S&P Global Market Intelligence

Intact Financial Corporation TSX:IFC

Earnings Call

Wednesday, February 12, 2025 4:00 PM GMT

Call Participants

EXECUTIVES

Charles Joseph Gaston Brindamour
CEO & Director

Darren Christopher Godfrey
Executive VP & Chief Underwriting Officer of Global Specialty Lines

Geoff Kwan

Guillaume Lamy

Kenneth Anderson
Executive VP & CFO of RSA UK and International

Louis Marcotte
Executive VP & CFO

Patrick Barbeau
Chief Operating Officer

Unknown Executive

ANALYSTS

Doug Young
Desjardins Securities Inc., Research Division

Jaeme Gloyn
National Bank Financial, Inc., Research Division

John Aiken
Jefferies LLC, Research Division

Lemar Persaud
Cormark Securities Inc., Research Division

Mario Mendonca
TD Cowen, Research Division

Paul David Holden
CIBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Intact Financial Corporation Q4 2024 Results Conference Call. [Operator Instructions]. Also note that this call is being recorded on Wednesday, February 12, 2025.

And now I would like to turn the conference over to Geoff Kwan, Chief Investor Relations Officer. Please go ahead, sir.

Geoff Kwan

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

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

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

And with that, I will turn the call over to Charles.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Geoff. Good morning, everyone, and thank you for joining us today. We finished 2024 with our best quarter on record, with a net operating income per share of $4.93 up 23% from last year. All of our businesses contributed to this result, including strong underwriting across all regions, investment and distribution income. The strength and diversification of our platform is evident as is our ability to grow earnings and outperform. In the context of economic and climate uncertainties, we've proven that our organization is very resilient and well positioned to thrive operationally and financially.

Now let me provide a bit more details on the fourth quarter. Our combined ratio was excellent at 86.5%, 4 points better than last year, with strong underlying performance across all lines of business. Top line growth was solid at 5%, led by continued momentum in Personal Lines with growth in the double-digit range. Within Commercial Lines, while rates remain in the mid-single digit range across most of our portfolio and conditions remain favorable overall. We delivered an operating ROE of 16.5% in 2024 and ended the year with $2.9 billion of total capital margin. This is after incurring $1.5 billion of catastrophe losses, reflecting the resilience of our results. In addition, we did not slow down on the strategic front during the year, and we're really well positioned to continue delivering on our road map in '25. We're pleased to increase dividends for the 20th year in a row representing a 10-year compounded annual growth rate of 10%.

Let's now look at each of our lines of business starting right here in Canada. In personal auto, premiums grew 12% in the quarter, driven both by customer growth and rates. Our investments in digital marketing and customer experience are really paying off and we're well positioned to continue to deliver strong growth in 2025. We expect hard market conditions to persist over the next 12 months and our competitive positioning to further improve.

The combined ratio in auto was 94.2% in the quarter, driven by strong underlying results. The full year combined ratio of 95.4% was within expectations especially after excluding 0.5 point of negative impact from excess CAT losses. We remain very comfortable to grow in this environment and are well positioned to deliver a combined ratio in line with our sub-95 guidance in 2025.

Moving now to personal property. Premium growth was 9% in the quarter, also driven by both rates and continued customer growth. As the industry responds to recent severe weather events, we expect hard market conditions to persist over at least the next 12 months with growth in the low double digits. The combined ratio for the quarter was very strong at 77.1%, reflecting our profitability actions over the last 18 months. For the full year, the combined ratio was 96.5%, a positive result given the 20 points negative impact from CAT losses. In the last 5 and 10 years, this line generated a 90% combined ratio on average. As we look ahead, we maintain our guidance of a sub-95 combined ratio even with severe weather.

In Commercial Lines, premiums were up 4% in the quarter, driven by mid-single-digit rates other than in large accounts, where we continue to see increased competition. The market remains favorable across most lines, and we expect industry growth in the mid-single-digit range over the next 12 months. We delivered a very strong combined ratio of 78.8% in the quarter with an improvement of 6 points year-over-year. We also ended the year in a solid position at 86% and as we continue to see the benefits of our underwriting discipline and sophistication. We remain well positioned to capture growth opportunities and deliver a sustainable low 90s or better performance.

Now let's look at our UK&I business. The Direct Line brokered commercial lines integration is progressing well. This acquisition has added 30% to our premium base in the UK&I. As expected, we're working on improving its performance. This created a 4-point drag on growth in Q4 as direct line is now in the comparative period. And we're already seeing the benefits as the underlying performance in the UK&I has improved by more than 2 points, mainly coming from these actions. In the rest of the UK&I business, conditions remain conducive to appropriate reactions. Over the next 12 months, we expect mid-single-digit premium growth for the industry.

