S&P Global
Market Intelligence

Intact Financial Corporation TSX:IFC
FQ1 2020 Earnings Call Transcripts

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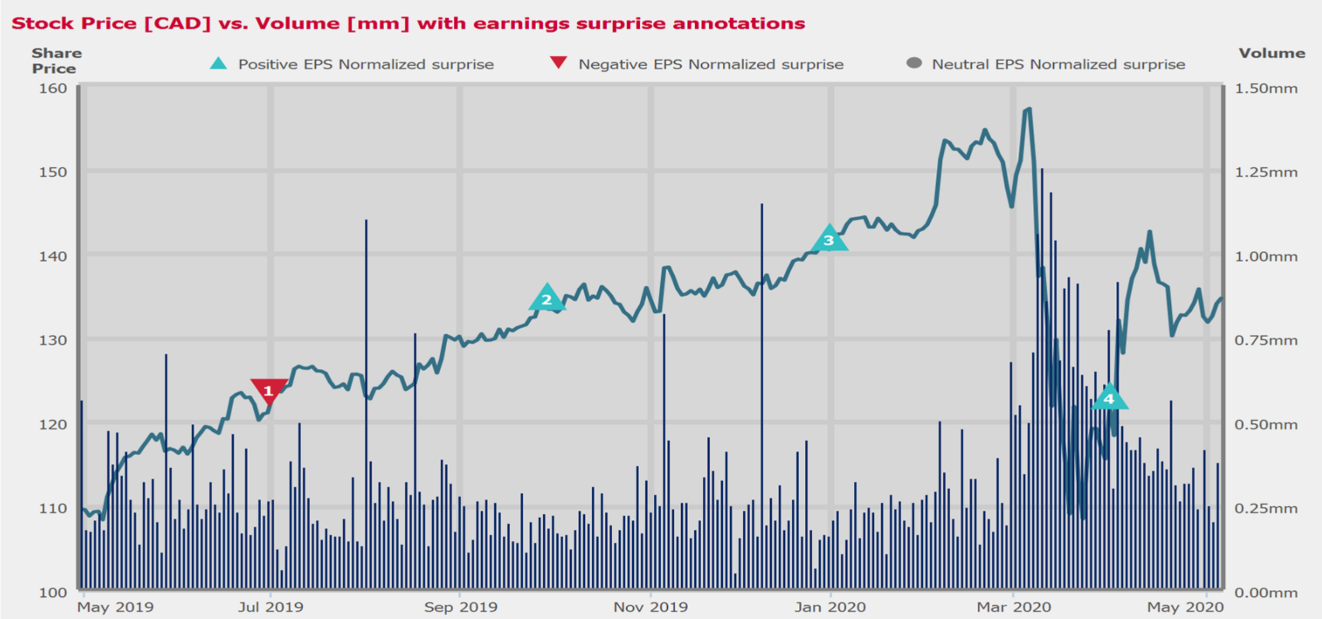
S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.53	1.61	▲5.23	2.17	7.88	8.62
Revenue (mm)	2712.67	2766.00	▲1.97	2749.00	11067.60	12044.67

Currency: CAD
Consensus as of May-06-2020 12:25 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	1.76	1.44	▼1 (18.18 %)
FQ3 2019	1.78	1.91	▲2 7.30 %
FQ4 2019	1.70	2.08	▲3 22.35 %
FQ1 2020	1.53	1.61	▲4 5.23 %

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Call Participants

EXECUTIVES

Charles J. G. Brindamour
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Darren Christopher Godfrey
Senior Vice President of Commercial Lines

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Kenneth Anderson
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Louis Marcotte
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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Intact Financial Corporation Q1 2020 Results Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded.

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

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Thank you, Cheryl. Good morning, everyone. I hope you're all safe and well. Thank you for joining the call today. A link to our live webcast and published information for this call is posted on our website at intactfc.com under the Investors tab.

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

Our executives are joining virtually today from across the country. Firstly, in Toronto, we have our CEO, Charles Brindamour. With me here in Montreal are Louis Marcotte, CFO; Isabelle Girard, SVP of Personal Lines; and Patrick Barbeau, SVP of Claims. And from Calgary, we're joined by Darren Godfrey, SVP of Commercial Lines. We'll begin with prepared remarks followed by the Q&A.

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

Charles J. G. Brindamour
CEO & Director

Thanks, Ken. Good morning, everyone, and thank you for joining us today. Since the last weeks of March, the world has changed dramatically. The coronavirus pandemic has inflicted immense pain and suffering on communities across the globe, and economic activity has slowed to levels not seen in our lifetime. We're grateful for the dedication and commitment of health care workers and essential services. They've rallied to society's aids while people and communities have entered a lockdown never before seen. Across North America, society's discipline is paying off as we're thankfully witnessing a slowing of the spread of COVID-19.

At Intact, our business is resilient, and our #1 priority is ensuring we support society and our customers through this. Over the past 6 weeks, we've been helping impacted customers by providing payment flexibility and premium adjustments to recognize financial hardship and changing risk profile. Our measures are aimed at providing the highest amount of benefit to those who need it the most.

So far into Q2, we've provided over $130 million of relief to approximately 390,000 customers. And we expect the total amount of relief will exceed $200 million by the end of the lockdown. Our business was built to support people, businesses and society in both good times and bad times, and that's exactly what we're doing. Our ability to support our customers and brokers is the direct results of our people, of which over 99% of them are working effectively from home. Supporting them is our robust IT infrastructure, which is performing really well. We're set up to operate our business remotely for an extended period of time, if necessary. And in fact, the trains are running on time. I do believe it's now important, though, for businesses and government to work together to develop a plan for a gradual risk-based return to work in the coming weeks.

Now let me provide a bit of color on our quarterly results. So yesterday evening, we announced solid first quarter net operating income of $1.61 per share. Top line growth was 14% in the quarter, including the GCNA acquisition. In Canada, premiums grew 15%. And in the U.S., growth was 9%. The combined ratio was 94.3%. Canada posted a solid 93.3%, with mild winter weather more than offsetting the COVID-19 related losses. The U.S. commercial lines combined ratio was 100.1%, including 8.5 points of COVID-19 claims provisions.

