S&P Capital IQ

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Intact Financial Corporation TSX:IFC

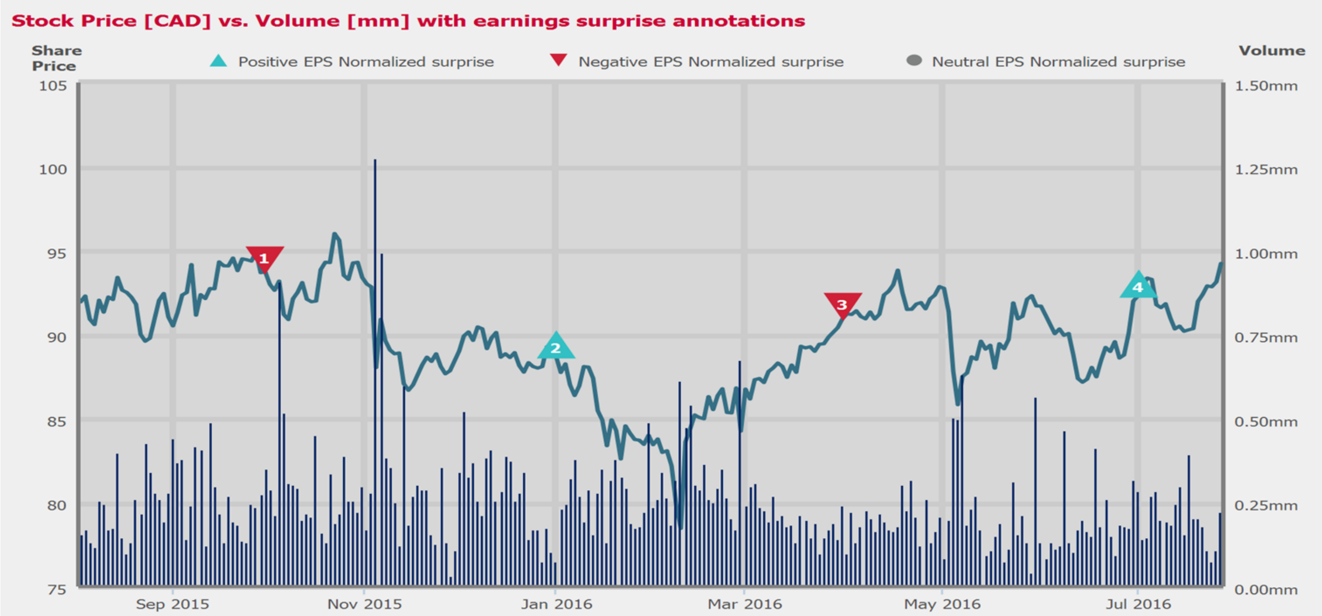
FQ3 2016 Earnings Call Transcripts

Wednesday, November 02, 2016 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.04	1.01	(2.88 %)	1.77	5.07	7.07
Revenue (mm)	2023.40	2036.00	0.62	2058.00	7918.38	8381.02

Currency: CAD
Consensus as of Nov-02-2016 2:11 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	1.63	1.47	(9.82 %)
FQ4 2015	1.65	1.97	19.39 %
FQ1 2016	1.48	1.46	(1.35 %)
FQ2 2016	0.64	0.83	29.69 %

Call Participants

EXECUTIVES

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Senior Vice President of Commercial Lines

Charles Brindamour
Chief Executive Officer and Director

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Patrick Barbeau
Senior Vice President of Claims

Samantha Cheung
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Presentation

Operator

Good morning. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Third Quarter Results Conference Call. [Operator Instructions]

Samantha Cheung, Vice President of Investor Relations, you may begin your conference.

Samantha Cheung
Vice President of Investor Relations

Thanks, Tiffany, and good morning, everyone. Thank you for joining the call today. A link to our live webcast and background information for the call is posted on our website at www.intactfc.com under the Investor Relations tab. As a reminder, the slide presentation contains a disclaimer on forward-looking statements, which also apply to our discussion on this conference call.

Joining me 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'll begin with prepared remarks followed by Q&A session.

With that, I would like to turn the call to Charles to begin his remarks.

Charles Brindamour
Chief Executive Officer and Director

Good morning, everyone, and thank you for joining our call. Earlier today, we announced third quarter net operating income of $1.01 per share after absorbing $0.93 per share of cat losses. It was clearly a challenging summer as many of our customers faced severe weather conditions, including multiple hail, wind and rain storms. As usual, our troops across the country worked hard to help our customers get back on track.

We were pleased to see our top line grow 5% in the quarter, all organic. Clearly, our new product lines, telematics software and improved digital experiences continue to pay off particularly in personal lines. On the commercial side, while growth was negatively impacted by tough conditions in the West, we continued to see benefits from rate increases and the introduction of new products for sharing economy. Despite 8.1 points of cat losses, we delivered a combined ratio of 97%, with 2 points improvement in the underlying loss ratio. That being said, personal auto performance was choppy given intense hail activity and the fact that upcoming rate increases and the full impact of recent reforms is not yet fully felt.

Our commercial lines performance continues to be excellent. Our operating ROE remained healthy at 13.4%, particularly in light of our strong capital position and the impact of elevated catastrophes. When comparing ourselves to the industry, we outperformed by 680 basis points on ROE for the first half of the year. We ended the quarter with a strong balance sheet, $881 million of excess capital, and our book value per share grew 10% for year -- over the year to $41.47.

Let's now look at our third quarter results by line of business. So personal auto grew 5%, thanks to our telematics offer, the continued success of quick quote as well as the strength of our marketing initiatives. And while growth was solid, the combined ratio deteriorated by 9.9 points to 104.3%, impacted by severe weather, lower favorable prior year claims development and some cost inflation. We estimate that weather represented approximately 8 points of combined ratio from catastrophes and other non-catastrophe weather events.