The combined ratio of 92.7% for the quarter and 92.8% for the year were strong, considering the elevated CAT losses. Our refocused UK&I segment is well positioned to evolve the combined ratio towards 90%. In the U.S., our premium growth was flat in the quarter. This is reflective of ongoing corrective actions taken in underperforming segments. If we exclude these, growth was 4%, with healthy rate increases across the rest of our book. Given the current market conditions, we expect industry premium growth to be in the mid- to high single digits over the next 12 months. We'll continue to focus on deepening our broker partnerships to capitalize on growth opportunities. And the combined ratios remained strong at 86.1% for the quarter and 87.5% for the year, proof of our continued underwriting discipline. Going forward, we remain well positioned to continue to run this business in the low 90s or better.

Let me now highlight some of our notable strategic milestones and initiatives. First, building scale and distribution is key to our success. In Canada, BrokerLink closed another 8 acquisitions in Q4 alone and continue to deliver solid organic growth. This brings its total premiums under management to $4.3 billion for the year, and we're well on our way to achieving our target of $5 billion in 2025. We're accelerating our pricing sophistication within global specialty lines, an anchor of our strategic road map. Pricing governance tools and enhanced segmentation were implemented across 9 new verticals in Q4, representing 21% of our global specialty lines volume. We're maintaining our competitive edge and continuously enabling more efficient underwriting decisions in real time.

As said before, we aim to be the best AI insurance shop in the world. We bolstered our data and AI capabilities this year again and have over 500 models to help us optimize underwriting performance and customer experience. This represents over $150 million of run rate underwriting profit. Within our Commercial Lines portfolio, we deployed a new generative AI solution, nearly 3 out of 4 quotes go through our new tools, eliminating duplicate entries for brokers and increasing our speed of new business submissions. Investing in our people is an important pillar of our strategic road map. We were once again named as a best employer in both Canada and the U.S. for the ninth and sixth consecutive year, respectively.

I'm very proud of all we've accomplished in the past year and none of it would be possible without the dedicated work from each and every one of our people, and we're looking forward to bringing the same passion and commitment this year. Overall, we're entering '25 with a lot of positive momentum. Growth is in the mid-single digits. Our underwriting performance in the low 90s, our operating ROE in the high teens. We are well positioned to execute on our strategy and achieve our target of 10% growth annually over time and outperformed the industry ROE by at least 500 basis points every year.

Finally, as this is Louis Marcotte's last call as our CFO, I wanted to take a moment to thank him for his relentless dedication to helping grow intact into a leader in the global P&C industry including the last 11 years as our CFO. The market capitalization of the company saw a fivefold increase to over $50 billion with an annual total shareholder return of 16% over his tenure. But more than that, Louis exemplifies our values every single day, and I look forward to continuing to work closely with him in his role as Vice Chair of Intact.

With that, thanks, Louis, and mic is to you.

Louis Marcotte
Executive VP & CFO

Thanks, Charles, and good morning, everyone. I'm obviously very happy to end the year on such a positive note. We delivered net operating income per share of $4.93 in the fourth quarter, our highest ever, which drove a 26% increase in full year NOIPS to $14.43. This is the result of all segments and lines of business being in a very strong position. Coupled with continued growth in investment and distribution income, operating ROE was 16.5% despite a 3-point drag from higher-than-expected CAT losses and a very healthy level of capital margin.

Now let me provide some color on our Q4 results. we reported $130 million in catastrophe losses below our expectations for the quarter and $1.5 billion on a year-to-date basis. Looking ahead to 2025, we are increasing our annual CAT guidance to $1.2 billion. This reflects our growing premium base, inflation and recent experience. It also reflects the successful renewal of our reinsurance programs as at January 1, 2025. We lowered our exposure to tail events as well as added some protection for multiple lower severity events. At the same time, we increased the retention of our catastrophe treaty in Canada from $250 million to $350 million. When combining the savings on the renewal with the proactive rate actions we have been taking, our combined ratio guidance for each line of business remains unchanged, and we do not expect any impact on our overall earnings expectations.

Moving away from CATs. I'm very happy with the strength of our underlying performance. The current accident year loss ratio of 56% was 2 points better than last year. This improvement is driven by our profitability actions across all our lines of business and regions. Favorable prior year development was healthy at 5.8% for the quarter. This included approximately 1 point favorable impact from prior year CAT losses. At 4.8%, we are slightly above the upper end of our guidance of 2% to 4%, and but this should not be a surprise given our prudence. We still expect to land around the higher end of the range in the near term. As you know, we look at current accident year and prior year developments combined. I'm particularly pleased that we were able to deliver improvements in both.

On the expense side, the expense ratio of 33.6% in the quarter and 33.7% for the year were largely in line with expectations despite absorbing a few bps of incentive compensation, which are largely driven by combined ratio outperformance. Going forward, our guidance of approximately 33% to 34% annually remains unchanged. Operating net investment income increased 6% in the quarter, mainly due to higher book yields. For 2025, we expect investment income to reach approximately $1.6 billion. This takes into account normal turnover and a moderate decrease in floating interest rates over the upcoming year.

