCNA acquisition. The combined ratio at 73.2% in the quarter and 81.7% for the year was exceptionally strong, and driven by our profitability actions over time and benign weather. I expect this segment to continue to operate sub-95% in both good and in bad times.

In commercial lines, premium grew 5% with the GCNA acquisition adding 5 points, offset by 6 points from our $50 million targeted relief program. The 95.3% combined ratio in commercial lines was solid, considering it included the 6 points impact from that relief program and 2 points of COVID-19 CATs. The commercial lines industry is entering its third year of hard market condition, which supports our view that this segment should run in the low 90s.

Moving to our U.S. commercial business, premiums grew a very strong 19%, with the GCNA acquisition adding 6 points. Hard market conditions and high customer retention drove the top line this quarter. The combined ratio at 92% was solid. With continued profitability actions in place, this business is positioned to deliver sustainable low 90s performance.

Turning to strategy. We're moving diligently on the RSA acquisition and currently focusing on 3 areas: closing the deal, value creation and engaging with our colleagues at RSA. First, we're progressing well towards the scheduled closing in the second quarter. We've received approval from the Canadian Competition Bureau as well as from RSA shareholders. It's all hands on deck as we continue to work with regulators in different countries for the remaining approvals.

Second, we're gaining clear visibility on the value creation opportunities as we work on the integration and transition planning. We're reaffirming our NOIPS accretion targets, which have us reaching high single-digit in the first 12 months and increasing to upper teens within 36 months. As well, we continue to expect mid-teens operating ROE in the medium term, and book value per share is expected to be up 25% at closing.

Finally and most importantly, we're engaging with our colleagues at RSA. We've met with most of the senior management team as we undertake strategic reviews of the business. I'm pleased with the engagement in our shared pursuit of outperformance, and I look forward to welcoming our RSA colleagues into the Intact family in the coming months.

While we're working to ensure we hit the ground running with RSA, we continue to strengthen our competitive advantages at home. A great example of this is On Side restoration, a business we acquired over a year ago. We've grown its top line by over 20%, making it the clear leader in home restoration in Canada with expanded operations in 7 provinces. We've improved margins by 1/3, and we've significantly increased customer satisfaction with job cycle times cut by 15%.

The On Side team is executing and there's lots of momentum in this business. We're also strengthening our digital and data advantages. Our Intact and belairdirect apps have seen the number of monthly users more than doubled this year. As well, our Data Lab team has grown by over 40% in 2020 as they continue to deploy close to 140 advanced models in the field to improve segmentation, support our telematics strategy and contribute to better customer experience.

Overall, strengthening our competitive advantages is core to our outperformance mindset as it allows us to deliver value to our customers and create capabilities that are quite hard to replicate.

These industry-leading capabilities were built over a decade and will be particularly important as we integrate RSA.

Before I conclude, I'll mention that February is typically when we increase our dividends, which we've done for the past 15 years. We fully intend to raise our dividends this year to maintain this track record. Given the current regulatory environment, we've postponed the increase to a future quarter in 2021.

In conclusion, we've delivered outstanding results throughout the year, provided relief to over 1 million customers and continue to advance our strategy. We accelerated our diversity and inclusion initiatives, and our people are more engaged than ever before. GCNA has become an integral part of our business and we announced the acquisition of RSA, which accelerates our strategy and certainly strengthens our ability to outperform.

So to our people across North America, it's been a challenging year, and I want to thank you. You guys really stepped up. And as we enter into 2021, I know we have the best teams. We've shown that our business is tremendously resilient and we have strong momentum to surpass our financial objectives.

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

Louis Marcotte
Senior VP & CFO

Thanks, Charles, and good morning, everyone. We continue to see the profound impact the pandemic is having on communities around the world, and it's during these unprecedented times that our purpose has never been clearer. To help people, businesses and society prosper in good times and be resilient in bad times.

The fourth quarter was marked by the emergence of a steep second wave of COVID-19 cases and the application of new lockdowns, work-from-home orders and curfews. At the same time, the weather was fairly benign, interest rates were generally stable, but capital markets were strong. With this backdrop in mind, it is important that we keep our focus on delivering strong operating results and maintaining a strong balance sheet, allowing us to continue providing support to our customers through the crisis and completing the RSA transaction as soon as it is approved.