In aggregate, we recorded a provision of $83 million directly related to COVID-19 claims in commercial lines, both in Canada and in the U.S. We did a bottom-up analysis of where our exposure could be to determine the direct impact of

COVID-19 in commercial lines, and, of course, we'll refine it in the second quarter as the situation develop, but we're confident with the position we've taken so far. We're also, of course, remaining vigilant on the potential indirect effect of the slowing economy over the coming year.

The prevailing hard market conditions in Canada we experienced in 2019 and into early 2020 will be temporarily impacted by the crisis as we provide relief to small and midsized businesses that are going through a hard time. Once the impact of the crisis has passed, we do expect corrective measures to resume fully as the industry continues to report ROEs well below historical averages. In 2019, the industry ROE was 5.6%, which put our outperformance at 580 basis points for the full year, again, above our 500-basis-point objective. In the U.S. while industry premium growth will be impacted by the economic slowdown, we expect the prevailing hardening market conditions, including rate increases, to continue.

Let's now look at our first quarter results by line of business, starting with Canada. In personal auto, premiums grew 11%, driven by favorable market conditions and including the GCNA acquisition. The combined ratio of 94.6% improved by 7.3 points driven by lower frequency of claims, in large part driven by our action plan over the last few years as well as benign weather in the first quarter this year. The crisis did not have a material impact on Q1 results in automobile insurance. And overall, our emphasis remains on portfolio quality as we focus on maintaining overall profitability levels in 2020.

In personal property, premiums grew 12% driven by favorable market conditions, the GCNA acquisition and unit growth. The combined ratio at 81.8% was the strongest in over a decade driven by our actions over time and a mild winter. The crisis did not have an impact during the quarter, and it's not expected to have a meaningful impact in 2020. Personal property remains well positioned to operate sub-95% even with severe weather.

In commercial lines, premium growth of 22% reflects the GCNA acquisition as well as strong market conditions. The combined ratio of 100.7% included 6.6 points or $50 million of direct COVID-19 related losses. Overall, the underlying fundamentals in commercial are strong, and we're maintaining our focus on underwriting quality. This business is positioned for low 90s performance over time.

Moving to our U.S. commercial segments. Premiums grew 9%, including the GCNA acquisition. The combined ratio was 100.1%, included 8.5 points of direct COVID-19-related loss provision. While the crisis may have some near-term volatility, the fundamentals of this segment are trending well towards our goal of sustainable low 90s performance.

Looking at our IFC underwriting operation for the rest of 2020, one could expect to see a mid-single-digit to low double-digit impact to top line growth from COVID-19 depending on the severity and duration of the crisis. With the prudent provision we recorded in Q1, we expect the overall direct impact of the crisis on underwriting income for the rest of the year to be largely neutral. But given this unprecedented crisis is ongoing, it's, of course, difficult to be definitive on the indirect impact of the economic slowdown in future periods. And as there is a fair amount of uncertainty as to how the crisis will evolve, performance by quarter and line of business may be uneven.

Despite the market volatility in March, we ended the quarter with a strong capital position with MCT above 200% and a capital margin at $1.5 billion. Our balance sheet is both capable of absorbing further meaningful headwinds and is also flexible to act on opportunities. While it's always difficult to determine the timing, it's clear to me that market dislocation tends to surface opportunities, and we remain watchful.

Turning to strategy. While supporting customers through this crisis is our #1 priority, we continue to execute on our long-term strategy. First, our people are engaged in responding to customer needs. When the crisis hit, we mobilized at lightning speed. Over 1,000 employees were redeployed across the organization to focus on specific initiatives, including the processing of customer relief transaction and supporting our digital tools and other activities. Across the organization, productivity and collaboration remain high, and we continue to deliver top-notch service to our customers and brokers.

Second, through our digital platform, we're ensuring our customers and brokers have ease of access in a world where physical contact is disrupted. Since the crisis began, we've seen, for instance, electronic payments for claims increase from low teens to north of 35%. And the proportion of clients who are submitting claims electronically has more than doubled as well. The usage of our digital tools is a win-win. It drives a better customer experience and improved efficiency for both IFC and our brokers.

Lastly, the integration of GCNA and Frank Cowan is on track as we build a leading North American specialty platform. Policy conversions are underway. We launched our high net worth brand, Intact Prestige, in March. GCNA employees are already integrating with their Intact colleagues and living our values. And we're on track to meet our financial objective of mid-single NOIPS accretion, including the On Side acquisition by 2021.

In conclusion, our discipline and our work over the past 3 years meant that we entered 2020 in a very strong position, and our first quarter performance is a good proof point. Our teams have mobilized fast to deal with the COVID-19 crisis, and we've provided significant relief to our customers. Our focus is on continuing to provide real help to customers while advancing our strategies and achieving our financial objectives. Our business is tremendously resilient, and we're well positioned to demonstrate that again in the months and years ahead.

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

Louis Marcotte
Senior VP & CFO

Thanks, Charles, and good morning, everyone. Net operating income per share was $1.61, up from $0.73 last year driven by strong underwriting performance and distribution results. As good as these results are, let me first summarize the impact of the COVID-19 crisis on our Q1 results.

The impact on top line was very limited as the crisis really began at the end of the quarter. The relief measures have also started after quarter end. We took a provision of $83 million related to COVID-19 losses, which we have reported as CATs. This represents a 3-point impact on our IFC combined ratio. Of the $83 million, $50 million resides in Canada and $33 million in the U.S., both in our commercial lines. These provisions relate to direct losses from event cancellations, tuition reimbursements, liability, and specifically endorsed business interruption in some of our specialized programs. They represent our best estimate of ultimate losses based on a bottom-up assessment of where COVID-19 could trigger a liability as few claims have been reported to date.

Although the crisis is still unfolding, we recognize these direct losses early and prudently. Consequently, for the rest of the year and based on our knowledge today, we believe our underwriting performance will be largely on track. As we progress through the year, we will continue to monitor the economic impacts of the crisis and the potential for indirect losses. In Canada, excluding 2.1 points of COVID-19 losses, the combined ratio of 91.2% was solid, improving 11.7 points year-over-year, thanks to benign weather, favorable market conditions and our ongoing profitability actions. In the U.S., excluding 8.5 points of COVID-19 losses, we achieved a 91.6% combined ratio, which reflects solid or improving performances across all lines of business.