Distribution income increased by 13% in the quarter and 12% for the year resulting from solid organic growth and continued M&A activities. Looking ahead, we expect distribution income growth of approximately 10% in 2025, fueled by a healthy pipeline of acquisitions at BrokerLink.

Moving now to our balance sheet. Book value per share increased 2% in the quarter and 13% year-over-year, driven by our solid operating performance, along with favorable capital movements -- movements in capital markets. Over the last 11 years, our book value per share has grown 10% on an annualized basis. I think we are in great shape to maintain this track record in the future. We generated approximately $2.6 billion of capital this year despite the impact from excess catastrophe losses. Most of it was deployed on deleveraging, dividends, distribution, M&A and growth. With a total capital margin of $2.9 billion at the end of December and an adjusted debt to total capital of 19.4%, we are well positioned to capture growth opportunities organic or inorganic as they may emerge.

Given our outlook on earnings growth and the strength of our balance sheet, we raised our quarterly dividend once again by 10% to $1.33 marking the 20th consecutive increase. We are also renewing our share buyback program this month on the same terms as the existing program. Our focus remains to deploy our capital on growth. but maintaining our buyback program provides further flexibility in our capital deployment framework. Looking ahead, we are starting 2025 in a very strong position. Our relative and absolute performance is robust, we are driving profitable growth, and we are continuing to advance on our strategic road map.

As this is my last earnings call as CFO, I want to take a moment to thank Charles for his trust and outstanding leadership throughout the years. I would also like to thank everyone at Intact for their hard work and dedication. You are the ones who deserve credit for the results we are delivering today. And finally, a heartfelt thanks to our finance teams around the world, you are simply the best. It was a pleasure to work alongside all of you as we transformed Intact into one of the most respected companies in Canada and in the industry. Finally, after working closely with him for the last 17 years, I'm absolutely confident that investors, employees and all stakeholders will be in good hands under Ken Anderson's financial leadership.

With that, I'll give it back to Geoff.

Geoff Kwan
Thank you, Louis. In order to give everyone a chance to participate in the Q&A, we would ask that you limit yourself to 2 questions per person. You can certainly requeue for follow-ups, and we'll do our best to accommodate if there's time at the end. So Sylvie, we're ready to take questions now.

Question and Answer

Operator

[Operator Instructions]. First, we will hear from Doug Young at Desjardins Capital Markets.

Doug Young
Desjardins Securities Inc., Research Division

First question, the market has been able to push through decent price increases in Ontario auto. It sounds like in auto, in general, but I assume in Ontario, in particular, earned premium growth is outpacing loss cost inflation. I guess the question really is should we expect prices to start to stabilize here. And if not, why not, given the trends that we're seeing. And any pressures, obviously, in Ontario, we're in an election, elections can often kind of bring some curveballs. Anything we should be thinking about on that side.

Charles Joseph Gaston Brindamour
CEO & Director

Thanks, Doug. I'll ask Guillaume to share his perspective on the industry's performance and what it means for trajectory of rates. And then maybe, Patrick, you can provide a bit of perspective on the inflation you're seeing in automobile insurance, and that should give you plenty to work with, Doug. So Guillaume.

Guillaume Lamy

Yes. Thanks, Doug. So our rates increased double digit in the quarter, and that was fueling the growth that we saw at 12%. We also saw unit growth really gaining momentum at 2.5 points, which is a 1 point improvement quarter-over-quarter. From an inflation perspective, we've seen it stay in the mid-single digits, and it's been stable for the past few quarters. So adding into 2025, given the stabilizing inflation, we expect written rates to kind of gradually normalize towards the mid-single -- mid- to high single digit reducing the gap between written rate and inflation.

From an industry perspective, we still see the industry as unprofitable towards 3 quarters, the first 3 quarters of 2024. So we still think that there's a lot of catch-up to do from an industry perspective. So with our rates normalizing into 2025. We also expect retention to be further strengthened and our competitive position to improve. So that should also help unit growth.

Charles Joseph Gaston Brindamour
CEO & Director

You, Guillaume. And Patrick, do you want to shed a bit more color on [indiscernible] we're seeing.

