S&P Capital IQ

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Intact Financial Corporation TSX:IFC

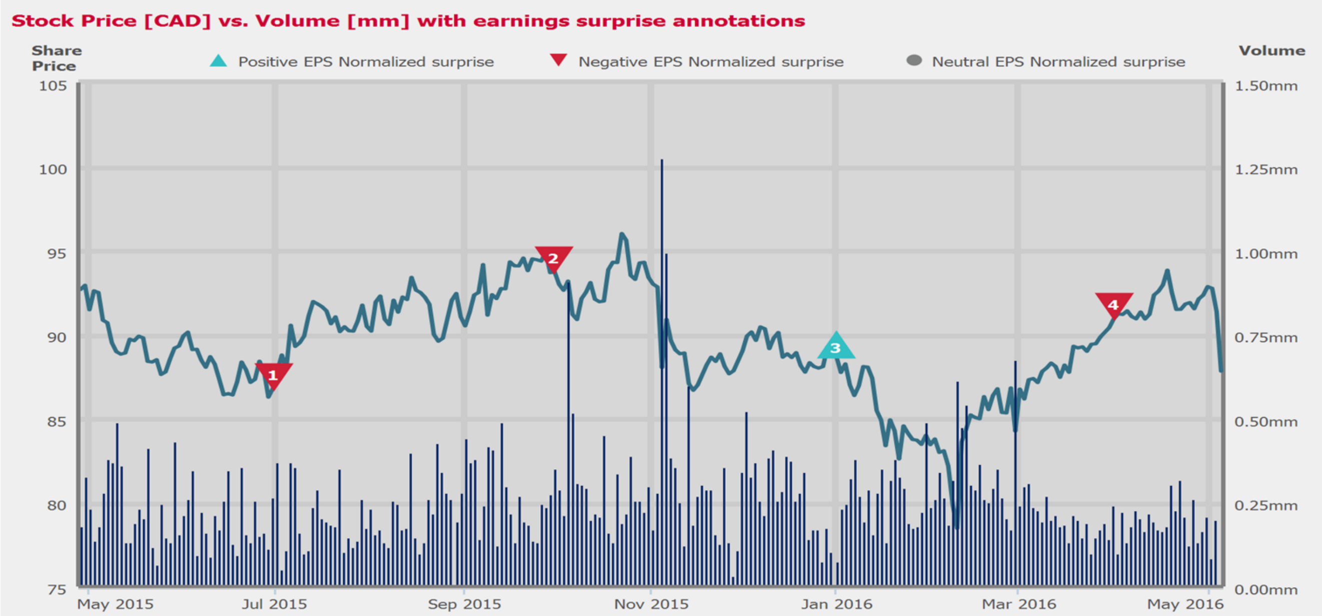
FQ2 2016 Earnings Call Transcripts

Wednesday, July 27, 2016 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.64	0.83	29.69	1.59	5.48	7.11
Revenue (mm)	2023.20	1926.00	(4.80 %)	2054.00	8002.05	8356.16

Currency: CAD
Consensus as of Jul-20-2016 1:57 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	1.66	1.56	(6.02 %)
FQ3 2015	1.63	1.47	(9.82 %)
FQ4 2015	1.65	1.97	19.39 %
FQ1 2016	1.48	1.46	(1.35 %)

Call Participants

EXECUTIVES

Alain Lessard
Senior Vice President of Commercial Lines

Charles Brindamour
Chief Executive Officer and Director

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Patrick Barbeau
Senior Vice President of Claims

Samantha Cheung
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Barclays PLC, Research Division

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Morgan Stanley, Research Division

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Presentation

Operator

Good morning. My name is Chris, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Intact Financial Corp. Second Quarter 2016 Earnings Conference Call. [Operator Instructions] Thank you.

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

Samantha Cheung
Vice President of Investor Relations

Thanks, Chris, and good morning, everyone. Thank you for joining our call today. A link to our live webcast and background information for the call is posted on our website at www.intactfc.com under the Investor Relations tab.

As a reminder, the slide presentation contains a disclaimer on forward-looking statements, which also apply to our discussion on this conference call.

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

We'll begin with prepared remarks, followed by a question-and-answer session.

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

Charles Brindamour
Chief Executive Officer and Director

Good morning. Thanks, Samantha. And welcome to Darren, who is new in his role. And Patrick, whom many of you have heard before or met before in these calls, where he was SVP Personal Lines before and he's now SVP Claims. And that's very consistent with our view that we should move talent in the organization and develop people accordingly. And so want to welcome these folks into their new roles for this morning's call.

Before we get in the second quarter's result, let me first make a few comments about the Fort McMurray wildfires. This is the costliest insured catastrophe in Canadian history. And the impact on the residents and their families will certainly be long lasting. Our folks in Alberta have gone above and beyond to respond to our customers, and we have to recognize that the recovery effort will take years.

As of today, most automobile claims have been closed. Solutions for the rebuilding of homes are underway, and we're working with our commercial clients to put them back in business. We're fully committed to getting our customers back on track, and we'll be on the ground for as long as it takes.

We announced this morning second quarter net operating income of $0.83 per share, despite absorbing the $0.97 per share loss from the Fort McMurray wildfires. These results clearly show the resilience of our platform.

Our top line grew 5% in the quarter, as new products, digital experiences and distribution initiatives paid off, particularly in personal lines.

On the Commercial side, growth was dampened by the impact of the weaker Alberta economy. We delivered an underwriting profit of $16 million in the quarter with a combined ratio of 99.2%, which includes 8.8 points of losses from Fort McMurray.

If we exclude the impact of Fort McMurray, the combined ratio would have been 90.4%, with strong results in property lines and commercial auto but results below expectation in personal auto.