Net investment income of $150 million was up 7% compared to last year, mainly driven by the impact of higher invested assets following the acquisition of GCNA. We now expect investment income in 2020 to grow between 1% and 3% compared to 2019 as we reflect the impact of lower interest rates and dividend yields.

Distribution EBITDA and other income grew 20% -- 22% to $44 million in the quarter driven by the acquisitions of Frank Cowan and On Side. Our growth expectations for distribution earnings for the year are tempered by the uncertainty resulting from the crisis. Depending on the length and severity of the crisis, we believe the growth of these earnings for the full year will be in the upper single-digit to low double-digit range. I am pleased to see how our business performed in the first quarter, delivering strong operating results despite absorbing the impacts of COVID-19. In particular, I should underline the operating ROE of 14% on the last 12 month basis.

Now let me provide some additional color on the underwriting results beginning with Canada. In personal auto, we saw premium growth of 11% with minimal impact from COVID-19 as relief measures have been rolled out after quarter end. As I mentioned earlier, we expect that the premium reductions offered to customers will largely impact top line in Q2 and Q3. Personal auto profitability was strong in the first quarter at 94.6%, with a 6-point improvement in the underlying current year loss ratio driven mainly by our profitability actions as well as better weather conditions.

The impact of COVID-19 was minimal in the quarter as frequency decline observed throughout the quarter accelerated at the very end, making it difficult to distinguish between the impact of action plans, weather and COVID-19. Prior year development was slightly favorable in the quarter, a sharp reversal from last year but in line with our expectations. In commercial lines, excluding 6.6 points of COVID-19 losses, the combined ratio of 94.1% improved 12.6 points on a combination of better weather and profitability actions. The Canadian expense ratio of 29.3% for the quarter increased 1.2 points from last year, mainly driven by business mix and the impact of GCNA.

Turning to U.S. commercial. The GCNA acquisition added 9 points to our top line in Q1. On a pure organic basis, excluding the impact of exiting health care last year and the acquisition of GCNA, growth was 10%, thanks to favorable market conditions and new business. The underlying loss ratio of 51.6% in the quarter improved 3.9 points, which was largely driven by the impact of our profitability actions. Favorable prior year reserve development of 2.2% was better than expected, with strengths across all ongoing businesses. We continue to expect little impact from PYD in the near term. The U.S. expense ratio of 39% was 1.5 points higher than Q1 last year, mainly due to the addition of GCNA's surety business. The combined ratio in the U.S. of 91.6% ex COVID-19-related losses was driven by a strong performance in most lines of business. Although the crisis adds a bit of volatility to our results, we continue to make steady progress on our profitability improvement plans and target a sustainable combined ratio in the low 90s.

Moving to our nonoperating results. We recorded an impairment charge of $96 million on our common share portfolio despite the short time period over which we could observe the price movements. The impairment does not impact book value per share as the investments are mark-to-market, but it does affect the ROE. The effective income tax rate of 27.9% was above expectations and reflects a onetime retroactive change in U.S. tax legislation. Moving forward, we continue to expect our tax rate to be between 21% and 22%.

Now a few words on our balance sheet. Our unrealized gains position, which stood at $360 million at the end of 2019, moved to an unrealized loss position of $554 million at the end of Q1, mainly from common and preferred equities. This was partially offset by an improvement in the funding ratio of our pension plans driven by wider spreads as well as the strengthening of the U.S. dollar. Overall, this led to our book value per share declining by 4% sequentially to $51.71, a good outcome in the circumstances. In the face of highly volatile markets, we acted quickly and prudently to strengthen our capital position, including the issuance of a $300 million medium-term note and unwinding some capital-intensive strategies such as our market-neutral strategies. As a result of our actions, we ended the quarter in a strong financial position with $1.5 billion of total capital margin.

In Canada, our MCT was 202%. And in the U.S., the RBC regulatory capital stood at an estimated 393%, both well above minimum required levels. We have $343 million of cash at the holding company, and over $600 million of our credit facility is undrawn. Our debt to total capital ratio was 24.1% at March 31. However, we are confident we will return to our target of 20% over the next 18 to 24 months. With our resilient operations and strong capital position, we are in a good position to support our customers throughout this crisis. We are also in a strong position to pay our dividends, absorb future shocks from capital markets and capture opportunities as they arise.

Before concluding, let me update you on the unrealized loss position in Q2. I'm happy to report that the unrealized loss in AOCI has decreased by approximately $400 million on the back of strong equity markets. But keep in mind that spreads have tightened, and this will impact our pension plan funding and could offset some of these gains. In closing, with a talented team, robust operating platforms and solid fundamentals, we're well positioned to deliver shareholder value during these unprecedented times.

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

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development
Thank you, Louis. [Operator Instructions] So Cheryl, we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] The first question is from Geoff Kwan of RBC Capital Markets.

Geoffrey Kwan
RBC Capital Markets, Research Division

When I think about, I guess, how you run each of your business lines and you try to target certain profit levels, but arguably, these aren't normal times and you've got personal auto that could benefit from lower frequency and commercial or maybe there's potentially higher claims exposure. So when you talk about the premium relief efforts that you guys are doing, are you still talking about kind of a silo approach to profitability? Or given the circumstances we are in, is it maybe taking a little bit more from a consolidated approach, albeit on a temporary basis, when making those decisions on how to allocate the premium relief for your customers?

Charles J. G. Brindamour
CEO & Director

Geoff, that's a really good question. And I would say that we entered 2020 in a position of strength, and that's why we were able to put those measures in place very quickly. And just to recap, there is financing relief here that is provided across the board, and then you have premium relief that is provided based on change in risk profile, change in behavior and where real need exist. We've tempered some of the increases, again, in the areas where businesses are most impacted by shutdown.

But Geoff, this program, it's very much-risk based, it's flexible, and it's based on individual people's circumstances. And our approach to running the business is to look at each line as they stand and do the right thing for our customers within those lines of business, taking into account the performance of that line. So I would say, in aggregate, subsidization between line of business is not something that is part of how we're thinking here about this relief effort. It is really based on need, based on risk profile and based on what we can do as an organization. And sitting here today, I'm quite pleased that we've held CAD 390,000, and we're probably past CAD 400,000 as we speak because there's a fair bit of volume. And we feel that this is the right thing to do in this environment, but there's no subsidies between lines of business that are explicit or even implicit.

