S&P Capital IQ

CONTENTS

Intact Financial Corporation TSX:IFC

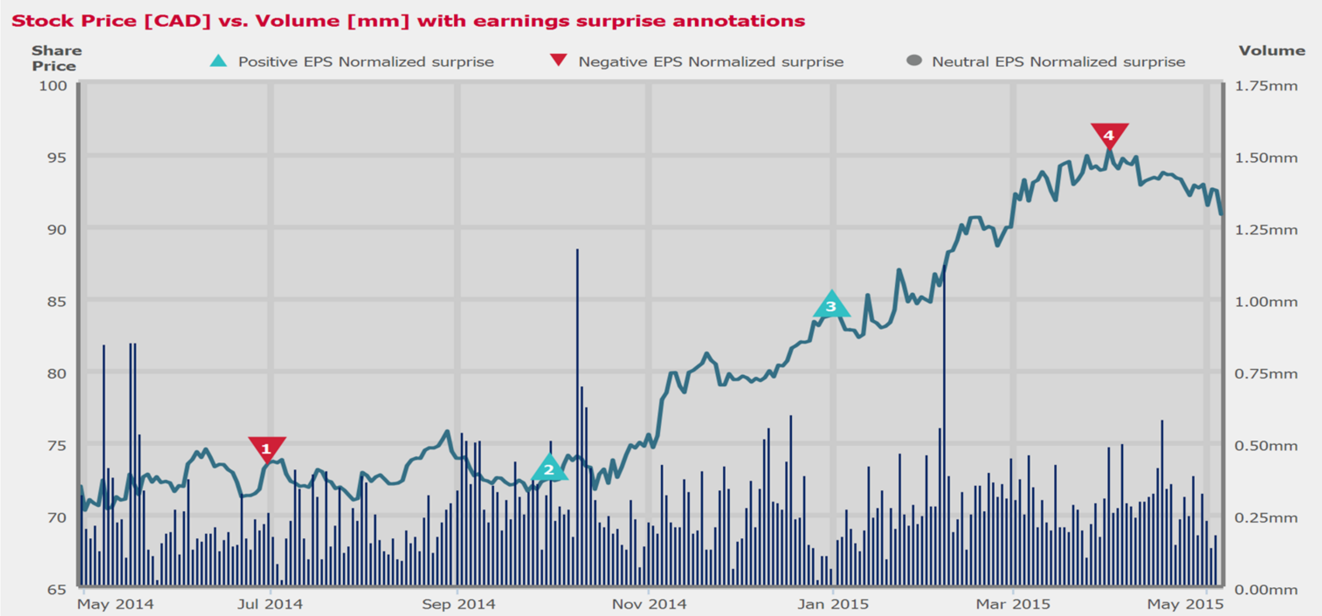
FQ2 2015 Earnings Call Transcripts

Wednesday, July 29, 2015 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.66	1.56	(6.02 %)	1.65	6.36	6.83
Revenue (mm)	1897.28	1865.00	(1.70 %)	1911.13	7506.64	7774.77

Currency: CAD
Consensus as of Jul-29-2015 2:13 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	1.58	1.53	(3.16 %)
FQ3 2014	1.10	1.55	40.91 %
FQ4 2014	1.46	1.84	26.03 %
FQ1 2015	1.39	1.37	(1.44 %)

Call Participants

EXECUTIVES

Alain Lessard
Senior Vice President of Commercial Lines

Charles Brindamour
Chief Executive Officer and Director

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Mathieu Lamy
Chief Information Officer and Senior Vice President

Patrick Barbeau
Senior Vice President of Claims

Samantha Cheung

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Doug Young
Desjardins Securities Inc., Research Division

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

John Aiken
Barclays PLC, Research Division

Paul David Holden
CIBC World Markets Inc., Research Division

Shubha Rahman Khan
National Bank Financial, Inc., Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to the Intact Financial Corporation Second Quarter Results Conference Call. [Operator Instructions] I will now turn the call over to Samantha Cheung, Vice President of Investor Relations. You may begin conference.

Samantha Cheung

Thank you, Mike, and good morning, everyone, and welcome to our second quarter 2015 earnings call. 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 applies to our discussion on this conference call.

Joining me today are Charles Brindamour, CEO; Louis Marcotte, CFO; Patrick Barbeau, SVP of Personal Lines; Alain Lessard, SVP of Commercial Lines; and Mathieu Lamy, SVP of Claims.