Our operating ROE was healthy at 14.6%, particularly in light of our strong capital position and the impact of the wildfires. We ended the quarter with $857 million of excess capital. And our book value per share grew 3% year-over-year to $40.57.

In terms of our performance, we beat the industry's ROE by 620 basis points at the end of the first quarter. Our underwriting results largely drove this outperformance.

In short, while our troops continue to work very hard to help our customers recover from the wildfire, I'm pleased to see the resilience of our platform in dealing with the costliest natural disaster in Canadian history.

Let's now look at our results by line of business. So personal auto grew 6%, thanks to our growth initiatives, which includes our telematics offer, our quick quote engine as well as a number of branding and distribution activities. The combined ratio deteriorated by 6.1 points to 96.4%, excluding Fort McMurray, driven by mild increases in frequency and severity, flat earned rates and lower prior year development. Rate increases have been effective in Alberta since April 1, and additional ones have recently been approved in Ontario. I expect these rate actions combined with our claims strategy will offset recent cost pressures.

When it comes to the industry outlook for auto, we continue to anticipate low single-digit growth in the coming 12 months. In general, given a rational competitive environment, we anticipate that claims cost inflation across the land will lead to moderate rate increases. In Ontario, most of the remaining reforms were implemented on June 1.

In personal property, we grew our premiums by 9% as rate increases and growth initiatives were deployed in firm market conditions. New products, such as our Lifestyle Advantage and our Enhanced Water Damage Package, have been very well received by customers.

Our combined ratio of 82% excluding 24.7 points of losses from the Fort McMurray wildfires benefited from lower claims frequency and the effectiveness of our profitability actions. I'm particularly pleased to see that our year-to-date combined ratio of 94.7% even after Fort McMurray is consistent with our desire to operate this business sub-95% even in bad times.

In terms of industry outlook, we expect firm market conditions in this line of business with mid- to upper single-digit growth over the next 12 months.

Commercial P&C premiums declined 1% year-over-year as rate increases were offset by headwinds from a slowing Alberta economy. This line delivered a combined ratio of 87.5%, excluding 10.7 points of Fort McMurray losses. The underlying current accident year loss ratio improved 11 points from last year, mainly due to lower large losses, profitability actions and better weather in the Atlantic.

Commercial auto premiums grew 2% in the quarter as the impact of corrective measures, including rate increases were partially offset by economic conditions in Alberta. The combined ratio improved substantially to 88.5% excluding Fort McMurray, thanks to favorable prior year development and the effectiveness of our actions. That said, we're continuing with our corrective measures aiming for a sustainable low-90s combined ratio.

With respect to the outlook for commercial lines, while experiencing meaningful pressure in Alberta, the market conditions across the land are still conducive to rate increases, which should lead to low single-digit growth in the coming years.

So as you can see, it's been a busy quarter and our operations have responded very well. But I'm also pleased with the progress we're making on our strategic initiatives. On June 28, the superintendent of Alberta approved our new ridesharing insurance policy, the first of its kind in Canada. Our commercial policy with Uber became effective July 1 in that province.

A few days later, the insurance regulator in Ontario approved a similar solution. These steps are a clear sign of our leadership position in the sharing economy.

On the claims front, we received very good feedback following the launch of the Intact Service Centre in Calgary earlier this year. We recently launched our second service center in Ottawa, and we expect Montréal and Toronto in late '16 to early '17.

And finally, I'd like to congratulate our teams at belairdirect, who ranked the highest in consumer satisfaction amongst home insurers in Atlantic, Ontario and Québec according to J.D. Power's latest survey.

So in conclusion, we've had a challenging quarter, but I'm happy with our performance, both financial and operational. We absorbed the worst cat in Canadian history and yet remain profitable with a very strong balance sheet. Our growth initiatives are paying off and are driving solid top line growth. Our property lines are performing well, commercial auto improved substantially, but we have some work to do on personal auto. In addition, we've seen material progress on our strategic initiatives, particularly with regards to the sharing economy.

So we're confident that our strategy will continue to help us outperform the industry's ROE by at least 500 basis points and grow our net operating income per share by 10% per year over time.

Our focus on providing our customers with an experience that's second to none and our drive to be a top employer, coupled with our financial strength, places us in a very good position to benefit from this environment in which we compete.

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

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Thanks, Charles. Good morning, everyone. Although our company was hit by the costliest disaster in Canadian history during the quarter, our operations generated $114 million in net operating income after absorbing $127 million in net losses from Fort McMurray. Our operating ROE was 14.6%, while we maintained a very strong capital position with $857 million of total excess capital. Our operations are clearly showing the resilience, both in terms of earnings generation and capital strength.

A few comments on Fort Mac. We reported gross losses from the wildfires at $409 million, approximately 10% of the total industry losses as reported by IBC. This is consistent with our estimated market share in the city. If we exclude losses from Fort McMurray, other cat losses amounted to $18 million, a level similar to Q2 of last year.

We reinstated all the years of the reinsurance that were used in the quarter such that our coverage remains the same for the balance of the year. The reinstatement premiums amounted to $27 million, and it is important to note, were recorded as a reduction of earned premiums, therefore impacting our underwriting ratios.

Moving on to operations. On expenses, nearly half of the 1 point increase in expense ratio in the quarter to 31.7% is due to the impact of the reinstatement premiums I mentioned earlier. The remainder of the increase was primarily due to higher commissions, taxes and variable compensation.

Our investment portfolio continues to deliver consistent investment income, unchanged from last year at $104 million. Although average net investments increased 3% to $13.2 billion from mark-to-market gains and cash flows generated from operations, this benefit was offset by a lower reinvestment yield. We continue to expect a mild erosion of net investment income going forward.

Net distribution earnings grew 26% in the quarter to $43 million due to improved profitability of our brokerages and additions to our broker network. We invested another $66 million in our distribution network in Q2 and continue to expect 10% growth in net distribution income for the full year.