Geoffrey Kwan
RBC Capital Markets, Research Division

Okay. And just my other question was, out of the U.S., we've seen on the auto side, some data points from Progressive and GEICO on whether or not it's claims ratio or frequency COVID-19 started. Can you quantify what the impact so far has been in Q2 to whether or not it's a claims ratio or even if it's just frequency severity for the personal and commercial auto book?

Charles J. G. Brindamour
CEO & Director

Geoff, at high level, the impact of the lockdown was most acute towards the end of March, I'd say, last week of March and the first few weeks in April. And we have seen from telematics data as well as from frequency data for a few weeks there, we've seen, ballpark, a drop in frequency close to 50%. It's been -- in the past couple of weeks, though, we've seen driving started to pick up in the 10% to 20% range from the bottom of the lockdown. And with good weather, we expect that to gradually increase.

I think the other thing that one needs to take into account, though, when you think about that is a couple of things. I think that you can -- one should not assume that severity doesn't change when frequency drops. There are some severity impact related to the crisis itself, and we remain prudent, in particular, in lines of business like accident benefit in Ontario about the severity impact of not only the lockdown but the economic environment. So all in all, I'd say at the depth of the lockdown, we saw a drop in driving of about 50%. We've seen that -- we've seen the driving increase in the past 2 weeks in a, I would say, meaningful way. It's really not back to normal, no doubt about that. And then we're keeping an eye on severity in that process. So that's kind of my take on it. I don't know if Isabelle want to add anything to that or Patrick, who is sitting in the claims operation also on the front line of this. So maybe Isabelle, a bit of color and then Patrick.

Isabelle Girard
Senior Vice President of Personal Lines

Yes. Sure. Thanks, Charles. I would say that in addition of what Charles mentioned during the COVID crisis, I think it's also important to notice that pre-COVID, frequency was already decreasing in our portfolio, given our strong action plan that was in place for a few lot of months already as well as favorable weather in the first quarter of 2020. So frequency was already in decrease by about 15% versus prior year average. So I think that's also something that is important to note. And as Charles mentioned, during the peak of the lockdown, frequency decline was higher, but we've seen in the last 2 weeks that driving have picked up, and we expect this to continue as governments are starting to remove restrictions and starting to share high level plans to reopen economies.

Charles J. G. Brindamour
CEO & Director

Thank you very much, Isabelle. How about you, Patrick?

Patrick Barbeau
Senior Vice President of Claims

Not much to add from a claims perspective. There's no real lag between the amount of driving that we measure from UBI and the intake that we see in the claims operation. So I would say that the increase in driving from the past 2 weeks or the 50% or so that we've seen for a few weeks at the peak mirrors very much the intake we've seen in claims. So there's no real lag between the 2.

Charles J. G. Brindamour
CEO & Director

Yes, thanks, Patrick. And I think, Geoff, we have been working hard to push our telematics program in the past 3 years. It is close to 40% of new business. This gives us tremendous insight in driving, but it also means that embedded in the product and embedded in the portion of the portfolio, the amount of driving that people do is actually, in part, reflected with how we price, in particular, with telematics, and I would add that on top of the relief measures that have taken place.

Operator

Our next question is from Michael Phillips of Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I think Louis mentioned part of the $83 million for COVID. I think you said, Louis, specific endorsements for BI. And if I heard you correctly, I hope that's what you said. And so I guess does that mean that excluding those specific endorsements, that you probably wouldn't have had any exposure to business interruption? And I guess, if so, does that mean then that -- I guess I'm trying to get you to maybe quantify any kind of exclusions you might have in your policies. There's clearly a lot of talk about that down here in the U.S. about specific endorsements and versus exclusions for viruses. And so I just don't know the percent of maybe your policies that have these exclusions and how that might differ for your Canadian business versus the OneBeacon business.

Charles J. G. Brindamour
CEO & Director

Yes. So thanks, Mike. Key question indeed. I would say 99.5% of our policies would not provide coverage for pandemic. And I'll let Darren maybe give a bit of perspective on the $83 million per se, which is not really driven by business interruption. It is one of the elements that make up the $83 million. And maybe, Darren, you want to provide a perspective on business interruption, in particular in the U.S. portfolio, to Mike's question.

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Sure, absolutely. Thanks, Charles. So Mike, as we mentioned, I mean, consistent with our past practices of reserving major events quickly, and clearly, this is a rather major event, I mean we took a very prudent approach to recognizing at the end of Q1, the ultimate view of our direct COVID losses. As you mentioned, obviously, our best estimate at this point is $83 million.

I should point out, though, that this has really not been -- that estimate has not been driven by claims activity to date. We've only seen less than $10 million of incurred activity, but we undertook a very extensive bottom-up file-by-file exercise to get a really good understanding of where exposure is understood to exist. So when we look at the $83 million, $50 million relates to Canada, $33 million relates to the U.S. And I'll get into the BI component here in a moment.

If we look at some of the key categories of our COVID-19 exposure, and there's really, I would say, 4 major components. First of all, liability exposure. We understand -- we know that certain businesses in the commercial space have been impacted by COVID-19. Now -- and remember that for liability for CGL, negligence has to be proven. So therefore, duty to defend is clearly an exposure that exists for us.

Both in the U.S. and in Canada, entertainment line of business has some exposure, mostly related to production shutdowns but also event cancellations. And then in the U.S., tuition reimbursement, we could see some exposure there as well. And then lastly, as you referenced, we do have some specialized programs where pandemic-related business interruption coverage is extended. But as Charles indicated, that's less than 0.5 point in our portfolio.

If I look at our U.S. portfolio, and obviously, business interruption comes with the property form, property coverage. And when we look at our various different lines of business in the U.S., roughly 15% of our U.S. portfolio actually has property forms, of which a good 2/3 of that is actually excess property. So when we back out the excess property, we're really looking at less than 5% of our portfolio has property, which ultimately then has an extension of business interruption.