We have now provided more than 1.2 million customers with premium relief worth $530 million. The vast majority of the premium relief has already flowed through our written premiums. However, the unearned portion of these measures, which stood at $203 million at year-end, will lower net earned premiums in future quarters, offsetting the impact of reduced claims frequency. The intensity of the second wave has also led us to increase our COVID provisions by $23 million, mainly related to liability exposure in Canada and entertainment cancellations in the U.S.

On results, net operating income was up 54% versus last year to $467 million, driven by strong underwriting and distribution performances. Underwriting income grew 81% over last year as better weather, reduced claims activity in personal lines and our ongoing profitability actions drove lower claims frequency in Canada, all of which were partially offset by our customer relief measures. Net investment income of $143 million in the quarter was unchanged from last year as the benefit of higher invested assets was offset by lower reinvestment yields. On a full year basis, investment income was flat for the same reasons, and we expect a similar result in 2021, before reflecting the impact of RSA.

Distribution EBITDA and other income grew 60% in the quarter and 32% for the year. This was better than expected, thanks to solid organic growth, disciplined expense management, higher variable commissions as well as continuing M&A. The additions of On Side and Frank Cowan also had a meaningful positive impact on this earnings stream. On the back of a very strong 2020 performance, distribution income and other is expected to grow 10% in 2021.

Now let me move to lines of business. Personal auto premium growth was 6% for the full year after reflecting 6 points of relief measures. Market conditions helped drive 4 points of rate for the year, while units were up 2 points, as our action plans and relief measures generated strong customer retention.

Personal property had a strong year, growing 11% in 2020 despite 2 points from relief. Firm market conditions, GCNA and unit growth drove top line throughout the year.

Turning to Canada commercial lines. The solid growth of 10% in 2020 was driven by hard market conditions and the acquisitions of GCNA, both of which were offset by 4 points of customer release.

The overall Canadian expense ratio of 29.5% for the quarter increased 1.7 points from last year. This was mainly driven by the impact of relief measures on net earned premiums as well as higher variable commissions and increased investments in technology during the quarter.

For the full year, the expense ratio was 30.2%, and we expect a similar level in 2021.

Looking at U.S. commercial, 9% top line growth for the year was driven by hard market conditions and the GCNA acquisition, partially offset by our discipline on lines under profit improvement plans and lines impacted by COVID.

The U.S. expense ratio of 38.4% for the year increased by close to 1 point, mainly driven by higher commissions resulting from our expanding surety business. For 2021, the expense ratio is expected to be in line with 2020.

Since we acquired OneBeacon 3 years ago, delivering a sustainable low 90s combined ratio has been our main focus. We've taken several actions to get there, namely the exit of unprofitable lines of business, the implementation of profit improvement plans and others, the realization of synergies as well as claims and underwriting actions. While we reported a 95% combined ratio in 2020 with elevated CAT activity, including COVID losses, we believe our U.S. business is very well positioned to run in the low 90s going forward.

Moving to our balance sheet. We ended the quarter in a strong financial position with a total capital margin of $2.7 billion and a debt to total capital ratio of 24.1%. Included in these figures is $600 million of medium-term notes issued to finance the RSA acquisition.

When I exclude this, our leverage is essentially at our 20% target. Remember the proceeds from our $4.5 billion private placement subscription receipts are not yet reflected on our balance sheet. Our book value per share increased 9% year-over-year to $58.79 million, thanks to strong operating performance and favorable capital markets.

Let me now provide a few comments on the RSA deal, a transaction that moves the needle for IFC, both strategically and financially.

Firstly, we have largely secured financing with 6 -- $5.6 billion already raised, and the remainder will be raised in the coming months. Secondly, as we work through integration and transition planning, we are gaining further visibility on our $250 million of pretax synergies. We are confident we can deliver these synergies within the 3-year time frame we originally planned. And finally, we continue to expect upper single-digit accretion in the first year after close. Assuming we close the transaction at the end of Q2, we expect this level of accretion to begin in the second half of 2021.

On the topic of 2021, in light of the uncertainty, it is worth giving you a sense of what to expect for the existing IFC business.

In summary, we anticipate overall top line growth to be in the mid-single-digit range and our combined ratio to be at a low 90s level.

In closing, during 2020, we maintained a position of strength throughout this crisis, and our business remains solid on both sides of the border. We are well positioned to execute on our objectives, including adding meaningful value for all stakeholders with the RSA transaction. This would not be possible without our most important assets, our amazing people. They really stepped up this year to support our customers and communities as we continue to deliver value for our shareholders. Thank you for another solid year.