To address cost pressure, rate increases are being implemented across the country. This rate momentum, combined with our claims action plans, tighter risk selection and additional benefits from recently implemented reforms, will improve our auto results within 12 months. When it comes to the industry outlook for auto, we continue to anticipate a rational competitive environment with low to mid-single-digit growth in the coming 12 months as rate increases are implemented to address cost inflation.

In personal property, premiums grew 8% as new products and continued rate increases were deployed in favorable market conditions. The combined ratio of 99.7% included 18.8 points of catastrophes from severe weather. Our underlying results were very good, having improved 8.2 points year-over-year on the effectiveness of our profitability actions. When we look at our performance so far this year, a combined ratio of 96.4%, after absorbing losses from Fort McMurray and severe summer weather storms, that we're well positioned to meet our 95% target combined ratio on a full year basis even in bad times. In terms of the industry outlook for personal property, there's no change there. We expect recent weather events will prolong the firm market conditions in personal property, with mid- to upper single-digit growth over the next 12 months.

In commercial P&C, difficult conditions in Western Canada upset rate increases, leading to flat premium growth. That said, our commercial P&C business delivered an outstanding combined ratio of 81.3%, one of the best quarters in recent years. The underlying current year loss ratio improved 3.2 points from last year from the success of our profitability action.

Commercial auto premiums grew 7% in the quarter, mainly driven by new products aimed at the sharing economy. The combined ratio improved substantially by 8.4 points to 88.6% on the heels of strong underlying results. Our actions are working so far, and we're on the right path to maintain a low 90s combined ratio in that line of business. With respect to the outlook for commercial lines, the industry remains competitive but market conditions are firm, leading to low single-digit growth in the coming year.

In summary, while the quarter's underwriting results are disappointing at 97%, the underlying performance in our property lines and commercial auto improved meaningfully, a strong testament to the resilience of our operations.

Personal auto was a drag on our performance in Q3, but the actions we're taking will have a positive impact over the next few quarters.

We're also making good progress on several of our strategic initiatives. Our product offering for the sharing economy is gaining momentum, with the growth of car sharing services in Ontario, Alberta and Québec. With the coverage we provide to Uber and Turo, 2 leaders in the sharing economy, the drivers and customers we serve are well insured. We continue to develop innovative solutions to leverage these emerging opportunities.

On the digital front, we reached a milestone with 1 million online quotes for our auto products through quick quote, our online coding engine. This translates into about $100 million in new business premiums since its launch in early 2015. On the back of this success, we launched quick quote for homeowners, where customers can get a quote in 2 minutes on average. Consumers are reacting well to a simpler, faster and easier experience.

On the claims front, after a successful start in Calgary, we recently launched a new service center in Ottawa. It is well received so far. To give you some perspective on capacity, our Calgary service center serviced 2,000 customers since its launch in February. Beyond an easier experience and higher-quality repairs, we have reduced the repair time by about 25% for those customers using the Intact Centres. We remain on target to open our Toronto location later this month while Montréal is targeted for early 2017.

Finally, we're also pleased to have made progress in building the strength of our 2 core brands. In a recent national research, 30% of Canadians named Intact Insurance unprompted when asked to think of a home and auto insurance provider, up 7 points from last year. This is an all-time high. Intact Insurance is a relatively new brand but certainly gaining momentum. Furthermore, belairdirect was not far behind at 27%, up 4 points nationally. Clearly, the initiatives we have in place are making a difference and we're on the right path to building Intact Insurance and belairdirect as household names.

In conclusion, while we had a tough quarter, the business continued to show its resilience. Our initiatives are paying off and driving solid top line growth and outpacing the industry. Our actions continue to drive underlying results improvement. That being said, our team is relentless in driving initiatives to protect our business against natural disasters and improving personal automobile profitability. In addition, we've seen material progress on our strategic initiatives, particularly with regards to our digital leadership, the expansion of our distribution and the sharing economy.

Our focus on offering a customer experience that is second to none, combined with our financial strength, place us in a very strong position to benefit from the environment in which we compete. So I'm confident that the strategy we have in place will continue to help us outperform the industry ROE by at least 500 basis points and grow our net operating income per share by 10% per year over time.

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

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Thanks, Charles. Good morning, everyone. Although Q3 2016 was a challenging quarter for Intact, with $166 million in net losses from multiple catastrophes, our operations still generated $137 million in net operating income.

Our operating ROE was 13.4%. We have a very strong capital position with $881 million of excess capital. And our book value per share is up 10% from Q3 last year. Our operations have again shown their resilience in the face of adversity, with solid earnings and strength in the balance sheet.

When I look at our overall underwriting activities, we improved our underlying current year loss ratio by 2 points in the quarter to 62.8%, thanks to our profitability initiatives. All lines of business contributed to the improvement except for personal auto, which experienced some uptick in frequency and severity, most of which relates to a rise in claims from hailstorms. Prior year claims development was favorable across our businesses, consistent with our long-term expectations but 2 points below Q3 last year, which had benefited from favorable development in the industry pools.

Even if the summer of 2016 seemed long, warm and beautiful for many Canadians, some of our customers faced a high number of severe weather events. This resulted in 8.1 points of cat losses, twice as high as last year and well above our expectations. Given the frequency and severity of catastrophe losses in the recent past, we have revised our expectation for the future annual run rate from $200 million to $250 million, half of which are still expected to occur in the third quarter. This takes into account the growth of our business as well as loss mitigation and product changes being rolled out in response to changing weather patterns.

We also expect the firm conditions to continue for another 24 months as insurers adapt to these changes.