If I compare that to Canada, which is obviously more Main Street, roughly 40% of the portfolio has property coverage with a corresponding business interruption coverage as well. So when we look at our coverage forms, the coverage that we have in the U.S. is very consistent with industry practice and industry language, which is surrounding the requirement of physical damage by an insured peril to trigger business interruption, together with a virus exclusion, which was introduced well over a decade ago and, as I say, consistent with U.S. practices.

On the Canadian side, our coverage, we're very, very comfortable with our language. It's very clear, and the courts really have determined that a loss of use absent physical damage does not trigger business interruption coverage. I mean beyond this first-line of defense, we have exclusions in our policy language to make it very clear that the inability to use or access a property even in times such like this in a lockdown does not qualify for coverage. That is very unique, similar, I should say, to our U.S. position as well. So we're very, very comfortable with where we sit from our coverage position today. It's well understood by governments, by brokers, by customers, that in the vast majority of cases, which, as we indicated, 99.5% of our policies, business interruption coverage would not be triggered by the pandemic.

One last point that I would make, though, Mike, is that, again, business interruption is a covered peril under our property cat reinsurance treaty. So assuming we do end up more than our retention on multiple claims, and we're not of that view at this time today, we believe that there's a reasonable scenario that we would present this as a reinsured event. So a lot of information there, but that's sort of a breakdown in terms of where we sit from a coverage position, both in Canada and in the U.S.

Charles J. G. Brindamour
CEO & Director

We think the position is quite solid. And I think Darren's point is that there are many layers of protection here. And where specific coverage was provided, we've largely reserved it for -- in Q1 already, which would be on less than 0.5% of our portfolio.

Operator

Your next question is from Meny Grauman of Cormark Securities.

Meny Grauman;Cormark Securities;Co-Head of Equity Research

Just wondering if there's any political pressure to increase premium support or make it broader to all policyholders on the personal auto side of the business. And then just more broadly, if you could just talk about the regulatory landscape because of COVID, coming out of COVID and how you see that. Is there any changes you see on the horizon because of this pandemic?

Charles J. G. Brindamour
CEO & Director

So we're -- I'm talking with regulators and elected official on a weekly or biweekly basis across the board to share with them what we're seeing in the field. I think that there's a lot of relief that is provided by the industry across North America and certainly in personal lines, which I'm more familiar with across Canada. And I think that regulators, in general, recognize that this is going in the right direction. I think that it is early in the process, and people want to make sure that Canadians have access to this relief in personal automobile, in particular, and in personal property. Political pressure, I think, is a strong word here, but I think we all share the view that relief needs to be provided. There's a lot of traction. And I think the regulators want to make sure, in my mind, that, indeed, Canadians take advantage of these measures. That's the first point. But very cooperative relationships at this stage.

And the second point, on the regulatory landscape, no major changes at this stage. I would say that where reforms were in the pipeline because the key issues in automobile insurance today, in my mind, if you take Ontario, if you take Alberta, if you take the Maritimes to a certain extent, is rooted in the fact that the product that is designed by the governments have been a big source of inflation in the last few years. As you know, I mean, we've talked about that a fair bit. There are proposals on the table across most jurisdictions. And it is likely that we will see some change in the coming year or 2 and, in my mind, important to put in place to further provide access to the product at a reasonable price.

There's no change at this stage. Some jurisdictions are saying, no, we're going ahead with the reforms. Other jurisdictions are focused on other things at the moment, and it's completely understandable. But no major change from a regulatory point of view as far as I can tell. I don't know, Isabelle, if you have a different perspective here or other members of the team.

Isabelle Girard
Senior Vice President of Personal Lines

No, I would say, Charles, I agree with your comment. I would add that all the regulators were open for discussion on relief measures as soon as the crisis started, and that's true for all the jurisdictions in Canada. So we're really in regular contact with them to ensure that they understand our relief effort, and we keep them advised of our actions in that regards.

Charles J. G. Brindamour
CEO & Director

Yes. No, exactly. There's been, in the U.S., a number of states have issued moratorium on primarily underwriting measures and so on. And quite frankly, many of those measures make sense. I don't know, Darren, if you have a different perspective or any color you want to add there. But that is COVID-driven, and nothing in there is not things that we're doing already.

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

No. I would agree, Charles. I think we've seen a number of moratoriums in different states in the U.S., very much consistent with processes and practices that we had in place in the U.S. I think the only other thing I would add, from a U.S. standpoint, is this notion of prospective pandemic coverage. There's a fair bit of discussions around that at the federal level to look to create federally funded programs, to provide prospective pandemic coverage similar to other programs that have been established in the past. Obviously, industry bodies are very much in communication with the federal government working through that. So that's probably just another nuance that I would add from a U.S. standpoint.

Charles J. G. Brindamour
CEO & Director

Thank you, Darren.

Meny Grauman;Cormark Securities;Co-Head of Equity Research

Just in terms of a follow-up on that. I guess the question is to what extent do you see the risk of -- you're clear that the market should continue to harden after maybe a brief pause. But could you be in some situation where because of a deep recession, because of political will, it's just not -- the political side of it will not allow for that on the personal auto side, in particular?

Charles J. G. Brindamour
CEO & Director

Well, I think that -- you're saying, on the personal auto side in particular, I think the answer, in my mind, is the reforms I've just talked about. I think that the industry has suggested over the past few years across the land very specific concrete measures that would bring relief in the system. And I think the answer now and the answer coming out of this is to put those reform measures in place as the best possible way to reflect the environment in which we operate. So I think the better answer here, in my mind, is reforms. And keep in mind, automobile insurance is regulated today. And the pricing process in automobile insurance is a back and forth. And I think that, that will keep happening in the coming period. I think if people push in ways that become uneconomical to write automobile insurance, you'll see a severe capacity shortage in the marketplace, and I think nobody wins in that environment.

And keep in mind, automobile insurance coming in this crisis, maybe not as much for Intact, but for the industry in aggregate, the industry was operating automobile insurance with a combined ratio above 100%. In 2019, the industry's combined ratio was probably in the 103%, 104% range in automobile insurance. And so I think applying pressure in ways that would create a deeper issue there for the industry, in my mind, is a recipe for a big capacity shortage, and I don't think you want that in this environment. That's why we encourage cooperation on relief, and we encourage people to think about the reforms coming out of this.