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

Charles Brindamour
Chief Executive Officer and Director

Thanks, Samantha. Good morning, everyone, and thank you for taking the time to join us today. Earlier this morning, we announced our second quarter net operating income of $210 million or $1.56 per share. We generated strong growth while improving our underwriting performance with a combined ratio of 91.6%, more than 1 point better than in the same quarter last year. In the current low interest rate environment, our investment team did a good job of generating $104 million of investment income, largely in line with last year while staying within our risk appetite. This combined with our improved underwriting performance, outgrew our book value per share by 8% from a year ago and generates an operating ROE close to 17%. Our performance continues to be industry leading in terms of ROE as demonstrated by our 700 basis points outperformance at the end of Q1. This certainly should continue to support our objective to grow our net operating income per share by 10% per year on average over time.

As I mentioned, we had strong direct premium growth driven by all lines of business delivering a 6% increase, including 1 point from our recently closed acquisition of Canadian Direct Insurance. Our initiatives to grow the business organically are paying off as well. Our recent product launches, new marketing campaigns and a number of improvements in the digital experience for our customers all help offset pressure from declining rates in automobile Ontario. While this is a good quarter, we expect a slightly stronger underwriting performance given the low catastrophe activity and healthy support from prior year claims development. The deterioration in the current accident year was in large part driven by a prolonged winter in Atlantic Canada, impacting both personal and commercial lines. We obviously don't see this as a deterioration in the underlying performance of the business.

So let me give you a perspective on our business now. In personal auto with a combined ratio of 90.3%, we grew our premiums by 6%, including CDI, given the number of improvements for our clients as well as a better competitive landscape. Favorable developmental on prior year claims has set an uptick in frequency, driven mainly by an increase in small claims. So no concerns there. When it comes to the industry, we expect it'll continue to experience slightly negative growth in personal auto. Rates are variable across the country with premiums increasing in Alberta and Atlantic, remaining fairly stable in Québec, while decreasing in Ontario. We believe rate reductions in Ontario should continue to be in line with government cost reduction measures. Today, the industry has decreased rates by 6.1 points in Ontario, and we expect further rate decreases in 2016 from auto reforms introduced in the latest provincial budget. Our interpretation suggests that they will produce 3 to 5 points in net cost reductions. We expect to continue to be in a strong position to pursue our growth ambitions in that market.

In personal property, we grew by 8%, including CDI in hard market conditions. We rolled out new products such as our Lifestyle Advantage, and our relative competitive position continues to improve given our early rate actions in this market.

As mentioned earlier, our combined ratio of 92.7% in that line was negatively impacted by snowstorms in Atlantic Canada, continuing well into April and May. So overall, our view on the personal property market has not really changed as we expect the industry to experience upper single-digit growth. Our home improvement plan is now fully implemented and this in combination with ongoing initiatives should allow us to continue to outperform the industry in that line.

So let's look at our commercial lines of business now. In combination with a firming commercial P&C market, our actions generated a 4% growth in premiums. From a profitability perspective, commercial P&C had a strong 9 points improvement in combined ratio to 91.8%. We had higher customer retention and stronger new business activity. So the environment continues to improve and we expect to see mid-single-digit growth at the industry level. In commercial auto, we grew premiums by 6%, driven by good performance in regular lines as well as in trucking. That said, the loss ratio worsened by close to 10 points during the quarter due to a number of one-offs, including large losses, leading to a combined ratio of 94.4%. While the industry remains quite competitive in commercial auto, our value proposition is gaining traction. We ended the quarter in a solid financial position with $564 million in excess capital after completing our successful acquisition of CDI. This is a clear example of reinvesting our capital to support our growth initiatives. Our integration efforts of CDI are underway and should be completed within 24 months. This in no way will interfere with our ability to pursue other consolidation opportunities in the near to mid-term. So 2015 is quite a busy year for our employees from coast to coast as we roll out new products, new technology interfaces, as we streamline and invest in our brands and continue to consolidate both distribution and manufacturing so as to build an experience that's second to none for our customers.

So on that, I'd like to highlight the efforts of our claims team who grabbed the top position in J.D. Power's latest Canadian Auto Claim Study.

In conclusion, while our performance was good this quarter, we're not standing still. We continue to execute on a number of robust initiatives to ensure we outperform the industry ROE by at least 500 basis points every year and grow our net operating income by 10% per year on average over time as we demonstrated in the past. With a competitive landscape conducive to growth, a strong financial footing and a talented group of people from coast to coast who do make a difference. We're confident with our prospects for the second half of 2015 and beyond.

And 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. Our top line growth accelerated in Q2 to 6% on an underlying basis, and 5% on an organic basis that is excluding CDI. All lines and all regions contributed to this growth with a good mix of units and premium increases.