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

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development
Thank you, Louis. In order to give everyone a chance to participate in the Q&A, we would kindly ask that you limit yourselves to 2 questions per person. If there's time at the end, you can certainly requeue for follow-ups. So Mike, we're ready to take questions now.

Question and Answer

Operator

[Operator Instructions]

Your first question comes from Geoff Kwan from RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, Research Division

My first question was for the COVID-19 CAT loss reserve that you had, can you give some examples of what types of claims you're going through? I think liability was one of the areas. And then separately, like what would need to happen for you to have to reserve more COVID-19-related charges?

Charles J. G. Brindamour
CEO & Director

Why don't we -- thanks. I'll just ask Patrick to give you a perspective on the profile, so to speak, and what we would need to get to reserve more. Go ahead, Patrick.

Patrick Barbeau
Senior Vice President of Claims

Geoff, so as we mentioned, I think Charles mentioned it in his remarks, there's 2 main sources that led us to increase our overall provision for COVID losses by $23 million in Q4. We had provisioned at $83 million at the end of Q1 in a prudent way. But in light of the intensity of the second wave, there are 2 areas where we're seeing a little bit of pressure coming from that wave 2, where we wanted to be on the prudent side.

So entertainment in the U.S., we -- the cost on our policies and entertainment is much higher when events are canceled and when they're postponed. Initially, there was a lot of events that were more postponed and we were anticipating that some of them would be canceled. But in light of the intensity of wave 2, we've seen a bit more of those events being canceled and we reserve for that trend going forward as well, that's just what we know at the moment.

And in liability in Canada, there's a few different types of liability that can happen in our portfolio. This is nothing around business interruption, just to be clear. It's really liability, so some of our clients being sued for negligent. There's a duty to defend in our policy. The plaintiffs still need to prove negligence. So -- but they're just a little more activity. So on the liability side, it's not really linked to specific cases. Just the increase of activity given the intensity of the wave that lets us decide to add a little bit of reserves in Canada as well.

What would it need for us to need to increase the reserves again? Well, it's tough to say, but I will share that sitting here, looking at the situation going forward. I think we are on the conservative side, meaning that it would have to be a significant adverse development of the situation globally for us to need additional reserves. We don't expect we'll have to move it this year from this point.

Charles J. G. Brindamour
CEO & Director

Yes. And if I can add a bit of color, Geoff. You'd have to picture a third wave with the same intensity of the second wave with severe lockdown measures potentially to be in a zone where we would look again. But even then the pressure that comes from entertainment, won't be at the same level, even if we go in a third wave because we've moved from postponement to cancellation. There's much less of that left in the system. And I would say, in aggregate, the odds are very, very small at this stage as far as we're concerned that we see a need to increase the ultimate.

Geoffrey Kwan
RBC Capital Markets, Research Division

Okay. That's helpful. And just my other question was just the Metromile, the SPAC, just started trading today. I'm wondering how we should kind of think about what the valuation upside relative to original investments in the company?

But also, two, like within Intact ventures, like are there other investments you would want to highlight as interesting and are ones that could meaningfully surface value?

Charles J. G. Brindamour
CEO & Director

Well, first, congratulations to the Metromile's team and Dan at Metromile for a job well done, and we're quite pleased with the developments there. I'll ask Louis to give his perspective on that specifically. We've got a number of other meaningful stakes in the venture portfolio, but nothing that I want to highlight at this stage, Geoff. But I think we'll take your interest into account here and potentially integrate that in upcoming quarters or at the Investors Day. So Louis, on Metromile?

Louis Marcotte
Senior VP & CFO

Yes. So a very successful transaction that have taken place in the last 2 days. So very happy about that. It will trigger a significant gain for the company. We are cautious here on valuations, of course. And so we're -- we'll be recording at fair value as soon as it trades, so it should be in Q1 of this year. It will be meaningful, but we consider it a nonoperating gain as we put all our other similar gains. And those will be booked in Q1.

Where it will land depends on the market value of the shares as they trade on the market now. But we expect that to have a -- at this point, have a positive impact on nonoperating earnings in Q1. And then we'll carry that fair value, so the ups and downs will flow to earnings until we decide what we do with the shares.

Geoffrey Kwan
RBC Capital Markets, Research Division

Do you have the number of shares that you're owning on with the SPAC now trading?

Louis Marcotte
Senior VP & CFO

So we haven't shared that information. It's -- obviously, it's a small share of the overall corporation, but we have not shared the numbers there, Geoffrey.

Operator

Your next question comes from Mario Mendonca from TD Securities.