We reported net investment gains in the quarter of $28 million, a sharp reversal from last year's losses of $29 million. Favorable equity markets led to realized gains on our equity portfolio, and declining yields led to gains on the fixed income portfolio. Impairment losses of $13 million in the quarter were $2 million lower than last year.

Our effective tax rate was 16.9% in Q2, lower than usual due to the greater proportion of nontaxable dividend income relative to underwriting income.

In summary, we reported quarterly EPS of $0.67, which was $0.80 lower than last year. Excluding the $0.97 impact from Fort McMurray wildfires, EPS grew 12% year-over-year on stronger underwriting and distribution results. Our investment portfolio and distribution activities provides stable earnings when underwriting results are challenged, adding to the resilience of our platform.

Finally a few comments on our financial position. Our balance sheet remains very strong. Our MCT stands at 212%, after reflecting the 8-point impact from Fort McMurray, which was offset in part by 4 points from the phase-in of the MCT guidelines and from favorable capital markets.

Our total excess capital amounted to $857 million at the end of the quarter, while our debt to total capital ratio was 19.3%. Our investment portfolio's unrealized gain position increased materially from Q1 to $150 million with contributions from all asset classes.

We executed on our buyback during the quarter, purchasing some 140,000 shares for a total cash outlay of $12 million. Between the launch of the program and the end of Q2, we have spent $32 million on the buyback with an average price per share of $87.19.

Finally, to optimize our buyback strategy, we entered into an automatic purchase program to facilitate purchases at all times even during blackout periods. Our capital deployment strategy remains unchanged. And while our priority is to invest in growth opportunities, buying back shares at time when the market price may not fully reflect intrinsic value is a responsible use of our capital.

In conclusion, with strong underlying results in property lines and substantial improvements in commercial auto, we are focusing our efforts on improving results in personal auto with similar discipline and energy. Our earnings have proven the resilience, thanks to the strength of our insurance operations, our focus on innovation, the growing role of distribution and the great work that our in-house investment team is doing.

We continue to believe consolidation in the domestic P&C industry will continue, both in manufacturing and distribution, and we will continue to be active participants. With a strong balance sheet and a talented team, we are ready to tackle opportunities as they arise.

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

Samantha Cheung
Vice President of Investor Relations
Thank you, Louis. Chris, we're now ready to take your questions. [Operator Instructions]

Question and Answer

Operator

[Operator Instructions] And the first question is from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So first question is on the property insurance. You've mentioned about 9% premium increase. How much of that -- if you can break out between rate versus exposure, what's roughly the breakdown?

Charles Brindamour
Chief Executive Officer and Director

Good morning. Darren, do you want to take this one? So we're talking written premiums.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Yes. So obviously, as you mentioned, our direct premium written increased by 9.3% in the quarter. Of that, 7.7% was due to increasing written units. On top of that, obviously, we've got some amount of insurance inflation. So there's some rate actions still flowing through the book and a slight mix change, downward mix change, that's driving the overall plus 9% increase in direct premium written.

Charles Brindamour
Chief Executive Officer and Director

Yes, between some insured increases and rates, you have about 6 points and the mix is 4 points the other way, and that is explained by different speed-up growth by jurisdiction but also potentially faster speed-up growth in condos and apartments, which have lower average premiums.

Kai Pan
Morgan Stanley, Research Division

Okay. So my question is really given what's happening in unfortunate events that have largest losses in Canadian history, so do you see further increase? You see -- these rate increase, will that be just going even higher from current levels? Or it's just simply to stay current but for a longer period of time?

Charles Brindamour
Chief Executive Officer and Director

I think it's important to talk about the industry when we talk about the outlook versus our own sort of rate direction. But I'll let Darren give his perspective on the industry's outlook.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Yes, I mean, it's unclear at this point in terms of the longer-term impact from the Fort Mac standpoint. Obviously, with respect to reinsurance renewal, there's still time to tell on that one. However, I think it's fair to say that we expect that this event may extend the firm conditions that we're seeing currently in personal property. Again, timing wise, it's not exactly clear right now, but definitely, we think that the rate increases that we see in the industry and the growth that we see in the industry, we expect to continue in the short to medium term.

Charles Brindamour
Chief Executive Officer and Director

Yes, I think that's right. It is a firm environment and therefore this adds to a firm environment. And interest rates have not gone up in the last quarter. So I think the conditions are therefore a potential extension of firmer conditions in that line.

Kai Pan
Morgan Stanley, Research Division

My second question on personal auto side. You mentioned about the mild frequency and severity increase. Are these sort of like within your expectation, or is this price? And could you talk a little bit more about it? And any pricing action you're taking?

Charles Brindamour
Chief Executive Officer and Director

Yes. Why don't -- if I ask Darren to shed a bit of light on that frequency and severity bumps in the quarter and maybe then rate direction?

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Sure, absolutely. Thanks, Charles. So from a frequency standpoint in the quarter, largely driven by 2 weather events, i.e., snow event in April in Ontario followed by a similar sort of event on the May long weekend in Alberta. Both of those drove frequency higher. If we were to exclude those 2 particular events, frequency was actually relatively flat in the quarter when comparing Q2 of '16 back to Q2 of '15. In terms of the severity itself, there's a couple of things at play there. One is actually tied back to the increase in frequency that I just talked about. So due to the increase in frequency in Alberta and Ontario, there was a change in mix, change in the number of claims by province. Obviously, Alberta and Ontario tend to have a higher severity due to the product features in the auto product in those 2 provinces. So as we got more claims in those 2 provinces, that drove then the national severity higher as well. We also experienced a bit of a blip in the Atlantic from a severity standpoint. Again, some context here. Obviously, as you can all remember back in Q2 of 2015, we were still experiencing the tough winter in the Atlantic, which drove exceptional increase in claims being reported, but small -- smaller than claims. So that essentially drove the lowest severity back in Q2 of 2015. Now as we look into Q2 of 2016, we're backing more of a normal pattern, consistent with our 5-year average. So that's actually driving an increase in severity in the Atlantic. So it really is the Atlantic impact but also a change in the mix between Alberta, Ontario and the other provinces in the country.