Net distribution income grew 7% in Q3 to $30 million from growth in our broker network and higher profitability. For the full year 2016, we expect to report slightly above $110 million in net distribution income, and this amount should grow north of 15% in 2017.

Our investment portfolio continues to deliver consistent investment income, slightly below last year at $102 million, as expected. Although average net investments increased 6% to $13.6 billion from operating cash flows and mark-to-market gains on common and preferred shares, this was offset by a lower reinvestment yield. We continue to expect investment income to decline marginally in dollar terms over the next 12 months.

We reported net investment gains in the quarter of $17 million, a sharper improvement from last year's losses of $64 million. Favorable equity markets led to realized gains on our equity portfolio compared to net losses and high impairment charges last year. In summary, we reported quarterly earnings per share of $0.91, $0.04 lower than last year as the impact of elevated catastrophe losses was largely offset by net investment gains and lower impairments.

A few comments on our financial position. Our balance sheet remains very strong. Our MCT stands at 215%, 3 points higher than at the end of Q2. The improvement reflects capital generated from our operations, favorable equity markets and the phase-in of MCT guidelines less dividends and investments made. Our total excess capital amounted to $881 million at the end of the quarter while our debt to total capital was 19%. Our investment portfolio's unrealized gain position increased materially from Q2 to $258 million.

We executed on our buyback during the quarter, purchasing some 52,000 shares for a total cash outlay of $5 million. Between the launch of the program and the end of Q3, we spent $37 million on the buyback, with an average price per share of $87.84. Our capital deployment strategy remains unchanged. And while our priority is to invest in growth priorities -- opportunities, buying back shares at times when the market price may not fully reflect the intrinsic value is a responsible use of our capital.

In conclusion, with strong underlying results in property lines and commercial auto, we continue to focus our efforts on improving results in personal auto with our usual discipline and energy. We believe the actions we are taking in personal auto, combined with the favorable conditions in other lines, will drive improved results in the next 12 months. We still believe there will be continued consolidation of the domestic P&C industry, both in manufacturing and distribution, and we will be active participants. Our balance sheet is in great shape, and we are ready to tackle opportunities as they arise. Our earnings have proven their resilience to adversity, thanks to our business and regional mix, the contribution of our distribution and investment activities and the strength of our insurance operations across the country.

With that, I will return the call back to Samantha.

Samantha Cheung
Vice President of Investor Relations
Thank you, Louis. Tiffany, we are now ready to take questions. [Operator Instructions]

Question and Answer

Operator

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

Kai Pan
Morgan Stanley, Research Division

So first question on the personal auto side. You mentioned there a 2-point deterioration because of mild increase in frequency and severity as a result of non-cat weather as well as of cost inflation. Can you give a little bit more color on that? Just a breakdown between what do you think is kind of one-off non-cat weather and the sort of underlying attrition, loss inflation. And you also -- and what pricing action you are taking right now. You mentioned that will be -- you expect will fully offset by early next year. I just wonder what gave you that confidence.

Charles Brindamour
Chief Executive Officer and Director

Yes. Thanks for your question. I think, Kai, maybe what we could do is give you a full perspective of the automobile performance not just on frequency and severity but what we've seen at the cat level, what we've seen in prior year development and give you a little more color on some of the actions we're taking. Because at 104% combined ratio, for me, that warrants color. I'll ask Darren to give you his perspective on that, and we'll address specifically your question in the exercise.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Thanks, Charles. So yes, as Charles and Louis both mentioned in the opening remarks, a disappointing quarter at 104.3%. Let me break down some of the components. So I'll start with cat, 6.2 points of cats in the quarter, up 2.8 compared to Q3 of last year, mostly attributable to multiple hailstorms in Alberta, clearly exceeded our expectations. It was a real tough summer for automobile in Alberta due to hail activity. In terms of the PYD, clearly, we see some fluctuations quarter-to-quarter in terms of PYD. We had -- saw quite a swing in this particular quarter with respect to personal auto. 4 points of that gap is attributable to the favorable PYD that came from pools last year and also versus some slightly unfavorable PYD in the pool this year. But I should say that the pools for Q3 of 2015 was abnormally high. Another element of the PYD is we continue to see development on Alberta BI claims. We're not seeing acceleration, nothing new. It's consistent with the trends that we've seen in the past quarters. On a year-to-date basis, PYD is still favorable at 3.7% of net earned premium. So just to put that in the context of the quarter. Now when I turn to the current accident year, just over 2 points of deterioration. As you mentioned, a little bit of an impact from claims frequency and also from severity, and this was offset by a slight increase in rates. So when I look at the rates in particular, and I'll go into more detail here in a moment in terms of what we're doing for our future rate actions, there's currently a bit of a lag between written and earned right now as far as rate increases in personal auto. We already have great momentum in the portfolio, as evidence that the gap between written and earned is higher in the month of September versus the quarter. So when I turn to frequency now largely due to non-cat weather in Alberta, when we exclude the non-cat weather impact from Alberta, the automobile frequency is relatively flat compared to Q3 of 2015. We did see a slight uptick in frequency in Ontario. From our UBI data, when we compare to Q3 of 2015, we have seen an increase in the number of trips that our customers took in that period. We've also seen an increase in the length of those trips as well. We attribute these mostly to the favorable summer weather experienced in Ontario, with fewer days of precipitation in Q3 year-over-year. The remaining provinces, however, outside of Alberta, offset the increase that we saw in Ontario. On a year-to-date basis, however, I should say, is that we don't see this as a longer-term trend as frequency is down year-over-year. I should say though, it is clear though that UBI data continues to provide further additional data points to assist in the early identification of potential trends. In terms of severity, slight increase in the quarter, again, mostly due to non-cat weather losses in Alberta, similar impact that we saw on frequency, driven by more comprehensive claims, more hail claims, which have a higher severity than other physical damage coverages.