Mario Mendonca
TD Securities Equity Research

Charles, this is obviously a very special year for the company. I'm just looking at things like the underlying claims ratio in personal auto and in personal property. Just the improvement we saw this year, and these look like record years in terms of where these ratios are falling out. How does that influence your thinking about further premium relief or rate reductions in 2021? And does that inform you in any way about the capacity to drive higher pricing when COVID-19 is behind us?

Charles J. G. Brindamour
CEO & Director

So Mario, clearly, it's been a very strong year. There's no doubt about it. With an overall combined ratio in Canada in the upper 80s, all lines combined, including the provisions we've taken for COVID-19. The weather has helped a little bit. But macro level, we are in a tight marketplace. I mean the industry's combined ratio was 100% at the end of Q3 this year. Automobile insurance was in and around 100% for the industry. And so we're in that phase of the cycle, again, at the macro level, where the outperformance is really strong, but the industry has yet to catch up on the actions we've been taking over the past 3, 4 years.

And so I do think that 2021 remains a year where we can take advantage of market conditions, maintain solid outperformance and grow the business in a very healthy fashion. And I see that in personal property, still. I don't see personal prop softening. I think there's a fair bit of work that's needed still at the industry level, and 1 year of favorable weather is not going to slow that down.

In commercial lines, we're in year 3 of what started as a firm market to what is now a hard market, and COVID has not been helpful. And I continue to see a fair bit of digestion needed in commercial lines and certainly true in the U.S., where we've got strong performance in first lines. I think that the run rate performance is really strong, and we intend to grow our positions there and hopefully expand the margins in the hard market, but grow the top line as well.

Automobile is in a different zone, Mario, clearly. It is in the zone where the cost equation has changed probably for a bit longer than what we anticipated in March and April, and that's why we've gone from relief to rates. And I think you've seen the industry move in that direction as well to a certain extent. And when I look at rates sitting here today in automobile insurance, there's not really rate increases flowing through the system on a written basis at this stage.

I think you look at the industry, you see rate increases in some parts, you see rate decreases in other parts. I do think it's temporary. I think that there's -- the industry's performance is not that great. And I think the trends we recognize in '16 and '17 are creating pressure for a number of players. You see this in the prior year adverse development, 9 months into 2020.

So my view is you're probably in a flat environment from a rate point of view in automobile, but one where the cost equation warrants it, in my view. But I think as driving gets closer to normal, I do think that we'll be in a fairly rational environment. Hard to tell, how long the return to normal will be. I suspect you've got at least a year of that. But I think we can win in the near term and capitalize on strong performance in automobile. And hopefully, grow that platform.

Mario Mendonca
TD Securities Equity Research

As a follow-up, could you talk a little bit about -- I think in your MD&A, you do talk about further premium relief beyond what the company has already announced. Is there any way you could help size that? And maybe I'll ask it in this way, you've got $203 million left to be earned. Would you see the premium relief -- new premium relief in 2021 rivaling the $400-and-some-odd million that was written in 2020, is that conceivable for 2021?

Charles J. G. Brindamour
CEO & Director

No. I don't think so. I think that I would be very, very surprised that we would be in that range, Mario, because first of all, the difference in driving in the second wave is very different from the driving in the first wave. Driving in the first wave, at one point in time, was down 50%. Driving in the second wave has dropped, but nowhere near these levels. And as such, I don't see a logic for relief to that same extent. Second point is far more people have embraced UBI. And then rate reflects, to a certain extent, an expectation of less driving. So I just don't see relief to that extent, Mario, in 2021, no.

Operator

Our next question comes from Jaeme Gloyn from National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

My question is around the distribution EBITDA and the solid results we saw in 2020. And now Louis, your guidance, I believe, is for 10% growth in 2021. Can you maybe break down that growth rate forecast in terms of organic growth, M&A growth? And how you see the underlying businesses or business as it's constructed today with revenue coming from On Side, revenue coming from Frank Cowan and, let's say, other pre-existing brokers in the distribution channel?

Louis Marcotte
Senior VP & CFO

Sure. So what you're seeing this year was, as I mentioned earlier, was the organic growth, the profitability of the underwriting, some expense management. As an example, during the crisis, the brokers pulled back on some of their marketing spend, as an example. And there's a bit of M&A in there.

So this is like the ongoing M&A where they consolidate the market progressively. And then the addition of On Side and Frank Cowan. So that led to the 32% overall. Next year, we're guiding to 10%.