Charles Brindamour
Chief Executive Officer and Director

Before we go into the future rate direction, I guess, when we looked at the severity this quarter, there was not a jump in a province that was a cause for concern. It was rather a mix by province that led to an increase in the average severity across the land. And therefore, not necessarily reinforcing the inflation trend that we've observed in the previous quarters.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

So from a rate standpoint, we were pretty much flat in the quarter. We had some reductions, obviously, in Ontario being offset by increases in other provinces. So as we look at the various different provinces, we have rates increasing in Alberta. We have just applied and received approval for a rate increase in Ontario. We have rate increases flowing through in the Atlantic and, probably for the first time in many years, some rate activity in Québec as well, too. So that's all in-- reflected in terms of some of the claims inflation that we've seen in the past. And we feel that those actions together with the underwriting actions and claims actions will address some of that inflation that was seen in past quarters.

Charles Brindamour
Chief Executive Officer and Director

Yes, that's exactly right. Thanks, Darren.

Operator

The next question is from John Aiken with Barclays.

John Aiken
Barclays PLC, Research Division

The improvement on the underwriting income that we saw on the commercial auto, it does look like net claims are coming down. Net earned premiums have been, call it, reasonably stable over the last 4 quarters. Are we seeing some stabilization in terms of the frequency and severity that you'd seen in the past quarters? Or is this actually some tangible impact of the, I guess, the actions that you've taken over last sort of while?

Charles Brindamour
Chief Executive Officer and Director

Alain, why don't you sort of breakdown what happened in the quarter and give a sense of direction?

Alain Lessard
Senior Vice President of Commercial Lines

Yes. So like I say, 90% combined ratio in the quarter, we're very pleased with that. But like we said, we look at this line of business on a 12-month basis. So we're going to continue our action because we're not there to our 90% objective yet. So we're continuing on the action and the corrective measure we're taking. Relatively, in terms of severity and frequency, that was relatively stable over the line. We've got a bit less large losses in the quarter. But for that -- and we're coming back in a certain week to a much more normal prior year development. We had in 2015 positive prior year development, and now we're back to a more normal in the 3% zone. And like we mentioned last year, we were affected by the exchange rates correction on the reserve. That being said, our plan just started this year in terms of corrective measures. So the part that is earned and that you will see on the average premium, that will take time. We still have a very little portion of that plan that is earned, and we're continuing to take the corrective measure. It's going to take probably 9 to 15 months to get that to see we've earned everything on the plan and the corrective measure we stated and put in place.

Charles Brindamour
Chief Executive Officer and Director

Yes. I think the direction is good. Very pleased might be an overstatement. I think we're pleased with where this landed. One of the things that I like to look at to get a sense of direction is the difference between the average rate written in the quarter versus the average rate earned in the quarter. And so we've earned in the quarter 2.3% rate increase in commercial auto, and we've written in the quarter about 4.5% rate increases. And so this gives you a sense that there is rate momentum building. Now this is just the average. Obviously, the plan that Alain has put in place with our teams across the land are not average rate increases. They're actually very targeted. And so the impact of very targeted action do not translate into what you see in the average rate. You actually get a better pick up than that because your risk select as you do that. So I think encouraging direction in the second quarter, a lot of focus still on the commercial auto action plan. Even greater focus, I think, in trucking, which is an area in need of greater correction and looking good, I think, for the next 12 to 18 months.

John Aiken
Barclays PLC, Research Division

I apologize if this was actually in the formal commentary, but what has the impact been from the pricing actions on the number of units within commercial auto?

Alain Lessard
Senior Vice President of Commercial Lines

There's probably -- the units in commercial auto are down by about 3%, okay? But it's like very -- when we look at units in commercial auto, things can vary a lot between premium and unit. We have policies out there that are at basically $500 or $600 and we have other policies and programs that can be in multi-million dollar. So the price action, I would say, we'd like to decompose everything between [indiscernible] fleet trucking to see the exact impact. There is some impact on the price action coming from the action we're taking, but it's very -- like we say, we follow that mostly on the premium side because there's too much volatility premium by premium and action in the way we [indiscernible] auto policies.

Charles Brindamour
Chief Executive Officer and Director

I think the -- what we think about this is fleet tend to cloud the unit from quarter to quarter. But when Alain talks about a 3% drop in unit in the quarter, it's important to keep in mind that Alberta's drop in units would have been double that in the quarter, and therefore, is fairly significant driver of that number.

Operator

The next question is from Geoff Kwan with RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Just I have a question on the ridesharing initiative you've got in Alberta and Ontario. Just how to kind of think about the impact on premiums? And then also similar to that, is it fair to kind of think that this is something you're looking to do when -- as other provinces rollout similar programs?

Charles Brindamour
Chief Executive Officer and Director

Yes. I think that anywhere where private enterprise is allowed to operate, which is unfortunately not in every province, we'll be happy to look at solutions like that. Because Canadians are embracing those sort of services and -- that we want to be a facilitator of that product. I'll let Alain talk about sense of quantum or how we're thinking about that. Go ahead, Alain.

Alain Lessard
Senior Vice President of Commercial Lines

Okay. So I think our policy, like we said earlier, recall is really a one single policy that will cover basically all Uber driver and passenger. It's based basically on kilometers. It's not a price based on units or car or things like this. It's really based on the amount of kilometers driven by the Uber driver. And that will be recorded not as of one policy, one premium for the full year earned over 12 months. It will be recorded every month as we receive kilometers from Uber and reports on that part. So this is how we cover. So it will be earned as it will be written. I think that's important to understand. It's very early. The amount of premium will be very much affected by the popularity of the ridesharing and how much people are using Uber. So it's very early to tell how much premium we'll look at that. We'll be in a better position to report on that at the next quarter. But we expect that will be material in terms of when we look at the commercial auto volume next quarter.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Sorry, I think it will be material, right, as opposed to not material?