Operator

Your question is from John Aiken of Barclays.

John Aiken
Barclays Bank PLC, Research Division

Charles, in terms of the current environment, I know that there's a little bit of unwillingness to try to look out in terms of what the environment needs. But does this change your outlook for M&A in terms of whether or not there's going to be greater dislocation from the rest of the participants in the industry?

Charles J. G. Brindamour
CEO & Director

Yes. I think that -- John, you know as well, we've had this thesis of consolidation for many years. We have said that we felt that in the midterm, we'd see a good 15 to 20 points of consolidation. And I think this environment is a meaningful source of dislocation, in my mind, not only here, but abroad and globally. And I think that this only exacerbates or solidify our thesis when it comes to consolidation. And I think that Louis, Ken and team have done a fantastic job with the investment guys and our capital management guys to make sure that, a, we can absorb a real bad crisis, but also be able to be on the offensive at the same time, and that's really how I feel we're positioned now. And I think the thesis we've laid out a number of years ago is certainly stronger today than it was 3 months ago.

John Aiken
Barclays Bank PLC, Research Division

Understood. And Charles, as we wait for that dislocation, are there any particular areas where you're deploying capital, where you think you can gain market share organically in the meantime?

Charles J. G. Brindamour
CEO & Director

Yes. So I think that -- and by the way, John, I just want to point out that as we wait for consolidation, we closed our last transaction 5 months ago. And so as we wait, we're deeply in integration process at this stage. And I want to point out this integration is going quite well. Actually, we're quite pleased with where we are even though the environment has changed. Capital priorities, John, I mean, clearly, we've laid out the road map in the fall about the next decade of Intact. And one of the things we said is priority #1 is capital deployment to strengthen our position here in Canada. And that's true in manufacturing, and it's true in distribution.

Priority #2, and it's becoming increasingly relevant, is to solidify our position as one of the leading and best specialty lines writer in North America. We're now hitting $3 billion of revenue. The underlying performance of that business is low 90s, and I feel really good that after all the heavy lifting that Mike Miller and team have done in the past 3 years, that we are very much in that zone and in an outperformance zone. And I think that we're quite open and interested to deploy capital in the U.S. provided good options present themselves to us. And our view has not really changed from that point of view.

Operator

Your next question is from Jaeme Gloyn of National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

First question is related to the bottom-up assessment of direct losses where COVID could create some claims. Appreciate the color around that. One thought is how far did you look out in terms of developing that bottom-up assessment? Was this related to events and production shutdown for the next 3 months? Or is it something further out beyond 2020, for example?

Charles J. G. Brindamour
CEO & Director

Well, the lens we've taken is one of saying, if we look at this crisis, the shutdown, the implications of the shutdown, which parts of our portfolio will be subjected to a direct loss as a result of COVID-19, per se, not so much as a result of an economic slowdown, which is what we call indirect losses. And this is the lens that we have used to come through our portfolio in Canada and in the U.S. to come up with this bottom-up exposure as opposed to extrapolating claims reported to date, which is a big difference. And so I'll ask Darren to give a bit of color on that.

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Yes. So Jaeme, when we look at the indirect effects, I mean, clearly, we can see that these are possible throughout the recovery. But clearly, from where we sit today, much harder to predict. Now while we've seen economic contraction before, our business has proven to be quite resilient in past economic downturns. So when we look at potential contraction of the recovery and we look at it by line of business, I would say, in personal lines, first of all, we may see some limited severity pressure, and that's mostly around social distancing requirements, virus prevention measures in the claims fulfillment process. But we don't see this as being material, but it's one that we continue to watch. The area that we'll obviously be very vigilant is in commercial lines, both in the U.S. and in Canada.

So let me give you a few examples here. If we can think about property, potentially, we'll see an increase in vacant properties, and with that comes the potential for moral hazard. When you look at CGL and liability, we potentially see an increase in the litigious environment in areas such as employment practices liability and financial services surrounding market volatility, just as a couple of examples. And then I would bring another example around contract surety, which is clearly linked to the health of the construction industry.

While we do expect to see heavy government stimulus and infrastructure spending in construction, contract surety can be impacted by an economic slowdown. So I think, at this point, we're simply highlighting the risk of potential indirect losses at this time. And to be clear, we have not seen anything to date. But clearly, we remain very, very vigilant, in particular, in commercial lines. And obviously, as the recovery progresses, we'll continue to keep you up-to-date on what we see. But as I said, at this point in time, we don't say anything, but the risk is there.

Charles J. G. Brindamour
CEO & Director

Louis, any color you want to provide?

Louis Marcotte
Senior VP & CFO

Well, just a bit on the entertainment and the event cancellation, trying to figure out how far ahead we're estimating here. In fact, the notion of a bottom-up is actually having reviewed every single insured policy that we have in our book. And some of them have canceled their events. They're fully provided for if they have not rescheduled. Because if they do reschedule, the liability goes away. But it was a file-by-file work that was done for every single insured that we have in entertainment. Where events have not yet been canceled because they're further out in the future, we took an estimate of how much payouts we could have, apply the probability of cancellation there. But it was not based on time. It was more based on what are the insured or the policies that we have in place and then the likelihood of cancellation because they're extended in the future. But it was really policy by policy from the event cancellation coverage.

Charles J. G. Brindamour
CEO & Director

So I think what you want to take out of this, in my mind, is we looked at the portfolio and we said, the direct impact that we expect here, let's try to account for that now as much as we can. We're flagging that in a slow, low economic environment. Even though our business is very resilient, we need to keep an eye on indirect losses. It would be really hard to -- I mean, you can't reserve for that. You just need to keep an eye on it as the situation evolve, and we wanted to be very transparent with you guys that these are the sort of things we'll keep an eye on as this crisis evolves.

On the direct losses per se, we put our best foot forward, try to be as rigorous as possible. You should expect fine-tuning on that point in Q2 and probably in Q3. But at this stage, we put our best foot forward and try to be as rigorous as we could in doing that. And we all and you all recognize that this is a new environment in which most people are operating, and that will come with bumps here and there. But we try to go as fast as we can to develop a perspective on it and reserve accordingly.