Charles Brindamour
Chief Executive Officer and Director

Darren, why don't we talk about what we have in the pipeline to improve the performance in personal auto.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Sure. So Charles, I want to look coast to coast, if I can. So let's start with Ontario. We have seen and we continue to see normal claims inflation in the system. The rate increase that we talked about in the last quarterly earnings call is now effective. We continue to file for further rate increases. In addition, in terms of the reforms that we saw in July, we expect to see further benefits from them playing out in the coming 12 months. We expect to see from those reforms an additional 2 points of loss ratio improvement in 2017 as some of those reforms are on a policy renewal effective basis as opposed to a loss of current basis. So in addition to the rate increases that we have flowing plus the reform impact, we have mid-single digits of loss ratio improvement already baked into the portfolio in Ontario. When I look at Alberta, as we've previously mentioned, we increased rates by 8% in Q2. Earlier this week, we received approval for an additional 2.4% rate effective January 1 of 2017, and we're also preparing future further filings for the spring of '17. Look at all those rate changes in aggregate. We have upper single digits of loss ratio improvement already baked into the Alberta portfolio. Not to leave out the other provinces in the Atlantic. Consistent with last quarter, we're increasing rates, and we also have further rate filings being prepared. And again, in Québec, we continue to increase rates after a long period of flat order claim prices. In terms of the rate changes themselves, they're all heavily segmented. In addition, our UBI program is performing well, attracting a better-quality customer. We have strong new business penetration in Ontario, Québec and the Atlantic with UBI, and we'll be introducing our UBI offer in Alberta in Q1 of 2017. Now if I look at the order portfolio now on a year-to-date basis, current accident year is flat compared to 2015, with a slight decrease in frequency, as I mentioned earlier, offsetting a comparable increase in severity, together with a flat rate change. When I look at what we see from a frequency, from a severity standpoint, when I look in terms of the rate action that we have, we have strong plans in place. We have strong plans in place also in underwriting and also in claims action plans as well. This work varies very much by province to province, but many of these actions are already in place. So given the rate momentum we currently have, what we know will be flowing through the portfolio in the coming quarters, our segmentation strategy improvements and our risk selection models, together with additional Ontario reform impact, are going to flow through into 2017. We believe that the actions will provide a positive impact on the coming quarters.

Charles Brindamour
Chief Executive Officer and Director

Thanks. Kai?

Kai Pan
Morgan Stanley, Research Division

That's very comprehensive. And just my second question is on the capital management side. You have close to $900 million excess capital. And on the merger acquisition front, there are recent press reports about you might be looking at a specialty insurance company in Bermuda. And also, on the buyback front, you have $600 million authorization, which expire in February, and you only bought back $37 million out of that. And you've mentioned your book value grow 10% year-over-year, but the stock hasn't moved anywhere. So I just wonder why wouldn't you be more aggressive on the buyback front.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

So Kai, you -- as you know, our main priority is deploying capital on growth opportunities. I don't think we'll comment on rumors. But as you know, we are on the lookout and interested in the consolidation.

So at -- the first premise in launching the buyback is really doing it opportunistically but maintaining the priority of holding capital for growth opportunities that will come about. So our view today is -- remains the same. We still think there's consolidation to be happening. The best use of capital for us is deploying it on growth. And on the buyback, we launched it to take opportunities in the market when the price of our stock is below -- well below intrinsic value, and that's what we're doing. And I don't think our view has changed in that respect.

Charles Brindamour
Chief Executive Officer and Director

So when I think -- Kai, when you think about our 2 big financial objectives, one is ROE outperformance and the other one is net operating income per share growth. Both those financial metrics have an important capital component to it. If you sit on fat [ph] capital, this depresses your ability to outperform from an ROE point of view, and capital deployment is a lever for income per share growth. So rest assured that when we feel that the excess capital we have is a burden on our performance in relationship with visibility we have on growth opportunities, we'll be more aggressive from a buyback point of view.

Operator

Your next question comes from the line of Geoff Kwan with RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

My first question was -- I know we're only kind of a month into it, but there's been a number of kind of continuation of windstorms and rainstorms and whatnot. And just wanted to get any color that you have on what Q4 is kind of shaping up like. And then on a similar note, given what we've seen in the past few quarters, and I know you don't want to necessarily react to maybe 1 or 2 quarters of data, but do you feel like what you've seen in the past couple of quarters might suggest pricing in some of your lines of business might need to change from here? Or is it in line with how you guys think about the business?

Charles Brindamour
Chief Executive Officer and Director

So I'll ask Patrick to give you his perspective on the start of the quarter. We'll then ask Darren and Alain to give perspective on pricing in home insurance as well as in commercial lines. So Patrick?

Patrick Barbeau
Senior Vice President of Claims

Yes, fairly simple. So far, we had, after the end of Q3, 2 events, 2 main events, one is -- sorry.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Maritimes?

Patrick Barbeau
Senior Vice President of Claims

Yes. One is the Matthew hurricane, the tail of the Matthew hurricane that hit the Maritimes. And the other one is another rain event in Québec in last weekend of the -- well, this happened in 21st of October. Those are the only 2 events. Most of the cats we expect in Q4 is usually in October. So right now, it's not very different than what we would expect.