Underwriting income grew 23% in the quarter with a 91.6% combined ratio. Our profitability initiatives had a positive impact on our results, but we also saw higher favorable prior year claims developments, lower expenses and cap losses, which fortunately offset the impact of a long and severe winter in Atlantic Canada. The impact of this long winter is estimated at 1.4 points of combined ratio, all of which hit the underlying current year loss ratio. Net investment income was stable at $104 million as the benefit of incremental investments was offset by lower yields. We expect net investment income to be relatively constant going forward.

On expenses, we lowered the ratio to 30.7%, mainly on reduced variable commissions. Net distribution income in the quarter grew 13% to $34 million due to the expansion of our distribution operations and its higher profitability. We remain on track to hit our run rate of $100 million in distribution income in 2015. The tax rate of 21.7% is 7 points higher than a year ago and we benefited from the resolution of specific tax files. When excluding this item, our net operating income per share growth in Q2 this year would have been 9%, a better reflection of our actual results in the quarter.

Let me add a few comments on our underwriting results. The personal auto business delivered strong organic growth of 4% on a 5% increase in insured risks. Our investments in our brands and in the digital experience, combined with favorable market conditions, have been instrumental in driving unit growth across the country. Our combined ratio showed a 1.2 point improvement in the quarter. On one hand, prior year development improved 4 points from last year, which was unusually low. On the other hand, the higher underlying current year loss ratio reflects an uptick in frequency, mostly driven by an increase in small claims. Overall, a good quarter in personal auto.

In personal property, we also saw solid organic growth of 6% on rate increases and 2% unit growth. This was a nice turnaround from last year's unit losses. We also improved the combined ratio to 92.7% despite absorbing 2 points of negative impact from the severe winter in Atlantic Canada.

On the commercial auto side, our combined ratio deteriorated 15 points to 94.4% due to higher claim severity and unfavorable prior year claims developments. As recent quarterly combined ratios have been higher-than-expected, we are monitoring the results closely and expect to return to a combined ratio closer to 90%. The combined ratio in commercial P&C improved by 9 points to 91.8% despite incurring 3 points from the Atlantic winter. We are pleased with the continued improvement in the underlying current year loss ratio. Higher favorable prior year claims development also impacted the combined ratio for the quarter. Finally, we expect that there are approximately 2 to 3 points of combined ratio improvements remaining to be earned from our commercial P&C action plan, targeting a low 90s combined ratio on a sustainable basis.

Finally, a few comments on our balance sheet. At quarter end, investments amounted to $13.4 billion, 4% higher than a year ago. Our portfolio remains of high quality, well diversified and the asset mix is stable. Our portfolio generated lower gains than in Q2 last year on weaker capital markets and increasing yields. We recorded $32 million of impairments in the quarter, and our nonoperating results also include $21 million of gains realized on broker transactions.

At the previous earnings release, we mentioned a potential $15 million headwind from changes in the April federal budgets related to the tax treatment of certain dividends. The rules are not yet final, but we continue to believe we can offset most of these lost earnings while maintaining our prudent risk management approach. We ended the quarter in a strong financial quarter position with an estimated MCT of 200%, an excess capital of $564 million despite our all-cash acquisition of CDI. Our debt to total capital ratio stands at 16.8% at the end of the quarter.

In conclusion, we reported solid top line growth, 23% higher underwriting income and an adjusted ROE of 16.1%. When excluded -- excluding the tax noise, operating earnings are up 9%. These results are clearly positive, and I would like to thank our employees for delivering such a performance. They are committed as we are to improving our results even further in the future.

Finally, between our talented teams and solid balance sheet, we remain in a strong position to pursue strategic investments in manufacturing and distribution inside or outside the country. In the meantime, our investments in our brands, technology and customer experience are paying off.

With that, I'll return the call to Samantha.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance
Thank you, Louis. Mike, we will now open the call up to questions. Thank you.

Question and Answer

Operator

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

John Aiken
Barclays PLC, Research Division

On the -- looking at the distribution revenue, solid uptick year-over-year, was -- now obviously with your $100 million target, the confidence behind that, you do believe this is sustainable. But can you let us know what the amount you've invested in distribution acquisitions year-to-date? And what the runway is for continuing consolidation within the industry?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Sure. So we're up to date $58 million for 6 months invested in the broker network, and I would say it might double by the end of the year. That would be enough for this year. It's a bit -- it's not clearly even every year, some years are more active than others. We had north of 200 last year, but this year I would say 100 is probably the right level.

Charles Brindamour
Chief Executive Officer and Director

So that's just capital that you're talking about?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Yes.