Operator

Your next question is from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. Charles, I just wanted to clarify. In Canada, I guess, your policies for business interruption does not have a virus exclusion. I guess that's what I think I heard. And if so, I guess my question is, is the protection purely based upon having a physical kind of damage to the building? Because I know there's a lot of discussion down here in the U.S. that that's a potential risk area here that courts could potentially decide that the virus is, in fact, a physical damage to a building or contents.

Charles J. G. Brindamour
CEO & Director

Yes. Thanks, Brian. The primary defense is indeed a direct physical loss. And as we've mentioned, the common law is very strong in Canada on that front. Then the product, as a second layer of exclusions, not specifically focused on the virus per se, but focused on the fact that if you can't use your property, if you don't have access to your property, pretty much whatever the reason, there's no coverage for BI interruption as a second layer of defense. Then you have other elements of exclusion as well, which I won't get into in the product. And so while we don't think beyond, we think that it's extremely remote that we need to invoke the second and third layer of defense. If we had to, in an extreme scenario, there are other solid arguments to defend that position as well.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's very helpful. And then I'm just curious. I know you -- Darren, you talked a little bit about the surety potential indirect exposure here of an economic downturn. Do you have any kind of numbers or anything you can give us with respect to the guarantee book and then how that performed during the financial crisis, the surety business?

Charles J. G. Brindamour
CEO & Director

Yes. Darren, do you want to take this one?

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Yes. Sure. Brian, when we look at our surety business in North America, roughly $0.5 billion is the portfolio in Canada and U.S. Obviously, the contract surety piece is the portion of the portfolio that is the most sensitive, as you well know. And that's just under $300 million, that particular portfolio. That portfolio today is in a very strong position, and it was very well positioned going into the crisis. So we could see some pressure, both in the near term and over the period of economic contraction; both in terms of costs, but also in terms of the economic slowdown.

Now the flip side, obviously, we do expect to see strong government stimulus and infrastructure to support the construction industry. But your reference back to '08, '09 is a really good one. And if we look back over that period of time, where we would say that there was less government support at the time provided to the construction industry. And if we look at industry results during that time, combined ratio is sort of pushed into the mid-90s.

So again, strong underlying performance. Yes, felt some pressure in '08, '09, but I would say still within manageable levels. Obviously, in addition to that, we do have reinsurance protection in place on the surety book to provide protection on large loss, so that's another layer of protection that we have. So I think when I look in the longer-term horizon, surety portfolio is shown to be very resilient in economic cycles. And if things get worse, we have reinsurance protection in place. So from where we sit today, we don't see this as a key issue for IFC during this crisis.

Charles J. G. Brindamour
CEO & Director

But it's certainly something, Brian, something we're watching, of course, with great intensity, and we'll give you guys an update at upcoming quarters as the economy changes. But the thing to keep in mind with construction is that, before the crisis, this sector was red hot. And so it was a lot of demand, and we think government response will compensate, to a certain extent, the pressure that might come from the economic slowdown. But clearly, an area to keep an eye on.

Operator

Your next question is from Tom MacKinnon of BMO Capital Markets.

Tom MacKinnon
BMO Capital Markets Equity Research

First, a question on tax, probably for Louis, and then a question on premium volumes, maybe for Charles. With respect to tax, the operating tax rate was 22.6% and I think it included an expense of $9 million or about 3 points related to some U.S. tax legislative changes. Is that considered to be a one-timer? So if we take that out, we would have had an operating tax rate of 19.6%. Is that correct? And is that what you'll be thinking about operating taxes going forward given this? And then we'll get into the premium volume question.

Louis Marcotte
Senior VP & CFO

So on the tax front, you're right, it's -- for us, it's a onetime event. So it's a retroactive change to some legislation where the U.S. government has made their views more precise, and we had to adjust for that. It's roughly $9 million, overall. It was affecting operating and nonoperating, the tax rates. Roughly 3 points, as you said, in the operating tax. I would say here, our expectation, generally speaking, is to be somewhere between 20% and 22% on the tax rate. It fluctuates on a quarterly basis, as you know, depending on the nature of the results, how they're combined. But our view here, that doesn't change. This is a onetime item, and we're -- we would adjust for it and continue estimating between 20% and 22%.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. That's great. And then second, with respect to premium volumes, there's $130 million, I think, of premium relief measures kind of in place, and they're going to expire at the end of June. So maybe the first question on that has -- what's your thinking behind the $200 million or more? And how much longer -- how did you come to that? And how much long do you have that extending to? And then in addition -- as a follow-up on that, in addition to the premium relief measures, what other headwinds do you see that would impact premium volumes going forward?

Charles J. G. Brindamour
CEO & Director

Yes. Tom, this is a question that is multifaceted. So we have provided over $130 million so far to close to 400,000 people and businesses. When we say June 30, what we're saying is that given where we are, given our assessment of the situation, we will grant relief until June 30. And then we'll reassess, depending on where the world is. And that relief will impact not the performance until June 30, it will impact probably Q2 and Q3, quite frankly, because if you come to us and you need help in late May or early June, we'll give you help and provide -- probably give you three months' worth of help as we do that. So the $200 million that's been put out there is an assessment today of how much premium relief will be provided. And on top of that, there's a bit of financing relief as well. And we think that the bulk of that will impact the direct written premium in Q2 and then in Q3, to a certain extent, and will be earned shortly thereafter.

Our program is risk-based. It's flexible. It depends on how many customers come to us. And so far, it's been very, very successful. I think we've put our best foot forward. And I think as the weeks advance down, we'll look at the environment, we'll look at people's behavior, and we'll decide if we take a different stance in the marketplace. But we're not there at this stage. We're clearly leading on this relief process and we'll reassess in the coming weeks. But I would say you ought to think about that in terms of impacting Q2 and Q3 direct written premium. And I would say, 3/4 of which you should think about in personal lines and 1/4 of which in commercial lines. That's the first point I would make. Headwinds, from a top line point of view, I would say you ought to think about a couple of things beyond relief. One is the impact that the slowing economy will have on the units. And I would say that the impact that it will have on the units or the number of customers is expected to be felt, to a greater extent, in commercial lines. So on one hand, you've got more relief in relative terms in personal lines. On the other hand, I think, you have more pressure from a unit growth point of view in commercial lines.