Charles Brindamour
Chief Executive Officer and Director

There's not a story there. I think it is, as far as we're concerned, in line with what one would expect at this point in time. That being said, look, we came out of the summer with a view in home insurance that more are needed to get done. I think Louis was very clear that we've increased our expectation, and that translates into what we believe will be continued rate increases despite the fact that we're convinced that our offering today at its price is geared to operate sub-95% in bad times. And I would say 2016 is one of those very bad years from a natural disaster point of view. 9 months into the year, we're at 96% in home insurance. That being said, our view is the industry ought to do some more work. We're growing in that environment, and we will get some more rates in that segment for the foreseeable future. And I think this extends our outlook in home insurance probably from 12 to 24 months of hard market. Darren, I sort of stole the punch there, but maybe you want to add a bit of color.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Yes. The only other thing I would add there, Charles, is in the quarter itself, we had just under 4 points of rate already flowing through our personal property portfolio. So we do definitely have rate momentum within the portfolio. We have the further rate increases planned pretty much coast to coast in personal property. In Alberta, in particular, probably hitting a little harder in terms of the segmented rate increase. We're also looking to further enhance our product to respond to the increase in hail activity as well, too. So there are probably some high-level changes that we're looking here.

Charles Brindamour
Chief Executive Officer and Director

Yes. I think in home insurance side, we'll see, despite the natural disaster, this is a segment that we would be very comfortable growing at a faster clip if the market lends itself to faster growth because we're very comfortable with our product. We're very comfortable with our rate position. I think it's been tested in the past year. We're seeing the current accident year improve 8 points. And so we like what we're seeing there, and we think the market conditions lend themselves to us continuing the transformation we started in that line of business. I think worth spending a bit of time in commercial lines, in particular, property. I think we like what we're seeing there as well. But I'll let Alain talk about that.

Alain Lessard
Senior Vice President of Commercial Lines

Okay. Thank you, Charles. So Geoff, maybe a bit of context. We said we believe the market is in a firm position, not necessarily firming but basically remaining firm. We pushed, in the last quarter, 3% of rate on renewal, and our retention is still holding. So that lets (sic) [tells] us that the market is still in a position to accept rate increase -- and experience rate increase on that side. That's the 13th quarter in a row that we've been pushing rate. It's slightly lower than it was a year ago, more in the 4%, but it's still continuing on that. And we believe, like we said, what keeps the market firm is low interest rates, and there's certainly no sign of interest rate moving upwards, and also elevated losses in the market. And the situation like Fort McMurray in the second quarter is another point that leaves the elevated losses very high. So we think that there's an opportunity and a situation where the firm market will continue for a few quarters. On the commercial auto side, clearly, the trucking business was really firming, and we're seeing, in that market, a very firm market. On the regular automobile, although things are very competitive, we see sign that there's a bit of momentum on increasing rates. Our rate increase in the third quarter are in the range of about 2.5%, but that's on top of the product reform in Ontario. So we're talking of an effect of about 4.5% rate increase in total, and that's higher than what we saw in the first and second quarter. And at that level, our retention, again, is still holding. So we see a bit of momentum on the automobile. And that is probably on the fact that 2015, we saw the industry combined ratio in commercial auto probably north of 100%, so there is a need for increase on that market. So we see good momentum on that side.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Okay. And just my second question is just following up on Kai's question around the M&A. I understand you obviously were not going to talk about specific transactions. But can you maybe talk about kind of the tone in the industry or what you're kind of looking at? Is it things are kind of a bit more in a holding pattern? Or maybe if you can just provide a little bit more insight, both what you may be looking at or what may be going on domestically as well as outside of borders.

Charles Brindamour
Chief Executive Officer and Director

I think the -- if I look domestically, there have been transactions this year, again, one notable one, for sure. And so our view has not changed. I think domestically, near, midterm, 15 points of market share will change hands. I think that there are disconnects, I think, between what people might expect and what the value might be, but we think consolidation will continue to take place in the domestic marketplace. And this is not a long-dated forecast. I think, when I look at distribution in the domestic marketplace, that is very active, and we're deploying capital in small chunks but -- in businesses that are doing really well. And I think this will help fuel our distribution profit later in '16, but, more importantly, in '17. As we mentioned, we expect to grow our distribution income north of 10%, and a portion of that is driven by the fact that we're able to deploy capital there and if [ph] we could deploy more we'd deploy more. I think in terms of -- so that's -- priority #1 is to deploy capital here, both from a manufacturing and distribution point of view. And I think it's a good environment for that. That being said, there are very clear thresholds that we're using to deploy capital. And so long as we cannot meet those thresholds, we're holding on to our capital. I think when it comes to abroad, I mean, there is consolidation at the industry level outside Canada as well. And I think we're still prudent from that point of view. But as we've talked to investor, over the past few years, we're -- we have an interest in exploring what's going on abroad. And one shouldn't read rumors and what I just said as a validation of these rumors at all. I think our thesis has not changed there. There, our opportunities -- priorities is in Canada.

Operator

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

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First question is related to the commercial auto segment and the onboarding, I guess, of Uber and Turo. It looks like rate increase is up about 15% year-over-year. I was just wondering if you could sort of break out what would be, I guess, "organic" rate increase and what's related to Uber and Turo and then, I guess, how you see that evolving as you bring Québec online for Uber and potentially other sharing economy-related sources.

Charles Brindamour
Chief Executive Officer and Director

Yes. I think -- by the way, we view Uber and Turo as organic as well, but we might give you a perspective if we excluded those numbers. These are big growth levers in the commercial auto.

Alain Lessard
Senior Vice President of Commercial Lines

I think without pinpointing and giving you an exact number to tell you how much we collect from Uber and Turo, I can tell you that the majority of the growth you see in commercial auto in the quarter is driven by the sharing economy, those -- so both Uber and Turo. Like I said, this is -- we have 3 -- basically, 3 months of operation with Uber, which is the larger share of that part. And technically, this is usage base of that. So how much will that grow is very much related to how much it's going to be used. With the adding of the automobile piece in Québec starting on October 2017, we'll have new premium coming in for that site. But as Uber operates in more city, as they become more popular in the city they are being used, our premium will grow on that side. But being only 3 months, not having a view on the seasonality of the usage and things like this, I think it's early to say to what extent and to what level it will grow. But clearly, this is a major impact on our volume in 2000 -- in the next 12 months.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And then a second question relating to investment income. I just noticed a tick-up in income from loans and other. Is there a shift in strategy from fixed income to potentially other sources of yield? And I guess the follow-up to that is, what are some of the strategies that you're employing to enhance yields either in upcoming quarters or down the road?