Patrick Barbeau
Chief Operating Officer

Like Guillaume said, the inflation in auto has stabilized for 4 quarters now in the mid-single digit, but there's still inflation at that level. Our price covered it, but there's still inflation. The source is in the mid-single digit for repairs due to the parts, in particular, the market values of car have stabilized over a full year. So there's very little inflation left at the moment. But there's also the long-tail lines where we've seen some inflation for more than a year now and in the mid-single-digit range as well, and it's driven by higher litigation and that's more in Alberta and Atlantic than in Ontario. But overall, that's the picture of inflation in Canada.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. So I think my read, Doug, is that Canadians are shopping and we're growing as a result because our competitive position has improved over time. Our digital channel is doing really well, like sales -- digital sales are up almost 80% and the industry has a lot of work to do in that context. As Patrick alluded to, I think the key areas where there is the biggest pressure in my mind is in Alberta and in the Atlantic, more so than in the Ontario context, where the cost equation has been a bit more stable and the reforms that the government has deployed over a number of years are really holding the cost in a space that's reasonable. And so I wouldn't put it at the top of our risk list at this stage.

Doug Young
Desjardins Securities Inc., Research Division

Just a follow up on this, and I can't believe I'm going to ask about tariffs. But when you think about tariffs and the auto industry being materially impacted in the potential pressure on cars, is that something that concerns you when it comes to physical damage cost inflation.

Charles Joseph Gaston Brindamour
CEO & Director

Obviously, we've studied in depth the impact that a tariff war would have on us as a firm, and we think we're in a really, really strong position to navigate the storm both operationally as well as financially. We've explored a whole range of scenarios, and I think we would do well in those scenarios.

Your question, though, is specifically in relationship with automobile insurance, Operationally speaking, the thing to watch, obviously, is the supply chain in personal automobile and the impact on service and the impact on inflation, which, as you know, we can price for because our product is just 12-month duration so we can reprice when we want.

I'll ask Patrick to give you a perspective on our U.S. dependency in automobile insurance with tariffs in mind.

Patrick Barbeau
Chief Operating Officer

Sure. Maybe we need to look at the different components of our claims cost to understand where we could see inflation on the tariffs. There are 3 main components in our claims cost. The first one is injuries and liabilities where we shouldn't see much impact from the tariffs. And then you have the labor portion of the repair process that is also not much impacted by the tariffs. And then you have the cars themselves, and the car parts, which is where inflation could come from.

If I look at -- specifically at auto, more than half of the cost is coming from the long tail coverages. And then when -- and then the labor part is another 10%. So on what remains when we look at the cars we insured today only 38% or so is coming -- were assembled in the U.S. And then on the parts themselves, it's less than 1/3 of the parts that we use in the repair process that cross the U.S. Canadian border. So that's why overall, we feel that we can manage between our close involvement with the supply chain, the capability to price the product and we feel that we can manage within the guidance that -- within the same guidance that we shared before.

Charles Joseph Gaston Brindamour
CEO & Director

So it's a sort of physical damage, basically, excluding labor where you have some sort of U.S. exposure. So in the big scheme of things for personal automobile performance, not big, but obviously, as we've done before in periods of high inflation, we'll make sure we manage the supply chain, and then we have the pricing capability as well.

And with regards to inflation, obviously, we have a granular understanding of the supply chain, and that applies by make and model. And quite frankly, not something we're concerned about in relationship with the performance of automobile insurance. We're obviously concerned about tariffs for the country itself because it's no good for anyone. But from an intact financial point of view in our performance, we're in a really solid position.

It's also important to keep in mind on this theme that 1/3 of the book value and pretty much a 1/3 -- a bit more than 1/3 of our investments as well are outside Canada. So a contraction of the Canadian dollar leads to an increased book value per share in Canadian dollars. Overall, I think -- yes, we're in a good position here.

Doug Young
Desjardins Securities Inc., Research Division

Yes. No, I appreciate it. And Louis, thanks for all your help over the years and all the best in the next stages.

Operator

Next question will be from Tom MacKinnon at BMO Capital Markets.

Tom MacKinnon
BMO Capital Markets Equity Research

And first of all, before I start, Louis congrats on a great tenure as CFO and all the best. Maybe just continuing the tariff question. Is there anything with respect to personal property here that would -- I mean, if we end up having tariff wars here, how would that impact in any of your other lines of businesses?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. Before we jump in personal prep, as I think about the previous question, the other thing with regards to automobile insurance is that if you end up in a tariff war, you can expect kilometers driven per vehicle to come down, which acts also as a potential buffer on the overall performance. But let's go to personal prop Patrick, your take on the supply chain and what it means for us.

Patrick Barbeau
Chief Operating Officer

From the impact on the property line and here not only personal property, but commercial property as well would be even less than what we just described on the auto lines to give you a feel. 2/3 of the cost in property is for labor, liability, temporary relocations or business interruptions, if you look at the commercial line side. So at least 1/3 of the overall cost that is material. And today, it's only 1/4 of that 1/3 that we source from the U.S. The rest is sourced and manufactured here in Canada, and we have opportunities to further reduce the usage of U.S. manufactured goods at on site and within the supply chain. So even less of a concern there.