John Aiken
Barclays PLC, Research Division

And Louis, what's driving the decline year-over-year? I mean, I know there is going to be some fluctuations, but are you seeing competition for brokers? Or is it just that the available number of brokers is actually slowing down?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

So I would say it's more. There is increasing competition in the market. I would not say -- I would say consolidation is probably heating up, but there is more activity in the market. And we had a bit of a backlog that sort of came through last year, and now I think the market is heating up and competition is increasing a bit.

Operator

Next question is from Tom MacKinnon from BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Charles, a question for you. Like -- I assume on the acquisition front, you're still looking for 15 to 20 points of market share to change hands in the near to mid-term. And I was wondering if you can elaborate a little bit as to what type of acquisition you'd be interested in the Canadian market. Would it be someone of perhaps more sizable or similar mix, or would you look for smaller kind of niche players like CDI or both? Or maybe you can remind us as well as your accretion in your IRR targets as well?

Charles Brindamour

Chief Executive Officer and Director

Yes. Thanks for your question, Tom. I think that our view on opportunities has not changed. I think the thesis has played out in the past few years and continues to play out. This perspective that there will be 15 to 20 points that will change hands started with the 25 to 30-point perspective, and this actually happened. So there is, for us, clearly 15 to 20 points left. The ROE of the industry has not improved materially. That from our perspective is a catalyst that superfragmented. You have foreigners in their banks, mutuals. There's lot of activity. I think the global M&A that started to take place in the past 6 months from our perspective might also be an additional catalyst. So all-in, the thesis is not changing. So when it comes to our philosophy from an M&A point of view, I would say that, first and foremost, our thought process is to get bigger in the areas where we're good as opposed to add all sorts of fringes around. And I think that's pretty much been what we've done with a few exceptions, and that's our first and most important objective. And why is that the case? Well, if you outperform because of data segmentation, claims management and so on, the best way to create value here is to do that on a bigger platform. So big scale national plays very high up on the list. Then when you look at the second angle of M&As, how do you accelerate your strategy? And how do you use M&A to accelerate your strategy? This is where, clearly, we've expressed an ambition to double the size of our direct platform, double the size of our operated distribution and become a bigger commercialized player. So on these elements, anything we can do to accelerate these strategies that do not necessarily depend on acquisition, but that acquisitions can accelerate, clearly, we'll act upon that. CDI was an -- a very good example of that. In November, I told the investors at the Investor's Day that we wanted to double the size of our direct platform, make sure we have fairly deep presence from coast to coast. CDI did exactly that. But it's not like we're venturing in a new business. We were deep in Alberta, pretty deep in BC, we have a very strong direct platform to start with. So CDI as a very nice complement to our direct platforms in areas where we have lot of expertise whether it's data, whether it's claims and lot of talent already. And so this hasn't changed. As you know, I have a keen interest in adding to our distribution platform, and these are much smaller transactions, but there's lots of them to be done. There's lots of opportunities in the market, and I think that our team in helping brokers grow their business has demonstrated that they can actually contribute to those broker interpreters' business model. Then BrokerLink, which has now surpassed $1 billion of premium, has been very effective at integrating many acquisitions, and I expect they'll continue to do that going forward. So when it comes to financial thresholds, which was the last part of your question, that perspective has not changed, I mean. You want to make sure that these acquisitions generate $0.15 on the dollar at least, that sort of what caps up, where we'll stop. And that has not changed. And I would say that this is true in all business units and all lines of business and in distribution, same thing. And the acquisitions that we're making in distribution has to stand on their own as distribution operations as opposed to being subsidized by our manufacturing operation. And that is what I think explains the fact today that we are headed towards a $100 million pretax of distribution earnings because we are focused on being really good at distribution not just being a supporter of our manufacturing operation.

Tom MacKinnon
BMO Capital Markets Equity Research

And just one other question. Now that the home insurance action plan is now fully incremented, what level should we look at the combined ratio for personal property kind of leveling off going forward?

Charles Brindamour
Chief Executive Officer and Director

I'll let Patrick share his perspective.

Patrick Barbeau
Senior Vice President of Claims

Yes, as we've mentioned, I guess, in the past, the part of -- the main objective of our home improvement plan was to be able to operate the personal property line of business below 95 even in periods where we would experience higher catastrophic -- and that view has not changed. We're satisfied with the impact we've seen of our plan and it's fully rolled out now. We're staying alert because we're seeing trends like we've seen in Atlantic and making more smaller -- our target changes, but our views and our targets have not changed.

Operator

Next question is from Shubha Khan from National Bank Financial.