So firstly, we're off to a very -- we're comparing ourselves to a very strong 2020. So I guess we're a bit of ahead of the game here in terms of the earnings where they stand today, given what we delivered in 2020.

Then next year, it's a share of mostly organic on the part of the brokers growing. So if you take the 10%, I would say, probably 40% of it is the organic growth of the brokers, another 40% would be the Frank Cowan and On Side growing. And then the rest would be a bit of M&A activity that will flow in, if I split it out. That's roughly the makeup of this. So it's mostly organic. There is some M&A momentum coming in. But mostly, it's driven by our brokers growth as well as the addition of On Side and Frank Cowan.

Charles J. G. Brindamour
CEO & Director

Yes. No, I think worth mentioning On Side a little bit here, just the strategic progress that the team has done there under the leadership of Craig Hogarth and Alain Fortin, who's joined the team has been outstanding.

I mentioned in my remarks, the cycle time, that is the time needed to get customers back on track, down 15% in short -- in a very short period of time. We're targeting 50% cut in cycle time. The growth there is impressive. I think the margin has improved meaningfully as well and I see a fair bit of upside, but we're just starting. And my own view of the upside there, there's a big capacity issue in that space. There's a quality issue in that space. It's super fragmented.

So our thought process on On Side is very much consistent with what we tried to do with BrokerLink a decade ago, to build capacity at scale and then do this profitably. And I would say we're probably ahead of where I thought we'd be in this acquisition. And so we'll put more capital there and certainly leverage this platform in the RSA integration, which will really help the platform as well and the customer experience.

So I'd say this is a second source business that's, first of all, inversely correlated with the underwriting performance that we should -- that investors should keep an eye on in the next 3 to 5 years.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And is On Side at a size at this stage where you're able to break out its contribution?

Charles J. G. Brindamour
CEO & Director

Not yet.

Operator

Your next question comes from Doug Young from Desjardins Capital.

Doug Young
Desjardins Securities Inc., Research Division

First question, maybe just back to the outlook, Charles. And I think, and correct me if I'm wrong, the outlook for personal property might have changed a little bit. I think you're now looking at mid-single digits, down from mid-to-high single-digit growth. And I'm just wondering what informed that shift down? Are we at that pivot point where, I mean, you've had a few great years in that business line? Or should we be anticipating a bit of a slowdown in the pricing cycle here? Just hoping to get a little bit more color.

Charles J. G. Brindamour
CEO & Director

Yes, very perceptive, Doug. Indeed, I think between rates and some insured, I look at what's running in the systems these days, and you're a little bit north of mid-single-digit. I think it's been many years of correction. The performance is outstanding.

I think our outperformance is outstanding, and we want to make sure that we're in a very good position to grow that segment while continuing to expand the margin. I don't think the industry is necessarily there just yet, but it's not the same sort of level as what we've seen last year or the past few years.

Isabelle, do you want to provide a bit more color on that if there's a need?

Isabelle Girard

Senior Vice President of Personal Lines

I would add, Charles, that even if in personal property COVID has not materially impact that line of business, we have seen us and some insurers tempering also the rates in that line of business as well. So I think that's why we now expect the growth to be in the mid-single-digit range for the next 12 months.

Charles J. G. Brindamour
CEO & Director

Yes, that's a very good point. As we deploy segmentation strategies, Doug, during the pandemic, we try to tame the increases that were the largest for some segments of customers, and that plays into the outlook as well.

Doug Young
Desjardins Securities Inc., Research Division

So you're not anticipating a softening cycle, just more of a tempering of the cycle at this point. We're not at the pivot point?

Charles J. G. Brindamour
CEO & Director

No, I don't think so. I don't think so.

Doug Young
Desjardins Securities Inc., Research Division

Okay. And then just the follow-up. It relates to the exited lines and the adverse development coverage. I mean, exited lines this quarter had $39 million underwriting loss. I mean you had $5 million of negative prior year reserve developments in the U.S. and the coverage is gone for the business. And I think the coverage was for prior to 2017 on the OneBeacon business. Should we be worried that we're going to see a lot more balances in this? And I guess what I'm trying to get at is, especially on the exited lines, when does that number go to 0? Because I think that's been excluded from operating because it's anticipated that this is going to run off and go to 0, and we haven't seen that. So just hoping to get some color on all of that.