Charles Joseph Gaston Brindamour
CEO & Director

Our teams and claims for the past month have been very active to make sure that we optimize the supply chain here and work with our suppliers and intermediaries to make sure that we have as much Canadian content as possible.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And with respect to UK&I, I mean, you mentioned the industry at a mid-single-digit premium growth rate. You were not that and it was a bit of the nuance because we're kind of lapping the -- just as the time frame just when you bought DLG and you end up cutting some lines there. How should we be looking at that maybe just over the next couple of quarters and then in 2026 over 2025.

Charles Joseph Gaston Brindamour
CEO & Director

I'll ask -- our incoming CFO was very well versed in our U.K. operations to share his perspective. I think the good news on the Direct Line is that we've acquired 20% more than the business we price for, basically, which explains why it's grown our position in the U.K. by so much. And it also means we've got fair bit of room to work here. Ken?

Kenneth Anderson
Executive VP & CFO of RSA UK and International

Yes. Thanks. Tom, headline growth, as you pointed out, was minus 2.5 points in the quarter. That includes direct line where the integration, by the way, is going really well. As Charles said, we have acquired north of $600 million of premium, much more than anticipated. And of course, the integration part of that process is remediation of that direct line book. That's cost us about 4 points of growth in the fourth quarter but the performance is improving. And the 92% combined that we printed in Q4 is right in line with where we want to be at this stage.

Leaving Direct Line to one side. The rest of the UK&I business though is overall running at a low single-digit growth. Here, I would say the business flow is strong, particularly in specialty lines rate is solid. We're getting mid-single digits overall. But the offset we're seeing is similar to prior quarters, slightly lower retention and that's driven by that competition in the larger accounts at renewal, and therefore, a bit of a downward shift in average premiums or what we would call mix.

We look out to 2025, as you said, we expect the industry to grow at a mid-single-digit level. We're well positioned to grow in line with that. We have a number of growth initiatives being pursued in terms of visibility and service to brokers, strengthening the submission pipeline and increasing the quote volumes. At the same time, that remediation of Direct Line will continue, and it may create some near-term tempering on the top line. I would say, in the first half of '25 in particular.

But as I said, we have lots of room to remediate the Direct Line book, given we acquired north of GBP 100 million bigger portfolio than we originally modeled. And that remediation is really going to be what drives that 92% combined ratio towards 90%, looking out 18 to 24 months.

Charles Joseph Gaston Brindamour
CEO & Director

Yes. There's -- I think Tom after a year of 27-ish percent growth, that's what you would expect during the integration process. And we're really pleased with how the integration is going.

Operator

Our next question will be from Jaeme Gloyn at National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First question just on the U.S. business. So some, I guess, remediation actions going on in this platform as well. Can you talk maybe a little bit more about what lines you're taking those profitability actions in? And would these be lines that maybe get tagged for exited lines down the road? Or where are we in this process?

Charles Joseph Gaston Brindamour
CEO & Director

Thanks. I'll ask Darren to share his perspective on the U.S. growth.

Darren Christopher Godfrey
Executive VP & Chief Underwriting Officer of Global Specialty Lines

Thanks for the question, Jaeme. Obviously, as you saw, growth was flat in the quarter. However, when we back out those corrective underwriting actions that you referred to, the growth versus by year was actually particularly strong in most of the businesses. With respect to the verticals undergoing underwriting actions, a couple of things I would say there. One is that amounts to less than 10% of our U.S. premium base in Q4, but obviously, it created that drag in the quarter. We do expect that drag to somewhat dissipate in the second half of 2025. But as I said, the underlying growth in the business continues to be very, very strong.

I would call out 4 segments, a couple of segments within our Financial Lines portfolio. One is around an appetite change. Secondly is around very strong profitability actions in our financial services book and then an ongoing work in environmental and in entertainment. We do have a clear path to profitability in each of those. So they're not venturing towards that exit lines category that you referred to. Clearly, strong actions in place. but very confident to deliver profitability for those lines as we move into '25 and to '26. Even though we do have some drag there from growth and also from Bottom line, I'm very pleased obviously to see that the overall portfolio, including those lines, continues to deliver very strong sub-90s combined ratio performance in both the quarter and for the full year in 2024.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

And then second question, maybe more strategic. Just I appreciate the extra disclosure on the underwriting business or P&C insurance business versus the distribution business. And one of the takeaways for me is that you can -- one could argue that the P&C business is underlevered. So maybe just share how you're thinking through that aspect? Is it something that could drive intact to run at a higher leverage ratio than maybe historically thought of given the breakdown in the business from a balance sheet perspective. Yes, maybe just a little bit more high-level strategic thoughts around how you're thinking retrieving that.

Charles Joseph Gaston Brindamour
CEO & Director

Great question. I'll let the architect of that disclosure answer that question.