Shubha Rahman Khan
National Bank Financial, Inc., Research Division

First question I had was on the draft 2016 MCT guideline, and specifically what you think might be the impact on the -- your MCT ratio if the revisions, proposed revisions are implemented that's currently proposed? And how you might want to respond to OSFI's call for public comments?

Charles Brindamour
Chief Executive Officer and Director

Shubha, I'll ask Louis, our CFO, to give his perspective on that.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Thank you. So this is a fairly recent new proposal that's out there. We're happy with the direction this is going because it is recognizing the fact that companies hedge their risks and so we're viewing this as a positive move forward on OSFI's part. It's still early to say. We do think it will have an impact -- a positive impact on our capital level. And -- at this point, it's not as big as the one we're seeing for the 2015. So you remember, we have 21 points phasing in over 3 years, and we expect the impact to be smaller. But we're still measuring exactly what it will be for us, but it certainly will not hit the 20 points. It's probably in the 10 to 12 range impact, but at this point we're not sure whether it's going to phase in and whether there is some impact that we have not fully measured yet, and we will keep you updated as quarters pass and we are more firm on it.

Charles Brindamour
Chief Executive Officer and Director

Yes. I will make 2 comments, Shubha. First of all, the 2016 is very preliminary, so I wouldn't count on any impact at this stage. I think we need to see this thing manufacturing. But at the high level, we're very supportive of the work that OSFI is doing on the capital front, because they're becoming more sophisticated, they're becoming more risk-based, and certainly this is how -- this is in line with how we see risks and where capital should sit. So we applaud them for their efforts on that front.

Shubha Rahman Khan
National Bank Financial, Inc., Research Division

Got it. That's helpful. Just switching gears to Ontario auto. I guess you guys have delivered higher rate reductions relatively to the industry based on your slide presentation. I'm assuming most of that is probably down to UBI or telematics or what have you. And I'm just wondering how much of the rate reductions that you've delivered to date come from or driven by UBI. And given that the product has been out in the marketplace for roughly a year or more now and you've had an opportunity to assess the demand and what have you, how much more could UBI help in reducing rates in Ontario auto?

Charles Brindamour
Chief Executive Officer and Director

I'll ask Patrick to give you a perspective on the rate environment in Ontario and maybe touch on reforms as well briefly, and then I will give you a high-level perspective on UBI and what we're seeing on that front.

Patrick Barbeau
Senior Vice President of Claims

If I start with the difference you were stating between the amount of rate decrease in cat tests taken compared to the industry so far, the main reason is because we proactively recognized some reforms that were part of the '15, before the rest of the industry. That's what explained that first gap, I guess, to start with. In terms of overall reforms, as we discussed at the end of the last quarter, the latest budget in Ontario contained new reforms that are -- that were announced. And they are in our point of view very good in terms of potential cost reduction. We're still waiting for the final regulation around those, which we expect them to come out in the coming weeks or months. And the effect of those or the reflection of those cost reduction into the rates of Intact and the rest of the industry is probably going to be effective in the first half of 2016. In terms of our rates that we've taken so far, about 2 points, close to 2 points was -- came from the UBI initiative. We look at -- if we look at our takeup rates right now new business, it's close to 40% with an average discount of 10%. So ultimately it could go up to 4 points overall, but that will take many years before we get there.

Charles Brindamour
Chief Executive Officer and Director

That's largely a new business initiative at this stage, but there is meaningful traction on that front, and this is really good for us. It's a good tool to attract very good customers, and this contributes to the efforts of the government to provide a better deal for good driver. So I feel we're -- our objectives are aligned on that front and we're pleased with the UBI progress.

Patrick Barbeau
Senior Vice President of Claims

It's contributing to our unit growth in Q2, yes.

Shubha Rahman Khan
National Bank Financial, Inc., Research Division

Okay. So if I understand -- understood that correctly, so 2 points of the 9.6% delivered so far have come from UBI, and you expect it to go to 4% or you think it could go to 4% over as multi-year period going forward, right?

Patrick Barbeau
Senior Vice President of Claims

Yes.

Operator

Next question is from Geoff Kwan from RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Just wanted to follow-up on Tom's earlier quarter on the M&A side. Just kind of -- more of a conceptual philosophical question is are you guys -- would you guys be comfortable partnering up with another insurer if you found an acquisition target and you guys would, say, take the Canadian business of a global insurer? Or would you prefer to just do it of just if there's a clean kind of auction of a Canadian business, if it came up for sale?