Charles Brindamour
Chief Executive Officer and Director

Yes, I think that when we look at opportunities like that, there's a long-term angle and there's a short-term angle. And as we've talked about before, we think that sharing economy is a heavy trend that is taking place now, and that will have big influence on our industry over the long run. And that's why we tried to be on that trend fast, and that's why we're partnering with these folks. There is a business opportunity in the short term. It will start to materialize in the third quarter. I think we ought to think about this in tens of millions of dollars for now. And when we get more visibility at the end of the first -- the third quarter, I will give you a better picture of where that is headed.

Geoffrey Kwan
RBC Capital Markets, LLC, Research Division

Okay. And just the other question I had was, this push that you guys are making within the specialty lines. Just wanted to get a sense on how you're thinking about like targets that you'd like to achieve and kind of what within what time frame are you thinking about that?

Charles Brindamour
Chief Executive Officer and Director

Yes. So specialty lines is an area where we're underrepresented and -- at the industry level. And so this has been, I would say, a meaningful drag on our aggregate outperformance. As you know, we think about outperformance line-by-line product-by-product, but this is a segment that's been, for us, generating sub-90s combined ratio 5 years in a row basically. So I think we've decided to reorganize to gain more exposure to that segment, better organize ourselves to build on the expertise that has delivered a strong track record in the past and add folks who wake up in the morning and think about specialty lines. And that's what this new division is all about. And I think we want to make sure that brokers across the land know that we're a top player, and we have top people in that space. And so that I think is the main idea here. And the idea, I think, is to own a bigger if not a much bigger portion of the underwriting profit pool that exists in that space. So I'll let you add some color, Alain.

Alain Lessard
Senior Vice President of Commercial Lines

I think it's important to also understand that we're not starting from 0. It's not like we're a nonplayer in specialty lines. We're starting with the volume right now when we look at all the lines we define as specialty lines of anywhere between $650 million to $700 million. We have an aspirational goal to get to eventually $1 billion, but I think the first aspect is really to leverage what we have. Because when we look at our specialty lines across the country, our representation and our presence is very, very different province by provinces. So our first goal is to make sure that whatever is available in terms of expertise, product in one province is also available everywhere. So we will leverage the expertise that we have across Canada and build on that expertise by adding people, recruiting experts in those lines, adding products and build, like Charles said, the broker and client awareness of that. And it's also important to think that we're going to do that with the same rigor and discipline we've done and we applied to our regular business to maintain our combined ratio sub-90s going forward.

Charles Brindamour
Chief Executive Officer and Director

Yes. I think success will be judged by the portion of the underwriting profit pool that we'll be able to grab in that space. And I think the additional focus on that division hopefully will help improve our track record in that space.

Operator

The next question is from Meny Grauman with Cormark Securities.

Meny Grauman
Cormark Securities Inc., Research Division

Just wanted to follow up on the ridesharing. Now that you have these programs in place and for when the customers in the car but then also when the driver is waiting, is it sort of mission accomplished and you kind of have a product suite for this ridesharing phenomenon? Or is there -- I guess what I'm asking, what's the next step here? Is there another challenge in this new area that you need to come up with a solution for? Or you basically have dealt with this, I don't know if you call it a problem or just a new development in your space?

Charles Brindamour
Chief Executive Officer and Director

Well, I think it depends if your question is focused on Uber per se. But for us, the opportunity is much bigger than what's been announced recently. I think the opportunity is how the sharing economy is basically changing insurance to a certain extent, not just in ridesharing, but also in car sharing, in home sharing, in expertise sharing and our thought process is to lead with solutions as start-ups will come and basically broaden the sharing economy and Turo is a really good example of that, which is a great car sharing model that's very popular in the U.S. and that started to operate in April. Here, in Canada, we're also partnering with them to find insurance solutions. So I think that the Uber solution is step one of many steps in what we think is a pretty broad range of opportunity. Specifically, with regards to Uber, Alain or Darren, I'm not sure other than going to other jurisdictions what else there is.

Alain Lessard
Senior Vice President of Commercial Lines

Well, I think what we saw like -- I think the first thing is automobile is very much regulated on the product side at the province level. So I think we have now a product available in Alberta, a product available in Ontario. I think there will be discussions in other jurisdictions to go in that same direction, so yet, there's still work to do on that side. And I would say probably that was the biggest implementation, but the reality is this model will continue to evolve and this is like the first iteration of the product. I think we can expect some adjustment going forward as both us, the industry, the regulator, adapt and learn more about the sharing economy. But I would say the main thrust was really getting the first product out.

Charles Brindamour
Chief Executive Officer and Director

Well, in all of this, I mean, the traditional boundaries of personal versus commercial are being challenged. And telematics also is bringing a whole new set of ways to think about how to provide protection as people move from point A to point B. We lead in personal, we lead in commercial, we lead in telematics, so we feel we're very well placed, at least on the automobile side of things, to find business opportunities as the world change.

Meny Grauman
Cormark Securities Inc., Research Division

And if I could just ask a question related to the Fort McMurray wildfires. So the losses came in below the range that you initially published. And I was wondering whether that is just a normal function of just you had an estimate and reality doesn't always just line up with an estimate especially early on? Or was there anything else that you would highlight maybe that was a more active response that mitigated some of the losses that you initially thought you would take related to that event?