Louis Marcotte
Executive VP & CFO

Thanks, Charles. So I'm happy to notice the new disclosure. I think our intention here was to provide a bit more transparency as how the impact of having a very sizable distribution activity impact a P&C balance sheet. And although we are limited and constrained with the P&C guidelines and capital requirements, the distribution sort of is a different, obviously, beast. And therefore, that disclosure is provided to give you a bit more a sense of how it impacts.

So you see the main impacts on the intangibles. So the brokerage activity has a fair bit of the tangible of the total balance sheet. And as well on the debt side, as you noticed, the P&C is -- when we take a, what I would call an average debt loading on the broker business, it leaves the P&C business at a very comfortable debt leverage around 16%.

There's no -- we think about the capital structure, we try to optimize it as much as we can. The first step was giving a bit more clarity. So people understand, I will say the risk behind our balance sheet and how it's structured. There are no intentions to raise the cap. What we intend to do is as we've done in the past, when there are growth opportunities to capture, we can stretch ourselves a bit. And I think this should give you more comfort that the balance sheet is extremely strong. And that when we do go above 20% for an acquisition, we're not taking a high level of undue risk. That's how I would look at it.

Charles Joseph Gaston Brindamour
CEO & Director

And I think you need to stack the leverage against the ROE you can generate with your capital structure. So if we're running at the sort of ROEs we're running and we rent. Historically, a 20% debt to total cap gives us firepower to then jump on that tend to be very high IRR and accretive transactions. We think it's a good balance, good strategic mix to operate under at this stage. Thanks for your question.

Operator

Next question will be from Mario Mendonca at TD Securities.

Mario Mendonca
TD Cowen, Research Division

Louis, first of all, thank you to you for all your help over the years. It was a real pleasure working with you. Let me go to -- if we could clarify some things on the tariff. I think you can all appreciate that intact is not the tip of the spear when it comes to risk on the tariff side. But if you could help clarify something. You said 1/3 of the physical costs in commercial. You said about 1/4 of that would be a U.S. input. And that I think did you say something similar in auto that about 1/3 was physical? And what portion of that would you say would be a U.S. input? Did you offer anything there?

Patrick Barbeau
Chief Operating Officer

Yes. It's -- you are right on the property side, it's about 1/3 that is material and of the materials about 1/4 is coming from the U.S. In auto, there's 60% of the auto that is physical damage, but that includes labor. So when you remove labor, it leaves about 40% of the cost that is materials and cars and of that, about 1/3 is from the U.S.

Unknown Executive

Yes. So 40% [indiscernible].

Mario Mendonca
TD Cowen, Research Division

So for auto, the numbers are 40% and 1/3. For property, it's 1/3 in 1 quarter. And did you say what it was for commercial then?

Patrick Barbeau
Chief Operating Officer

Personal Property and commercial are not that far. It's -- the numbers I was quoting is the 2 together on property side. The 1/3, 1/4 is total commercial and personal prop together.

Mario Mendonca
TD Cowen, Research Division

That was personal and commercial, I get it. I see. And sort of a different type of question, Charles, I'm getting the impression from listening to this call that you're painting a picture of better top line momentum for this company. And I appreciate this is all somewhat contingent on how the economy evolves. But you seem to be painting a picture for improving momentum. We're hearing it from Ken about the second half U.K. looking a little better. We're hearing about the U.S. You're saying a little bit about the domestic commercial as well. You're now talking about better unit growth in personal auto and personal property. So first of all, my right to suggest that's what you're pointing us to that as the year progresses, particularly in the second half, we could see the top line for this company accelerate?

Charles Joseph Gaston Brindamour
CEO & Director

Yes. I think it's a good assessment. It depends on the trajectory of first lines. But so far, that's looking really good. and all hands are on deck to make sure that we make the most of the environment in which we operate in both commercial lines and specialty lines. And yes, that's an accurate read of what I said.

Mario Mendonca
TD Cowen, Research Division

Okay. And let me just go one final point here, a finer point. When I look at unit growth in personal auto and personal property over time, these numbers are tiny. If you look at them on a quarter-over-quarter basis, like half of 1% or 1% when you say that unit growth could improve in those 2 lines, auto, property in Canada, what does that mean? Does that mean it could just be maybe 1% or 2%? Because I've never seen these numbers more than, call it, 1%, 1.5% in any given quarter. What does that mean when you say unit growth could improve?

Charles Joseph Gaston Brindamour
CEO & Director

So you looked at first automobile. This is our longest sale, so to speak, in the portfolio. So the growth in that segment can pick up units for sure. We're in the 3% sort of unit growth as we speak that could potentially accelerate. But growing fast in personal automobile is something you need to watch given it's a product that has a 4-year sort of duration. So I would say a few points of pickup in units is reasonable in my mind to expect it all depends on how the rest of the market is performing. And similarly in personal property, we think that there's a fair bit of room to see unit momentum there as well in this environment.