Charles Brindamour
Chief Executive Officer and Director

So yes, I think, overall, we're not reaching for yield. Our asset mix has not changed meaningfully. We're very much fine-tuning the products we've been operating in for a while. I think, Louis, you might want to give some more color. But look, our thought process here is that we're operating with ROE targets. And when we operate in the low interest rate environment, our troops on the front line know that they have to step up from an underwriting performance point of view. I mean this is a communicating base, and reaching for yield to juice the return is not how we run the business. I will let Louis give a bit of his perspective there.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Well, you're right, so I think we're trying to diversify the portfolio a bit. But it's marginal, it's on the edges, and we're not trying to increase yield through taking more risk. That's very clear. I would say from another interest income from loans, those are related to our broker investments. So in some cases, we have loans; in some cases, we have equity. And the uptake [ph] is what you're seeing from the broker loans.

Operator

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

Paul David Holden
CIBC World Markets Inc., Research Division

First question is related to your reinsurance coverage. And understanding you're probably negotiating for January renewal, so it might be a little sensitive there. But want to ask, following the Q3, where the cat losses were a matter frequency versus severity, if you're giving any thought in terms of changing the structure of how your reinsurance coverage works to give you more protection against these smaller cat events.

Charles Brindamour
Chief Executive Officer and Director

So maybe, Alain, you could give a high-level perspective on the reinsurance market conditions.

Alain Lessard
Senior Vice President of Commercial Lines

Yes. I think, like you said, Paul, this is a bit sensitive at this point since we're renewing in January 1. But when we look at our price and our situation and the market involved in reinsurance, it's pretty much an international market. So when you look at what happened in Canada and when you look at what happened worldwide, you see probably a different picture as there had been cat basically in Q2 and some frequency in Q3 in Canada. So clearly, the Canadian piece of the reinsurance is affected, and there will be, maybe, some adjustment on some of the bottom layers. But the overall international cat market had been very good to reinsurers, and we believe it's still a favorable environment for a buyer. So we'll see probably a different approach on different layer of our programs for 2016. And I think that gives you a bit of a picture of internationally. I think we have to look at Canada, but we also have to look at the international market. And this has been very favorable to reinsurer internationally, so I think that puts us in a favorable position overall on the program. But clearly, there will be some thinking about some adjustments on layers.

Charles Brindamour
Chief Executive Officer and Director

Yes. For me, Paul, it's not very sensitive. Let's be very clear. At the top of the program, there's a lot of capacity. There's a lot of option. There's a lot of people who want to participate in our program. At the bottom of the program, it might get a little more expensive, but our attachment point, in relative terms, is very, very low. So for reinsurers who might try to get better condition than they deserve, we can easily just not reinsure the bottom of the program. So it's not very sensitive. We have a bunch of options, from a negotiation point of view, that we're prepared to act upon. And as such, we're excited about the renewal season. Your second point is about frequency versus severity events. I think that you folks understand well natural disasters, what it means to products, pricing and so on. And there is so much margin that we should pay to reinsurer to avoid noise. Because I think if investors understand the noise, might as well keep the margin for us and explain it from quarter-to-quarter. That being said, if there are opportunities and if there are -- if there is capacity to reorganize around frequency of lower event, we'll explore these as we have with the aggregate cover last year. We felt that was a market opportunity. So for us, when it comes to reinsurance, everything is on the table, and we're looking forward to the negotiation that is taking place these days.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. And then second question is related to growth in distribution income. So your guidance for 2016 was 10% or higher. We're running at 5% year-to-date. So does that mean that there's something that hasn't transpired in terms of growth that you would have thought was going to transpire at the beginning of the year? Or are we just looking for really big Q4 results?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

No. So you heard our guidance for the full year just above 110. We gave 10% guidance last year. That would take us closer to 115, and I would say that the gap is really the actual results of the year and how that impacts the profitability of each of the brokerages. With regards to 2017, when we actually plan the results for the individual brokers, including past acquisitions, that's the rate of growth we're going to -- we're expecting to see next year. So it's obviously improved profitability next year and just absorbing past acquisitions and the impact they will have on our results.

Charles Brindamour
Chief Executive Officer and Director

Yes. I think, Paul, it's important to keep in mind that a portion of the distribution income is profit sharing from the carrier that are represented in our distribution operation. And when the industry's performance diminish a little bit, the profit-sharing that a broker gets, and that -- some of the brokers where we're invested, including BrokerLink, which we own, will diminish a bit. And you've got probably a few million dollars below plan there. That also means, though, that manufacturers like Intact Insurance would end up being less profit sharing when the performance is less than what we anticipated in part because of natural disaster. So directionally, no change from a distribution point of view, as far as I'm concerned. Very pleased with the margins there and the return on the capital deployed.

Operator

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

Tom MacKinnon
BMO Capital Markets Equity Research

Just continuing on that distribution income. Did I hear Louis right? Looking for north of 20% growth in 2017, was that correct, in distribution income?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

No, north of 15% next year.

Tom MacKinnon
BMO Capital Markets Equity Research

North of 15% next year?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

That's right. Slightly above 110 this year, and then add 15 -- a bit more than 15% next year.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. 15%, is that right or north of 15%?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

That's right.

Tom MacKinnon
BMO Capital Markets Equity Research

Sorry. So 15% on top of 110, right?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Yes.