Charles J. G. Brindamour
CEO & Director

Yes. When we closed the transaction, Doug, we exited right then 3 lines of business or 2 lines of business and then health care maybe a year later. And our view is that this should not be a drag going forward. We try to make sure that it wouldn't be. And it certainly reinforced our view that the call to exit those lines of business was the right call. And I think we need to be -- so I don't expect a drag. And when I look at the ongoing lines of business, I'm quite pleased with the trajectory of the performance there, and you've seen a strong 92% in Q4, and a market that's very supportive. And I think from a reserving point of view, we put ourselves in a position to avoid that surprises from those lines.

Doug Young
Desjardins Securities Inc., Research Division

So we shouldn't be anticipating -- I mean, 2020, there was some significant losses. I think it was some $60 million underwriting, if I'm correct. So that should essentially go in 2021, 2022 towards 0. And maybe you can just -- if you can provide color what produced the loss in that exited lines?

Charles J. G. Brindamour
CEO & Director

Patrick, do you want to give a bit of color on that or Darren?

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Yes. I can jump in and Charles, I mean, what was -- I mean, as consistent with the past, what we've seen is obviously exited line activity with respect to the ADC. I mean in terms of exited lines themselves, the predominant line that is health care, that took up the vast majority of the activity that we saw in Q4, and also a little bit on the architects and engineers.

Obviously, consistent with reserving practices, we expect 0 of impact in 2021 from an exit line standpoint. Otherwise, we would have taken a more prudent position on the reserves when we closed in 2020. So yes, so we do expect 0 purely from a reserving standpoint in 2021.

Charles J. G. Brindamour
CEO & Director

Doug, I think a chunk of that is IBNR. In other words, it's aggregate provisioning. And then there was one large loss in health care, significant large loss in health care, where we've strengthened the case reserve.

Operator

[Operator Instructions] Our next question comes from Tom MacKinnon from BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

With respect to the further contemplated relief measures in Canada. I assume these are all incorporated into the guidance that Louis gave for the existing Canadian -- or the existing impact business of -- for 2021 of a low 90s combined in mid-single-digit top line growth. Am I correct on that?

Charles J. G. Brindamour
CEO & Director

Yes, you are.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. So -- and then just with respect to the RSA acquisition. In the call, you guys -- and there's further visibility into value creation. And I certainly get an impression that there's further visibility into the $250 million in synergies. What are you seeing now that maybe that you didn't see in your due diligence, what are you discovering here that gives you further confidence and more clear visibility into the value creation of this acquisition?

Charles J. G. Brindamour
CEO & Director

Louis, why don't you take this one?

Louis Marcotte
Senior VP & CFO

Sure. So of course, our initial estimates were based on preliminary due diligence on, I would say, limited information and past experience in terms of our own integrations.

Now that we're a couple of months in, we have, I guess, more visibility on the structure of the organization, where the pockets of synergies we saw can actually be harvested.

We have more people involved who are basically confirming the level of synergies we can achieve. So I think what we're saying here is the visibility gives us more confidence in the numbers that we shared a couple of months ago. So this is really the essence of what we're saying. A bit the same on the integration side, being able to identify what we have to do and how much it will cost.

So it's more reaffirming a bit the values now that we're 3 months in, that we had stated at the outset of the transaction when we were somewhat limited in terms of information sharing with the target.

Charles J. G. Brindamour
CEO & Director

Yes. And I think, Tom, a big difference, I would say, between pre-deal -- pre-announcement and post-announcement is that you go from a top-down approach to what is much more of a bottom-up approach at this stage.

We've got 27 teams, transition teams, that are looking at various parts of the business working with RSA, each of those teams has a specific target that's informed by the information that we've had access to. And therefore, we gain confidence in our ability to deliver the goods.

I would say the other area that we feel good about is the loss ratio improvement potential that I think will be available across the platform. And as we discover some of the assets, in the UK&I parameters, we see a fair bit of value in some of the assets that we didn't know as well. So for all these reasons, we're pretty confident in the guidance we've provided.

Tom MacKinnon
BMO Capital Markets Equity Research

And I believe the $250 million of expense synergies does not include the benefit of risk selection improvements or revenue synergies?

Charles J. G. Brindamour
CEO & Director

Correct.

Tom MacKinnon
BMO Capital Markets Equity Research

So when you talk about loss ratio improvement for assets in the U.K., these are things that are not in the $250 million in terms of expense synergies. Is that correct?

Charles J. G. Brindamour
CEO & Director

That's correct.

Operator

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

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Well, 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.

In closing, our first quarter 2021 results are scheduled to be released after market close on Tuesday, May 11. Thank you, again, and this concludes our call for today.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.