The outperformance is very significant given the environment in which we've operated and the inflation in the past 4, 5 years, we moved ahead of our competitors much faster. That is in the process of changing now. And so we're pretty keen to see that business grow double digit in '25.

Guillaume, is there anything else you want to add?

Guillaume Lamy

Yes. Maybe, just, that I think I was saying that we think the industry has a fair bit of catch-up left to do. When we look at the recent rate approvals in Ontario, we've seen big rate approvals by significant competitors in the fourth quarter that will be effective at the start of this year. So I think this kind of plays to our thesis that the market conditions are going to continue to improve for us and that could bring more shopping, bring more new businesses and also improve retention as we're scaling down a bit on rates.

Mario Mendonca
TD Cowen, Research Division

Yes.

Charles Joseph Gaston Brindamour
CEO & Director

The last point I would make, Mario, beyond rates and competitors and history, I think one meaningful difference is the strength of the direct channel at this stage, the fact that we're much bigger in the affinity space where we're growing and that our distribution arm compared to what it was historically is much bigger. And as a result, the levers for growth are better today than they've been historically for us.

Mario Mendonca
TD Cowen, Research Division

And I want to make sure I think I might be looking at unit growth incorrectly. So I'm looking at personal auto policies in force this year versus last year and it's up about 1.5%. You referred to 3%. Am I doing this incorrectly?

Charles Joseph Gaston Brindamour
CEO & Director

Guillaume, why don't you...

Guillaume Lamy

Yes. So there's 2 disclosures, one, which is the policy in force, which you're right, there's about 1.5. When you look at policy in force, it's basically a trailing 12 months of what was written in the last 4 quarters, we also disclosed the written insured risk, which is more active, and this has been at 2.5 points for the quarter up from about 0.5 point in Q2, 1.8 in Q3 and 2.5 in Q4. So really, that's the momentum we're talking about. And ultimately, that will translate into policy in force as it earns.

Mario Mendonca
TD Cowen, Research Division

Yes. I'm looking at written insured risks now. I appreciate the distinction.

Operator

Next question will be from Paul Holden at CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

There's been a lot of questions on the commercial lines and the pricing environment now, I think, for probably much for the last year. And so as you've highlighted, there are some pockets where pricing is not quite as favorable as it was a year ago. I guess the key question for me is, is that just going to result in somewhat lower premium growth as we're already seeing. Or is there kind of any margin risk here? In other words, is rate keeping up with claims deflation?

Charles Joseph Gaston Brindamour
CEO & Director

Rate is definitely keeping up with inflation and the fact that we're shrinking at the top end of size in other words, in large accounts is a function of the fact that we have a very clear and detailed understanding of level of rates at which we're comfortable operating when the market changes in a way that we're uncomfortable then our retention for those segments is much lower. Therefore, the ongoing profitability of the business is not impacted by a mix shift if you price your business properly and frankly, we do price the business properly increasingly in global specialty lines where we've deployed a bunch of models and our governance over the past few years to make sure that we can navigate a market like this without leaving margin on the table. And the results clearly show that, that's what we've done in last year.

Darren, I don't know if there's more color you want to add here.

Darren Christopher Godfrey
Executive VP & Chief Underwriting Officer of Global Specialty Lines

No, I think as you highlighted there, Charles, I mean, obviously, the advancements in our pricing sophistication is well being commented on, obviously, we're advancing the models in terms of AI and further advancements in both regular commercial lines and in specialty lines. I think also the work that we're doing in deepening relationships with our broker partners as well, too, is obviously another key driver and lever for us in driving growth, very relevant in the U.S. And we're starting to see some results from that -- those actions that we've put in place in the latter part of '24 really starting to pay off as well too. So that's a big driver for growth for us in 2025.

Charles Joseph Gaston Brindamour
CEO & Director

But the bottom line, Paul, is that a mix shift does not impact the margins.

Paul David Holden
CIBC Capital Markets, Research Division

Second question is related to Alberta auto. The one -- I forget about that one now that things have turned more positive. Just maybe you can provide some commentary on sort of if the rate environment clearly there has improved with rate changes, what are you seeing in terms of the competitive environment? Are you able to achieve the type of rate you would like to pursue and would you expect better margins in Alberta auto in 2025 and 2026 than maybe we've seen in the last couple of years?

Charles Joseph Gaston Brindamour
CEO & Director

Guillaume, why don't you take this one?

Guillaume Lamy

Yes. So I think as Patrick alluded to a bit earlier, we've seen significant cost pressure on the injury side emerging in Alberta. So even though we started with a strong position, the recent trends caused by the increased litigation and injury has eroded profitability. We appreciate that the rate cap increasing to 7.5%, and we think it's a step in the right direction. But it's not sufficient to bring IFC or the industry back into a very comfortable territory from a profitability perspective. But it will, for sure, help to prevent further worsening.