Charles Brindamour
Chief Executive Officer and Director

Yes. And I think just for folks to understand the pieces here, these buyers emerged on Tuesday. We -- you'll recall at our first quarter earnings call on the Wednesday, we started to image through satellite the damage on Thursday, overlaid our exposure through geocoding. On the Friday and Monday morning, we issued a press release that said, that we thought that this would be between $1 and $1.20 and I think 3 months into it -- or 2.5 months into it, we're saying it's actually $0.97. So that's sort of the process. I will let Patrick give his perspective on why it's $0.97.

Patrick Barbeau
Senior Vice President of Claims

Yes. Thank you. So you described it well, Charles. This is a process we use to come out -- come up with the estimate of $1 to $1.20. From the -- all these exercises, it was clear with the image, the area that were fully destroyed so the total losses were fairly easy. We had, obviously, the information on the cost to rebuild, and that piece has stayed the same up to now. But obviously to get a total estimate, we need to make a few assumptions on other stuff like what's the amount of contents, what portion of partial losses would be around the fully destroyed the area and it's within those assumptions that when we were able to enter the site in June and inspected of those houses, we had a bit of savings compared to our initial estimate. So it's really into those other partial losses, how much. We have a bit of lower amounts of smoke damage that we estimated initially, the smoke damage was less than what we assumed. So this is what has driven the estimate down. In terms of gains in how fast we responded. For sure, this exercise of bringing up satellite inventory using geocoding has allowed us to get the operations well prepared for the response, but also plan in advance the vendors and the capacity we need on the ground. So we're at the point where most of the auto claims are closed, and for sure, since you pay replacement cars during that process and also additional living expenses as you repair the houses, the faster you put our clients back on track also has savings for us.

Operator

The next question is from Doug Young with Desjardins Capital.

Doug Young
Desjardins Securities Inc., Research Division

So I'm going to go back to personal auto. And Charles, it sounded like you were disappointed in the results in the quarter. And then as I looked at the response just around the frequency with the 2 weather events you kind of -- I can wrap my mind around that. And on the severity, it sounds like it's more mix related. So I'm wondering where the disappointment really ebbs from. Is there some pressure you're feeling in Alberta on the BI side, and on Ontario on the accident benefit side? Or is there additional challenges or issues that you're struggling with in auto? And then can you -- if there is, can you talk about it and what you're doing to kind of address it?

Charles Brindamour
Chief Executive Officer and Director

Yes. Well, I think 96 is disappointing. Period. And whether it's -- you can explain it, whether it's a trend, whether it's mix issues, 96, it's just not a great combined ratio in automobile insurance. And we sort of expressed it to you the way we see it. Disappointing is different from being concerned. And I think it's a difference I would make. It's not like we looked at the quarter and said, oh, my God, this is bad. I mean that's not it. It's disappointing because the absolute outcome is not as good as what we would like, but the trends we've observed in the country were not reinforced necessary in the quarter. But we apply credibility to the trends that we've been observing for a few quarters or a year plus in some jurisdictions. And I think Darren alluded to that earlier. Bodily injury inflation in Alberta, we've talked about that for some time, we've taken actions both from a pricing and from a claims management point of view is certainly issue #1. I think the Ontario environment that's been in a rate reduction and a reform world for 4 years, there's been inflation building up in the system, which we need to tackle. And same thing in the Maritimes. Québec is slightly different. I mean Québec has been a fairly stable cost environment in a rate decrease world. So I think we use inflation from coast-to-coast, but I think in Québec, it is a question of restoring rates to a level that encompasses new investment income and the new environment. There's been a bit of physical damage inflation, I think, in Québec and no change really in the quarter. We're just acting on our plan in each of these jurisdictions. But disappointed with 96. Period. I'd like to ask Patrick to give a bit of perspective on some of the action plans because, yes, we talk about rates, but rate is not the only way to deal with inflation. And in fact, you do create an advantage when you over index other than rates how to deal with inflation. So why don't you, Patrick, give us a perspective for some of the nature of the action plans that you have in mind.

Patrick Barbeau
Senior Vice President of Claims

Thank you. I will start with Ontario. You might recall that now 4 years ago, we have reshaped our claims operation to address some of the trends we're seeing in AB and BI and this was around making sure we had teams focused on the BI, so special handling units, and we're looking at those cases and also on AB to make sure would keep the minor injury within the guidelines of the regulations. So this has been very -- or quite successful or effective in managing the claims inflation in Ontario. Since then with the trends we've observed in Alberta as well is in some of the Atlantic provinces, we've exported those same approach in addressing. Because you might recall in Alberta, for example, are a couple of court decisions that allowed chronic pain to be used as a reason to bring claims outside of the minor injury cap, which has created more activity on the BI side. So that's certainly one source of the inflation that we see in Alberta. Since then, we have increased our staff level on the BI claims and maintain to be more proactive in handling those claims and keeping them within the minor injury regulation. We have built our special handling team similar to what we had in Ontario, and then talk protocols and guidelines to manage chronic pain, concussion, those types of claims and we have also increased the staffing for our surveillance activity. So this -- those are our examples of what we've done in BI, and we're following the same path also for Atlantic. On the physical damage, there's also an important benefit that we capture because of our management of the supply chain, leveraging our size and getting involved into the purchasing of parts, for example, are ways that we limit the inflation. And also, our new national claim system is another way to not only have gains on the expense side, but also in managing the indemnity control better, the indemnity. So all of that are contributors to tempering the inflation in auto.