Tom MacKinnon
BMO Capital Markets Equity Research

And then just with respect to the increased cat load, help us understand how that translates into pricing in personal property in particular and maybe some of your commercial lines. Like presumably, if you're taking -- if you're thinking of a higher cat load, does that not translate into increase in prices associated with these kind of properties?

Charles Brindamour
Chief Executive Officer and Director

No, absolutely. And I think, Tom, that's the point I was making a little bit earlier. I mean, we're seeing the current accident year performance in home insurance improve by 8 points. Rates are up in the single-digit range or -ish percent, and we will increase that in the coming months across the land. And our view is that the firm market environment will continue probably beyond 12 months in home insurance and so absolutely baked in our thought process and in our plan. I mean we wouldn't increase our view on cats without taking action on rates and product. That being said, I think the product right now is geared to generate sub-95% in real bad times, which is -- '16 as an example. But we feel the market -- as people come to the realization that natural disasters are more important than they were, we feel the market offers the opportunity to move on rates, and so we think that will be a hard market environment for a good 12, 24 months there.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

To a lesser extent, in commercial lines, I would say. Because a big portion of the natural disaster is home insurance-driven, it has an impact in commercial lines but to a lesser extent.

Tom MacKinnon
BMO Capital Markets Equity Research

So if we were to take up our cat load in personal property, you anticipate that the underlying combined ratio should -- or the reported should still -- or the underlying combined ratio should adjust accordingly and then we would sort of come back to the same kind of reported combined ratio we would be thinking of prior to increasing cat load? Is that what you're sort of projecting to people?

Charles Brindamour
Chief Executive Officer and Director

Yes. I think that it's not a bad way to read this, Tom. Everybody has a view that differ from one another, which is good. But directionally speaking, our actions are very consistent with what you've just described.

Operator

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

Meny Grauman
Cormark Securities Inc., Research Division

One of your competitors -- global competitors recently was quoted as saying something that I thought interesting, and I wanted to get your reaction. He was talking about the underwriting advantage that he could get from a broader insurance model. And he was quoted as giving an example. He said, if you're a pension customer, you're 6% less likely to claim on your home insurance, and they had algorithms that can use that to their advantage. I'm just wondering your reaction to that or maybe your thoughts on this issue of a broader product offering and its impact on the ability to underwrite better.

Charles Brindamour
Chief Executive Officer and Director

Well, I think the -- so I'm not sure who you're referring to, and it doesn't matter so much. It's an interesting point, there's no doubt about that. I think that we observed the -- we establish at Intact the expected profit per customer with all the information we have on customers, including other products they have with us. And if I look at our -- the segmentation work that our actuaries and data folks are involved in and I stack the predictability of variable in order of importance, I would say that adding other products such as home insurance and predicting car insurance is interesting but far less predictive than the sort of stuff we collect on telematics, for instance, and so on. So I wouldn't deny that this has some value, but I think in the world of predictiveness, I would say other products would be low on the totem pole, so to speak, compared to other rating variables. And as you might know, we're studying [ph] 2.5 billion kilometers driven from data we collected from our customers in the past couple of years and observing 50 new raw data points, 30-ish derived data points, and the sort of stuff we find in there in terms of risk selection is probably more powerful than anything we've worked on before. So my view is that with additional data sources, Big Data in particular, that's where the future is in terms of predictability, more so, I think, than the other products that one might have. I'm sure that has some predictive value, but there's nothing like focus when it comes to outperforming the market.

Operator

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

Doug Young
Desjardins Securities Inc., Research Division

Louis, sorry, first, the -- you mentioned something about -- and I apologize because I missed this. There was an increase to $250 million from $200 million. Can you clarify what that was related to again, sorry?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Yes. That's the future run rate for cats. So we have been indicating that our expectation was $200 million in the past. We're raising that to $250 million for the future, but we still maintain that half of that will occur in Q3. So that's our expectation for cat losses in the future.

Doug Young
Desjardins Securities Inc., Research Division

Okay. And then the other item, you mentioned that there was -- in personal auto, there was 2.3 points of non-cat weather losses. What's the comparable number in Q3 of '15? Do you have that handy? And if not, we can follow up.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

No, but it's about 1 point lower than...

Doug Young
Desjardins Securities Inc., Research Division

About a point?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Yes.

Doug Young
Desjardins Securities Inc., Research Division

A point lower, okay. And then just lastly, Charles, and I know we've mentioned this....

Charles Brindamour
Chief Executive Officer and Director

Doug, I think when explaining the non-cat frequency numbers and we're seeing frequency up mildly in the quarter, that's, in large part, where it's coming from.

Doug Young
Desjardins Securities Inc., Research Division

Okay. So that -- so even if we back those 2 items out, you still have the loss ratio deteriorating but it's as a result of what you just mentioned, essentially?

Charles Brindamour
Chief Executive Officer and Director

Right.

Doug Young
Desjardins Securities Inc., Research Division

Okay. And then just lastly, it looks like the prior year reserve development as a percent of opening reserves is more in line with what your historical average has been. So at 3.6%. Is this -- and I know I've asked this question before. This feels like a more normal quarter from prior year reserve developments. Is that a fair characteristic? Or is there anything I'm missing, either positive or negative, that you think this is too low of a number or too high of a number?

Charles Brindamour
Chief Executive Officer and Director

I think, directionally, you're reading this right. But I would say personal automobile probably is less favorable development than what we would like to see, still favorable but less than probably what one would expect in auto.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Charles, a couple of quick questions here. First one, just on the commercial auto, was there anything unusual happening in the quarter just with respect to premium? Written risk was down, but premium was up pretty significantly.

Charles Brindamour
Chief Executive Officer and Director

Yes. Good observation, Brian. Alain, why don't you give a perspective.