Charles Brindamour
Chief Executive Officer and Director

So we're not overly keen on auctions is the first point I'll make. We're much keener on working with people with whom we have relationships. We're not afraid of complexity if we trust people with whom we work. And other than very clear financial objectives, we're very flexible as to how we can put a deal together.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Okay. Next question I had was just obviously there's been a lot of forest fires in Western Canada. It looks like it hasn't really had much of an impact and it seems generally confined to more rural areas. it's continued through into Q3. Has -- any comment on kind of exposures or lack of exposures from your perspective?

Charles Brindamour
Chief Executive Officer and Director

I'll ask Mathieu Lamy, who is the -- in the business of fighting fires. So why don't you give us your perspective, Mathieu?

Mathieu Lamy
Chief Information Officer and Senior Vice President

Yes. The exposure is difficult to measure in those situations because it's an all or nothing. The risk of an event like slave late a few years back is possible, but we think it's very low at this point, but that said, the possibility is there. And so far I'd say the fire came close to our customer, uncomfortably close to our customer, but the firefighting effort has been very successful at keeping the fire at bay. So far very, very -- very minimal damage, we have.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Okay. And then the final question I had is more kind of a bigger picture. There's been more and more news around driverless cars, and I just wanted to get any color or insights you have big picture down the road on what this might mean for auto insurance?

Charles Brindamour
Chief Executive Officer and Director

Jeff, I think that if you take a long-term perspective, say, within the 10 to 20-year horizon, this will be an important factor. And the train has left the station as far as we're concerned because the technology exists. I think the speed at which this will happen depends on a number of layers. There's the speed at which the technology will be marketed broadly by manufacturers. There's the speed at which the regulators will create a framework for it to take place. There's a speed at which people will actually embrace this new approach to transportation. And I think that this has, in combination with the emergence of the sharing economy, which from our perspective is much bigger than autonomous car, this has the potential to really reshape how people move from point A to point B. Clearly, autonomous cars will have a favorable impact on the number of accidents and then theory could shrink the risk pool in automobile insurance to a certain degree. That being said, we're in the business of insuring people moving from point A to point B. We're the largest first-lines carrier. We're the largest commercial lines automobile carrier. And we're equipped to reshape the product and the offer to continue to lead in sort of providing protection to people in -- when they move from point A to point B, and that's very much how we look at that issue. We have researched on the topic. But I would say in terms of research, we're much more focused on the sharing economy and how people share assets together and replace traditional means of moving, living, sleeping, et cetera.

Operator

Next question is from Paul Holden from CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

I want to drill down a bit on the organic growth you're putting up, since it's starting to accelerate. So I've tried to do a little bit of math backing out the CDI from the direct to consumer premiums written specifically and coming up with a growth rate there and then comparing it to the broker channel. Sort of what I'm getting is broker channel organic growth seems to be accelerating while the direct to consumer is kind of running around historical norms of, say, 8% to 10%. So I'm wondering if I'm doing my math right, what it is specifically that's driving the growth through the broker channel.

Charles Brindamour
Chief Executive Officer and Director

I think in the broker channel, Paul, all lines of business are contributing. I would say that the area where the delta is the biggest is personal automobile. And in personal automobile, we have a number of pressure points in the past 12 to 24 months. The competition was really quite intense in the province of Québec and had some pressure there. And the Ontario automobile markets, we came out following the initial round of rate cuts being meaningfully more conservative than the rest of the market and adjusted our position as we gained comfort. What happened in the last year, though, is that the environment has improved from coast to coast, and this came at the same time as we rolled out a number of initiatives whether it's marketing, whether it's products, whether it's technology losses in the last few months. So that combined with an improving environment has led to a significant change in automobile insurance, in particular, in those 2 provinces, which represent the biggest markets in which we operate. So I would say, for me that's the biggest delta between 18 months ago and where we're sitting today. And when we look at the environment, we're pretty comfortable that, that pace can be sustained for some time. Then, I think, in home insurance, and that's more true in the broker channel than the direct channel. The market is catching up. And so we have moved from an environment where units were shrinking, you will recall, a year ago by 2 points. Now we're in positive territory with the units. We're actually seeing 4 points of growth in units. So this is a major delta. So that to me is how we move the needle in the broker channel.

Paul David Holden
CIBC World Markets Inc., Research Division

Do you think that there are certain large competitors that historically have been more price-aggressive, and based on public rate changes, they seem to be somewhat less aggressive on price? Do you think that's had any influence on organic growth for yourself and perhaps for other players in the industry?