Charles Brindamour
Chief Executive Officer and Director

Good. Thanks, Patrick. And I think we talk about the rates that we've taken and what we expect at the industry level across the land. But I think segmentation is really important here. And maybe I can ask Darren, who's been, what, a month on the job now or 2, to talk about some of the way we leverage segmentation to tackle some of that inflation.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

No. Absolutely, Charles. I mean -- so when we talk about taking rate increases across the various different provinces, these are not flat rate increases for all customers. They're heavily segmented using further refinements in terms of the variables we have available. For example, UBI that we've have introduced as well has brought about more segmentation power. So yes, we are driving rate increases across the portfolio, but where through segmentation able to tilt our portfolio to further gain margin to help address some of the -- and to combat some of the inflationary pressure that we're seeing. So as we move forward, we're continuing to advance on segmentation. We're continuing to look at more data, more valuables, greater techniques in terms of to continue to refine our segmentation to really identify those inefficiencies in the marketplace that we can take advantage of.

Charles Brindamour
Chief Executive Officer and Director

Thanks, Darren.

Doug Young
Desjardins Securities Inc., Research Division

Perfect. Well -- and maybe I'll take a step back and go 10,000 feet up. Charles, you put up $0.83 and Fort Mac was $0.97, and so $1.80 and I know things will ebb and flow from quarter-to-quarter. But assuming there's no similar type of catastrophic event, is $1.80 on average what we can expect, again, I know quarter-to-quarter fluctuations happen, but is $1.80 a reasonable run rate? Or is this kind of, in your view, is this a -- if you back out Fort Mac, was this a particularly good quarter, or is there upside?

Charles Brindamour
Chief Executive Officer and Director

I think that I hate to speculate off a quarterly base. I will say this, I think the cat burden, excluding Fort Mac, was probably lower than what we anticipated. So I think you ought to put that in your thought process. We put the spotlight on Fort Mac because this is the costliest natural disaster in the history of the industry. But the remaining cat load was slightly better than what we anticipated. Therefore, I would say caution multiplying or extrapolating the quarter. I think that there's been a favorable trends that were present in lines of business. But I would say our action plans have been paying off in the quarter. So for me, if you exclude Fort Mac, I wouldn't say this was an extraordinary quarter. I think that things are moving in the direction that we're aiming for, and we're disappointed with personal automobile.

Operator

The next question is from Tom MacKinnon with BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Two questions. Just going on a little bit more on the Alberta BI claims pressures that we talked about a couple of quarters ago. Can you give us an update as to anything that's happened with respect to the regulatory front there? Or anything that you guys have done through rate hikes and other specific things to contain that? And how far along we are in the process? And just a little bit more color on the results there. And then just elaborate a little bit more on the service centers, the initiative you have here as you roll them out. How should we see that impacting the bottom line maybe in terms of claims cost or expense ratios or whatnot there?

Charles Brindamour
Chief Executive Officer and Director

Okay. All right. Let's start with Alberta BI. I will ask Patrick to give you a perspective on this. And if Darren wants to chime in. And then on service centers, maybe you can take that one as well, Patrick.

Patrick Barbeau
Senior Vice President of Claims

Yes. So on BI, a lot of actions or discussions on the regulatory front in the quarter but nothing that has been finalized in the sense that there's a number of regulations that are due for renewals. In fact, 8 or 9 of them in the province and through IBC and discussions with regulators, we have identified which one we thought were more -- potentially more rapidly help the situation on the BI inflation, and those are the ones on which they are focusing right now to renew and bring improvements. But that will come more in the latter part of the year, probably effective in 20 -- beginning of 2017. But it's a good sign that they are opening up this discussion with the industry, and we can provide support on how we think this will help the situation. So Minor Injury Guidelines is a -- regulation is on top of that list, which is the main one that was challenged, as I said, with some of the recent court decisions.

Charles Brindamour
Chief Executive Officer and Director

Darren, do you want to add anything on this?

Darren Christopher Godfrey
Senior Vice President of Personal Lines

No. I mean it's just -- it's encouraging, but it's very early days in terms of the process. I mean we have a deadline at the end of August to provide commentary back to the superintendent. So we're very active around the minor injury definition, prejudgment interest and a few other measures that we've discussed before. Obviously there it needs to get through the political process after that phase.

Charles Brindamour
Chief Executive Officer and Director

Yes, I think the...

Tom MacKinnon
BMO Capital Markets Equity Research

And the rate hikes you put in that business, are they -- I know you talked about them before. Just -- any kind of update on how far we're through in that process?

Charles Brindamour
Chief Executive Officer and Director

Yes. I mean it's 2 years in a row, by the way, that we've been active on that file. So recap, Darren, maybe for Tom of rate action in Alberta.

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Yes. So we took rate action back in April of 2015 and then we followed up in May of this year with another rate descent on top of that as well. We've probably pushed, I would say, cumulative sort of 12, 13 points in the last couple of years. We're doing some other things in terms of looking to manage the quality of business, underwriting, et cetera to essentially look to gain further margin there as well. We'll look to potentially take more rate increase as we need to on that line.

Charles Brindamour
Chief Executive Officer and Director

Depending on how things pan out. I think that the folks in Alberta in government understand the issue well. I think we also have to understand that they have a lot of things to deal with. We also have to understand that there is a new government, in fact, that's been there for less than a year. So I think we're working with these guys to make sure that Albertans have a stable automobile insurance product. But we're not counting on that, to be honest. And therefore, we've been very proactive from a claims management point of view segmentation as well as pricing, and we'll keep doing that in the coming weeks and months if that trend persists. Why don't we talk about service centers?

Patrick Barbeau
Senior Vice President of Claims

Yes. So as Charles said, we just opened our second one in Ottawa in July. Overall, the service centers, the main objective is to improve customer satisfaction and to -- in the process because it reduces cycle time, it's easier for clients, for convenience, one-stop process. Overall, from an economic perspective, there are gains when you reduce the cycle times. And because we have a streamline process also, we have gains on the indemnity itself. But overall, this is -- are -- at this point we look at it, the 2 would probably be about the same. So the additional cost of running the centers should be about in line with the savings we have on those indemnity. So not an overall gain on the bottom line, but clearly a lot of gains from the customers satisfaction.