Alain Lessard
Senior Vice President of Commercial Lines

Yes. I would say, Brian, when it comes to commercial lines, we'll always be cautious about the number of risk in because there's a lot of noise in doing that. And in this case, what we see there is -- probably the biggest impact is on the sharing economy, where we see multimillion dollar premium. But I think for the sharing economy in total, we have about 6 or 7 units, so I think that throws the number completely off. And after that then, units are affected by an IRCA policy, where we have a single vehicle and it can be $600 or $700 compared to the other side, multiple fleet or where we have lots of premiums not as many units or anything. So I think the true exposure of what's happening is really measured in the premium, and this is how we compare to the market. Because the unit, considering the fact that the risks are far from being homogeneous, can be really thrown off in either direction with a few little things.

Charles Brindamour
Chief Executive Officer and Director

But I think, in general, Brian, fleets tend to skew big time the relationship between risks or units and premiums from quarter-to-quarter.

Alain Lessard
Senior Vice President of Commercial Lines

And maybe as an add-on on the earned piece, all the volume that is coming from the sharing economy is on a written, earned basis because we're basically -- are earning as we write every usage based on every quarter. So there's a bit of disruption also going on between the written and the earned coming from the sharing economy.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then, Charles, just a quick update how the specialty growth is going right now, commercial.

Charles Brindamour
Chief Executive Officer and Director

So specialty lines is doing very well. We've announced the creation of a new division in May under the leadership of Joe D'Annunzio. We're making good progress on that front. The combined ratio in that segment is solid. I'll ask Alain to give you a bit of perspective on the growth of that division, but certainly, making excellent progress there.

Alain Lessard
Senior Vice President of Commercial Lines

Yes. So there's a lot of lines of business in the sharing -- in the specialty lines, but the growth in the quarter is about 9.2%. Again, a lot of that is driven by the sharing economy, but we're seeing a very good momentum there, I would say, not only on the volume but also on the level of expertise and people we attract. We're -- the objective was to grow our line of business and grow our expertise. Thank you very much. So I think this is really moving in the right direction. We have probably within that 2 lines where we're doing remediation. Like we said, trucking is really undergoing a lot of corrective action, and some large accounts in one of our provinces are also undergoing action there. And that's put a drag a bit on the growth. But at 9.2% in the quarter, that's close to our target to reach $1 billion in 5 years. And on the combined ratio, results are very good, 80.2% so far in the quarter in 2016 and 85.5% for year-to-date. So results are really in line with where we want them to be.

Charles Brindamour
Chief Executive Officer and Director

Yes. So I think we're trying to grow that business sub-90s. And this is a segment of the market where we're underrepresented, so you'll understand our appetite to, on one hand, not disrupt the market; on the other hand, be much bigger in that market.

Operator

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

Mario Mendonca
TD Securities Equity Research

Charles, you went through a pretty comprehensive list of pricing increases in personal auto, and I suspect you've done all the work you need to satisfy yourself that you won't be giving much up from a market share perspective. But what have you done -- or is it safe to say that from a political perspective, that there's a political will for those price increases and that you satisfied yourself on that front as well?

Charles Brindamour
Chief Executive Officer and Director

So what we've talked about this morning, Mario, is what has been approved as opposed to some of the other actions we will take. And the issue right now is, what has been approved, that's not yet rolled through the earnings. But it's in the system, being written at the moment. So in relationship with what we've been talking about today, I'm very comfortable.

Mario Mendonca
TD Securities Equity Research

No. So I may have misinterpreted then. There was no comments about expectations of future file for rate increases?

Charles Brindamour
Chief Executive Officer and Director

Not of the quantification that we've talked about. I think we might have mentioned we will potentially take more in the future. But what we've talked about in terms of concrete actions is in the system.

Mario Mendonca
TD Securities Equity Research

So the references then to low single-digit or perhaps mid-single-digit improvements in the underlying claims ratio, those are doable with the already approved rate increases, not future rate increases?

Charles Brindamour
Chief Executive Officer and Director

Yes.

Mario Mendonca
TD Securities Equity Research

Okay, that's helpful.

Charles Brindamour
Chief Executive Officer and Director

That's exactly right. I will say this, Mario, though, look, the product in automobile insurance is a framework that the government provides. I mean the government designs the products, they establishes the cap on minor injury and so on. And they certainly have a role to play. We're very active in all jurisdictions. The Ontario government is certainly very proactive as well on that front. The last run of reforms that they've rolled out, we're really looking forward to see their impact in the coming period. I don't think one should assume this will not get political though. This might, but I think people are fairly proactive. And where people are not proactive, we're spending a lot of time with them to show how they can help themselves in the exercise by modifying the product.

Mario Mendonca
TD Securities Equity Research

We're 1.5 years away from an election in Ontario anyway, so this may not -- this won't be topical for some time, I suspect. But let me just sort of drive on to another issue though, and this is very specific and perhaps it's too granular. The reserve development in auto, you made an important point there that it's not what you want it to be. Is there any -- can you point to anything in Ontario AB or accident benefit that may have affected the reserve development this quarter and may perhaps on a go-forward basis?

Charles Brindamour
Chief Executive Officer and Director

No.

Mario Mendonca
TD Securities Equity Research

Nothing there?

Charles Brindamour
Chief Executive Officer and Director

No.

Operator

And we are now out of time for questions, ladies and gentlemen. I will now turn the conference back over to our presenters for closing remarks.

Samantha Cheung
Vice President of Investor Relations

Thank you all today for your participation. Following this call, the telephone replay will be available for a period of 1 week while the webcast will be archived in our website for a period of 1 year. A transcript will also be available in the quarterly financial archive. Our Q4 and year-end 2016 results will be released on February 8.

Thanks again, and this concludes our call for today.

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