Charles Brindamour
Chief Executive Officer and Director

I think to a certain extent, it has. Some people are good at having 1 month of both feet on the accelerator, the next month both feet on the brakes. I do think that what you're describing might pick up in the second half and first half of next year where large influential players are taking more cautious stance on things, but I don't want to get into specifics here. These are signs of an improving environment. And I would say we see that in more lines of business and more jurisdictions today than we did 6 months ago.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay, that's good. And that kind of -- actually is a good lead-in into my next topic of conversation, which would be the core loss ratio. So I understand the explanation related to the Atlantic provinces, but it's a relatively small piece of the puzzle in terms of geographic exposure. And then we're also seeing large reserve, favorable reserve development. Does that suggest that we're still seeing a fair amount of conservatism built into current reserving in 2015?

Charles Brindamour
Chief Executive Officer and Director

Look, I think when you have a track record of healthy favorable development over time, one has to assume that, indeed, as you build up your reserves on your new claims, your past approach to reserving is reflected in your new claims. So I think it is a fair statement. I think it is important as we've talked about in the previous quarter to understand that sort of higher-than-normal favorable development we've experienced in the past year or 2 has a number of factors in there that one should not necessarily assume you'll see at perpetuity, so to speak, and we've talked about this in the previous calls. But I will say it is a fair statement, Paul, to say that if you have a very strong track record of favorable development that you're cautious when you set up your reserves on new claims in the current accident year. That's why just focusing on the current accident year loss ratio and adding expenses misses a portion of the genuine performance of the business.

Paul David Holden
CIBC World Markets Inc., Research Division

Right. My assumption would line up with that in terms of -- I mean, you're increasing organic growth at the same time. It looks like your core loss ratio is going up or maybe there is some other factors at play there. Okay. And then final question just in terms of your investment portfolio, you remain comfortable with the net energy exposure in the book?

Charles Brindamour
Chief Executive Officer and Director

Yes. I'll let Louis comment, but I want to come back on your current accident year point here.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

We do have all [indiscernible] same space, about [indiscernible] of total and we're comfortable there at this point.

Charles Brindamour
Chief Executive Officer and Director

So back to your question, Paul, because I think it's an important one. It's one that we're spending time on every week, because a big portion of what we do is to spot trends to make sure that the current accident year performance does not deteriorate. And when you put organic growth in the same statement, one could say, "Well, are these guys doing things to grow the business that will deteriorate the underlying performance?" And I always say, "Absolutely not." As far as I'm concerned. What's moved the needle on the top line this quarter and -- is very clear. There is lot of empirical evidence that this is the case. It's technology deliveries that have generated more response, additional investments in advertising, that has pushed our general expense up a little bit. New product launches -- I mean, these product launches are priced with similar ROE as the core business and then market by market conditions that have made it such that people are catching up to some of the positions we've taken in the past 2 years. So I will say that the top line is not coming at the expense of the underlying loss ratio, that's the first point. The second point on underlying loss ratio, when I think about it, you have 1.5 point of Atlantic storms and prolonged winter and late reporting of claims. So that's about -- it's a little more than half of the deterioration, in fact, more than half. Then what is left? There's 2 other factors as far as I'm concerned that explain the deterioration, the underlying loss ratio. One is an uptick in frequency in personal auto of small claims. So Patrick and I, and some of the regional actuaries looked at that, and I think that these are one-offs. These are weather patterns. There's nothing in there that lead us to say, let's change how we price business or let's change the product. Commercial auto we stared at for a long time because -- I mean, it's a 15 points deterioration, and that's pretty big. Combined ratio is 94.4%, so in itself, it's not a bad combined ratio, but we know that business performs much better than 94.4%. And what explains that is the number of one-offs, a few IB&R adjustments and some large losses. There is no clear trend emerging there. And where we have pockets of issues, we have action plans backing those pockets of issues. So certainly a very long answer to say that growth is not coming at the expense of the underlying loss ratio.

Operator

Next question is from Doug Young from Desjardins Capital.

Doug Young
Desjardins Securities Inc., Research Division

Just the first question. I wanted to confirm the impact from the winter storms in the Atlantic. Sorry, Louis, I think -- did you say it was 1.4 points on the combined ratio?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

That's right.

Doug Young
Desjardins Securities Inc., Research Division

Okay. And then second, Charles, you gave a little bit of detail on commercial auto. And just trying to get a little bit more detail. You said there is increase of frequency of smaller losses, those weather events. I think there were some large losses. Can you give a little bit more granularity on what's going on with commercial auto? And is this -- has there been issues this quarter? I think there were some issues even last quarter, correct me if I'm wrong. So I'm just looking to see what's going on in the commercial auto side with a little more granularity?

Charles Brindamour
Chief Executive Officer and Director

Yes. So Alain will take this one. But just to be clear, the uptick in frequency in small claims is in personal auto, not in commercial auto. But Alain, why don't you share with us your perspective.