Charles Brindamour
Chief Executive Officer and Director

So that's it. We're trying to up our game in terms of changing how our customers get back on track when it comes to car insurance. Obviously, strategically speaking, our role with the supply chain is changing by having better control of where the repair process is sourced, where the parts are sourced, and that's, I think, in time where the upside -- the economic upside will be. But in the near term, as we test our skills, the clear objective is to raise the bar in terms of what Canadians can get when they have an accident.

Operator

The next question is from Paul Holden with CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

So first question is related to personal auto. And what I want to ask in the context of all the information you provided on price increases and actions to mitigate cost inflation. You continue to increase the number of units at a pretty good clip, 5% year-over-year this quarter. So just wondering in addition to maybe what you've already said what makes you comfortable growing the number of units in that business at such a pace?

Charles Brindamour

Chief Executive Officer and Director

Well, I think the -- you have to keep in mind that, that growth is not rate driven. That growth is driven by distribution activities, that growth is driven by telematics, it's driven by the fact that it's easier to get a quote, it's faster to get a quote from us, it's driven by the fact that our direct platform is now present and established from coast-to-coast, we can pound from a response marketing point of view on that front. And that Intact Insurance also is promoting itself more and to a greater extent. And I think that this, in my mind, is a way to grow without using your margins basically, and it's a sustainable way to grow as opposed to reduce rates. Personal automobile is a really good business and the fact that we're disappointed with the Q2 results doesn't mean that we don't want to grow in that business. I don't think we would sort of shortcut rating equity to grow, though. That's not something we're prepared to do, that's now how we run the business in general. And certainly, in a period where you have trends in the system, I think you need to find other ways to grow. But then, price and manage your claims to tame that inflation, and that's exactly what we're doing.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay, got it. And then sort of similar question on personal property. If we look at the unit growth there, 8% year-over-year for the quarter, running ahead of personal auto and, as we know, those 2 products are often sold together but clearly better growth in personal property in terms of units. So just wondering what's driving that extra growth in that line of business.

Charles Brindamour
Chief Executive Officer and Director

Darren, what's your thought?

Darren Christopher Godfrey
Senior Vice President of Personal Lines

Well, I think in addition to what Charles talked about in terms of investments in our marketing efforts, branding, et cetera, we've been very active from a product development standpoint, so -- in this particular line of business, obviously, much recently with our Enhanced Water Damage Package. Good acceptance from the marketplace. It's -- that alone is driving some additional top line for us as well. But in terms of how broad our product suite and rounding out our product suite beyond homeowners has been very, very successful to date and should continue in the short to medium term.

Charles Brindamour
Chief Executive Officer and Director

Yes. And I think -- I mean the thing one should not underestimate is the synergy that exists between our distribution activities and the success of Intact Insurance. And I think a highlight for me this quarter is the fact that our distribution business is doing very well, both from a top line and from a bottom line point of view and they're a big contributor to our growth to at least Intact Insurance's growth in personal lines. So maybe the way you can sort of talk about your observations in terms of our distribution operations both from a top and bottom line.

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

Sure. So as you noticed, the quarter earnings were very generous in terms of the distribution earnings, so up nicely from last year. And we attribute that both the improved profitability of the brokerages themselves, that was most of the increase. And then the fact that we've added brokers over time, which is generating additional brokers. I did mention that we are -- we've added or invested more in the quarter, $66 million in the network, which will eventually drive further earnings in the future as well as top line growth in the future. But between past acquisitions and the current brokerage and the fact that we are branding with our brokers as well is also having a positive impact on the top line. So when you combine the growing network -- the fact that we're branding with them, that we're better integrated is supporting the growth that we're seeing in the unit counts, and personal lines particularly. So having a positive impact both top line and bottom line.

Operator

The final question is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just a couple quick ones here. Charles, just back on personal property. I just want to understand this. Are you just trying to take advantage of the continuing firming rate environment to grow that business? Are you okay with your underlying profitability in the business right now? Or are you trying to continue to improve your underlying profitability?

Charles Brindamour
Chief Executive Officer and Director

We're seeing that our current price point so to speak is leading to better retentions. And this as a sign that the current environment is, indeed, firm. And to the extent that we can have a competitive offer out there and work on our average rate position, we will do it, and that's what we're doing. And I think as Darren explained, the top line movement earlier, I said there's about 6 points of some insured as well as rates. I mean this is a sign of that. I think we're rolling out very good products at the moment that people are embracing and that we're very comfortable in terms of what it does from a rate adequacy position, and very happy to sort of sell as much of that product as possible just because of what we think it does to the overall performance of that line of business. So we're trying to be opportunistic in the marketplace that we think is conducive to gaining margin. Because this is a business that we've gone from underperformance 5 years ago to about 4 points of outperformance now. There is uncertainty around or volatility around personal property, and I think it is a good business to have buffers to do well in bad times. And I think this quarter's results reflect a little bit of that perspective we've had for a number of years now.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. A quick one for Louis. The Cornerstone acquisition, will that have much of an impact on distribution revenues?

Louis Marcotte
Chief Financial Officer and Senior Vice President of Finance

So that was a Q3 acquisition, BrokerLink completed that acquisition, so a very every nice transaction. We don't expect that will have a huge impact this year. It will start towards probably Q4, but I would say it will have a positive impact next year. So it's one of many in the plant. You might not notice itself, the impact of that transaction specifically, but it will certainly feed into the growth of distribution income next year.

Operator

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

Samantha Cheung
Vice President of Investor Relations

Thank you all today for your participation. Following this call, a telephone replay will be available for a period of one week, while the webcast will be archive in our website for a period 1 year. A transcript will also be available later in the day in our quarterly financial archive. Our third quarter 2016 results will be released on November 22. With that, thanks, again, and this concludes our call for today.

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