Then the third thing that you ought to anticipate in -- primarily in commercial lines, I would say, is the pressure that comes from how much you insure yourself, meaning, the amount of insurance, which is driven by your business activity, which is driven by the size of your fleet and things of that nature. And I think that this will play out in the coming year. We're not sure exactly what that will be, but we know it is a pressure point. So when I came out in April and I said, we expect that the impact on the top line will be between low single-digit to low double-digit, this really anticipated those 3 components. We're sitting here today and in a moderate scenario, which we think is the scenario we're in, we think that the hit to the top line will likely be mid-single digit, maybe a bit above mid-single digit, but at that point in the range. And if I can help you think through that, our perspective is that it's likely to be mid-single-digit across personal lines and commercial lines. In personal lines, it'll be more driven by relief, the hit, that is. In commercial lines, it's likely to be more driven by units. This is an informed judgment. We've done a fair bit of modeling under a number of scenarios, but that would be the best way for me to help you think through what that means in practice from a top line point of view.

Operator

The next question is from Paul Holden of CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

So the question I was actually going to ask was sort of on the continuity of your Canadian P&C business. But, Charles, I think you pretty much just answered it. Maybe you can give us a little bit more specifics in terms of as we think about that premium relief, how much is being provided between personal and commercial, and then sort of any details you can provide on premium collection from commercial customers.

Charles J. G. Brindamour
CEO & Director

Yes. So it's about 3/4, personal lines; 1/4, commercial lines. And in terms of collections, I guess, is the point that you're making. We have provided in commercial lines, in terms of financing relief in commercial lines -- you know what, I don't have that number in front of me right now and maybe it's something we can come back to. I don't have a specific perspective on commercial -- on financing relief in commercial lines.

Paul David Holden
CIBC Capital Markets, Research Division

Okay. But those are the kind of data you put together to come up with your mid single-digit impact on commercial units, that conclusion?

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Maybe, Paul, it's Darren here. I can just add a little bit around sort of some of the forms of relief that we are providing in commercial lines. So -- and there's really 3 different elements there. When we look at midterm, so middle of term, we're enabling customers to come back to us and say, "Hey, my revenues are down. My payrolls are down. Can I adjust my coverage accordingly? Can I adjust my premium base accordingly?" So we're making those changes midterm. Similarly, on the auto side, with fleets, parking vehicles that aren't used, traditional things that we would tend to do more at the end of the term, but we're making adjustments at the middle of the term. We are tempering rate increases in commercial lines. And in fact, we've identified about 1/3 of our portfolio that are small to medium businesses that are most impacted by the current crisis. And on renewals for those customers, we're going 6 months as is. In other words, no change in terms, conditions, pricing. So that's another form of relief that we're providing on the commercial line standpoint, and that will all feed into some of that top line pressure that Charles was referring to.

Paul David Holden
CIBC Capital Markets, Research Division

And any sense of how long that commercial lines' top line pressure might last for? That seems like it could be something with a little bit more legs to it than, obviously, just a few quarters, but maybe something that last into 2021 as well?

Charles J. G. Brindamour
CEO & Director

Yes, I think it's very much dependent on your perspective of how long will be in a meaningful economic contraction and when the recovery will take hold. So it depends on the scenario, quite frankly. In the moderate scenario, I think the pressure left in 2021 will still be pressure in a moderate scenario, though we wouldn't qualify that as significant from a top line point of view in commercial lines at this stage.

And Ken, I think we have an AGM to go and do a speech to. So we'll let you manage the queue here, but I want to make sure I'm not late for the AGM.

Operator

Your next question comes from Mario Mendonca of TD Securities.

Mario Mendonca
TD Securities Equity Research

I'll be quick, Charles. The -- thinking longer-term here, do you see any meaningful impact on auto miles driven? And now that people have become really accustomed to not working in the more formal settings, do you see any long-term implications and how is the company positioned for that?

Charles J. G. Brindamour
CEO & Director

So Mario, that's a big one, right, because it talks about behaviors of people. And we've done a bit of work on what the permanent impact of COVID could be, and we're in the process of thinking through midterm, talking 3 years here, how our strategic positioning should or could change. And I think that on one hand, the opportunity to work from home is something that obviously will have greater importance in the future. The flip side of this, Mario, is the fact that you could argue that the usage of public transportation might come down at the same time. And so there's a, say, a return to normalcy effect, which might last within a year. And I think wouldn't want to opine on that. At this stage, though, I was surprised to see the driving pick up so quickly towards the end of the period. But if I think about it mid to longer term, I think that it is a matter of looking at how people will move in relationship with coming to work for those who come to work versus how many more people will work from home.

I think, in aggregate, it's probably fair to assume that there'll be a fair bit less driving in the long run. However, again, I think if people don't feel the pressure to live close to the city and if people don't use the public transportation as much, I think that's an offset here. And I think that with UBI, with some of the work that we've done on the data front, with our broad distribution platform, with the fact that we're leading in commercial automobile as well and on the fleet side of things, we feel, Mario, that from a transportation point of view, we have a fair bit of optionality. And we have a fair bit of optionality because a few years back, we started to have this discussion about where the world was going in relationship with transportation. And clearly, this is a new vector, but we have optionality. Should miles driven compress on a permanent fashion, clearly, the growth profile of transportation changes, but this is where the move we've made a few years back to really bolster our presence in commercial and in specialty lines and the growth that might come from there, in my mind, is a clear long-term macro offset to anything that can happen on the transportation side of things.

Operator

We have completed the allotted time for questions. I will now turn the call over to Ken Anderson for closing remarks.

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Thank you. And thanks, everyone, for joining us today. Following the call, a telephone replay will be available for 1 week and the webcast will be archived on our website for 1 year. A transcript will also be available on our website in the Financial Reports & Filings archive. Also, we will be hosting our first virtual annual and special meeting of shareholders shortly after this call at 12:30 p.m. today, and you can join that meeting via live webcast from our website. Lastly, our second quarter 2020 results are scheduled to be released after the market close on Tuesday, July 28. Thank you again, and this concludes the call for today.

Operator
This concludes today's conference call. Thank you for your participation, you may now disconnect.