Alain Lessard
Senior Vice President of Commercial Lines

Well, I think the first thing I'd like to say, Doug, is going back to what Louis said, we think that this line of business operates more in -- closer to 90% compared to, let's say, mid-80s a few years ago. And that's not a deterioration of our margin. It's an overall deterioration of the market. That currently is trending to high 90s. Basically, our performance is -- historical performance is about 8 points. It was 15 points in the first quarter of 2015. So we still have a strong performance in that. If I look more at the quarter with that in mind, what we saw in the second quarter is there is very small increase in frequency of about 3%, but that increase is over all in Canada. When we look at it by provinces, we saw a decrease in Québec, some increases in Ontario and Alberta and a very large increase in Atlantic due to the winter storm. And that -- what that does is, Québec doesn't have BI coverage. So we have a very small severity in Québec compared to the other provinces where we cover BI. So that has led in average to an increase in severity, and that -- as for the current year probably has an impact of about 3, 4 points of combined ratio. And that's over. Last year that was very, very low at 53%. We also saw some deterioration in the prior year. We're 6 points worse than last year, and that's coming basically from 2 sources. One is some very old claims of AXA and Jevco where we saw a huge increase in some large losses to the tone of about 2 points, 2.5 points. And we also saw less closure of claims in the second quarter to about 100 less claim close. And it's when the claims are close that we release the reserve, so that has an impact of another 2 points. So those are all basically unrelated elements that basically have occurred all in the second quarter. So we don't see any trend there. That being said, I would say we continue to monitor the situation closely. And as we did in P&C, where we invested in reviewing our pricing algorithm using all the data, techniques and expertise we have, we're doing the same thing in commercial auto. We're targeting implementation of those in early 2016.

Doug Young
Desjardins Securities Inc., Research Division

And I think there was mention in the release as well just around competitive trends in trucking. Is that an area where you're seeing increased competitive pressures?

Alain Lessard
Senior Vice President of Commercial Lines

We're growing in trucking, okay? Because that was probably in the very competitive environment, a segment where we saw the market kind of changing and going on the firm side, okay? That contributed in the first quarter 4 points of growth in the -- for commercial auto. In the second quarter, it contributed about 2 points of growth as we saw a slowdown on that growth and some players coming back but staying very disciplined. So it's an area we want to grow, but it's an area we want to grow with making sure we have the expertise and at no, let's say, no reduced contribution or no pricing. We're not letting go our pricing. I'm sorry, I'm trying to find the right word, but we're not jeopardizing anything on the pricing side. We're keeping to our very disciplined pricing action on trucking.

Doug Young
Desjardins Securities Inc., Research Division

Great. And then just lastly on Ontario auto, there's been more developments obviously with budget around the cat definition. Were there any additional -- I know you released some reserves in the first quarter. Was there any additional reserve releases that came around the reforms in Ontario auto in the second quarter?

Charles Brindamour
Chief Executive Officer and Director

Not really or not in any significance, I would say.

Operator

[Operator Instructions] Next question is from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Most of my questions have been asked, but Charles, I'm just curious. On the M&A front, when you think about the U.S., what do you think the competencies in areas of data segmentation that Intact has that's transportable to the U.S., and where you can still earn kind of the same type of returns you earn in Canada?

Charles Brindamour
Chief Executive Officer and Director

I think the -- so when we look south and think through where we have something to contribute, our biggest thought is that the relationship we have with small to medium-size enterprises here in Canada, we have 1 in 4. We insure 1 in 4 small to medium-size enterprise. We have a service model that is geared towards that segment, range of products geared towards that segment, and we've taken the actuarial discipline in commercial lines to a point that I would say is even further than in personal lines. And these elements, when you map that over what we see happening in the U.S. and superfragmented nature of small to midsize business in the U.S. would be one area where we think there might be an unfortunate [ph] before a firm like Intact. I think standard automobile insurance in the U.S. is not necessary a place where we think we could win. Quite frankly, there are really good players out there. We like to benchmark what we do with what some of these guys do and I think, here, if the guy goes in into Progressive and I'm not sure that there is much of an appetite here to go and compete with people like that, just like I hope, they have no appetite to compete with us here in Canada.

Operator

There are no further questions at this time. I will turn the call back over to the presenters.

Samantha Cheung

Thank you, everyone, for participating today. The webcast will be archived on our website for 1 year and a telephone replay will be available at 2:00 p.m. today until Wednesday, August 5.

A transcript will also be available on our website following this call. Our 2015 third quarter results will be released on November 4. And with that, thanks again, and enjoy your day. Thank you.

Charles Brindamour
Chief Executive Officer and Director

Thank you.

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