But overall, with the change in the rate cap, the clarification around the reforms, we're more confident in the forward-looking trajectory than we were 6 to 9 months ago. We also just obtained a pretty significant rate approval of 10% that will significantly improve our rate adequacy for our new businesses that are not subject to the rate cap. So with that in mind, we're kind of assessing what's our risk appetite for 2025, given the market conditions are still quite tight.

Charles Joseph Gaston Brindamour
CEO & Director

We're in a much better place than we were, I would say, 6 to 9 months ago. There's no doubt about that. We're still growing in that market. But the proof is in the pudding. And I think those reforms need to be effective because the industry's performance is really problematic, and I think every stakeholder now fully understand that and understand why. And -- but those reforms need to happen and be real. But so far, so good.

Paul David Holden
CIBC Capital Markets, Research Division

Okay. I know we're supposed be limited to 2 questions. The reforms are due, I guess, 2027. Any chance that gets pulled forward?

Charles Joseph Gaston Brindamour
CEO & Director

This has rarely happened in my career. So I'm sure there's a chance, but that chance must be really small. I think there's a fair bit of work to do for the government, for the industry. So I don't see a world where those time lines would advance.

Operator

Next question will be from Lemar Persaud at Cormark.

Lemar Persaud
Cormark Securities Inc., Research Division

I think we talked about the tariff impacts on the specific business lines enough. But can you help me think through how a potential trade war with the U.S. could impact your ability to meet that $1.6 billion in investment income target for 2025?

Charles Joseph Gaston Brindamour
CEO & Director

Louis, why don't you share your perspective? And this is inflationary, right? So go ahead.

Louis Marcotte
Executive VP & CFO

Yes. So good question here. It's hard to sort of predict what the outcomes would be at this point. We are -- our expectation takes into account a decline in rates shift, if that changes to a rise in rates we would be in a better position. So I think there's 2 elements here, the income itself, which to some extent, would be protected under an inflationary scenario. And from a capital markets point of view, all our indicators suggest that we'd be well within a limited impact on book value per share should markets move significantly. So limited impact, upside on an inflationary scenario, I guess.

Lemar Persaud
Cormark Securities Inc., Research Division

Okay. And just on the aggregate cover in place, should we think about Intact as potentially having a higher run rate cat loss figure going forward, but less volatility given the aggregate cover you guys put on off? And then did you guys put that in place to allow yourself to grow book value per share more reliably even in years with higher CAT losses. I'm just trying to square up why you have higher retention in Canada but then put in an aggregate cover on top. Hopefully, that makes sense.

Louis Marcotte
Executive VP & CFO

Sure. So first objective is the large sale, which we need to cover. And we've done that, and we were able to improve the conditions of that coverage at lower cost. The renewal environment gave us an opportunity to add what is in our environment called a third event cover which is what we've done. And historically, we had that risk of multiple smaller events, adding up below retention levels but there was no economic benefit to trying to secure that. And so what we're trying to protect is a high level of CAT losses overall. The tail is covered then what we were able to acquire this year is that third event, which limits the total exposure to CAT losses and to keep us as close as possible to our guidance. So that's really the objective that we're pursuing on this element.

The notion of the retention increasing is really a factor of the appetite of the reinsurers to provide coverage at reasonable terms at those levels. And those are the ones where most of the CATs have occurred in Canada. And so at some point, we choose to -- we don't think it's affordable to purchase at lower levels and therefore, take the risk ourselves there. And then -- so we're taking a bit of risk where we think it's worth taking the risk and then getting rid of the risk on the cumulative CAT losses that would take us above the guidance. So that's a bit the strategy that we've pursued.

Operator

Next question will be from John Aiken at Jefferies.

John Aiken
Jefferies LLC, Research Division

I'll try to be quick on this. In terms of prior year development, I understand that the strength of recoveries is reflecting your prudence. But when I look at personal auto specifically, over the last 2 years, it's averaging above 5 points of tailwind, at what point does this affect your ability to increase premiums with the regulator? Or does this not have a factor at all?

Charles Joseph Gaston Brindamour
CEO & Director

It does. First of all, we think one should look at the performance of the business by including current accident year and prior year because you're building prudence in your current accident year. Second, all of that prior year development is embedded in how you establish prices and how prices get approved in automobile insurance, which, by the way, is the only place where we have rate regulation of any meaningful impact. So not hampering our ability to get the prices we need to price for inflation.

Operator

Ladies and gentlemen, this is all the time we have today. I would like to turn the call back over to Geoff Kwan.

Geoff Kwan

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 websites for 1 year. A transcript will also be available on our websites in the Financial Reports section. Of note, our 2025 first quarter results are scheduled to be released after market close on Tuesday, May 6, with the earnings call starting at 11:00 a.m. the following day. Thank you again, and this concludes our call.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.