S&P Global
Market Intelligence

Intact Financial Corporation TSX:IFC

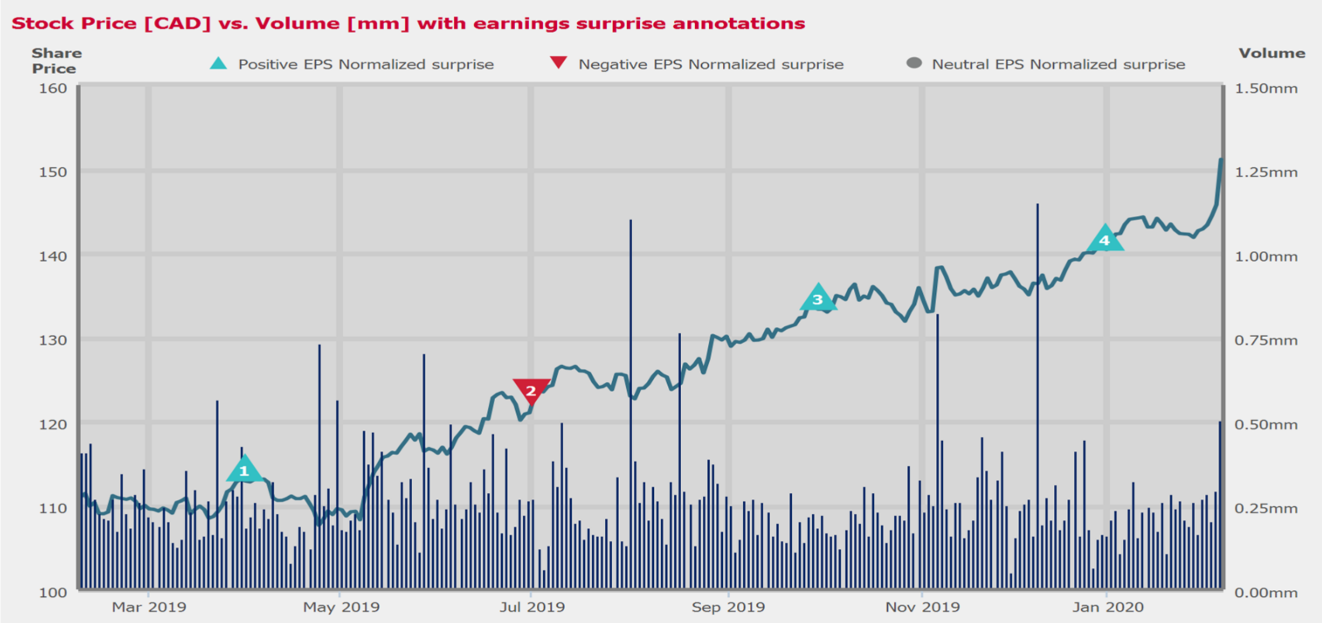
FQ4 2019 Earnings Call Transcripts

Wednesday, February 05, 2020 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.70	2.08	22.35	1.67	5.80	6.16	
Revenue (mm)	2680.20	2692.00	0.44	2659.00	10187.83	-	

Currency: CAD
Consensus as of Feb-05-2020 11:55 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.60	0.73	21.67 %
FQ2 2019	1.76	1.44	(18.18 %)
FQ3 2019	1.78	1.91	7.30 %
FQ4 2019	1.70	2.08	22.35 %

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Call Participants

EXECUTIVES

Charles Brindamour
CEO & Director

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Isabelle Girard
Senior Vice President of Personal Lines

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

Louis Marcotte
Senior VP & CFO

Patrick Barbeau
Senior Vice President of Claims

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Brian Robert Meredith
UBS Investment Bank, Research Division

Geoffrey Kwan
RBC Capital Markets, Research Division

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Meny Grauman
Cormark Securities Inc., Research Division

Paul David Holden
CIBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Intact Financial Corporation Fourth Quarter 2019 Results Conference Call. [Operator Instructions] 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, and 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.

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.

Joining me here in Toronto today are Charles Brindamour, CEO; Marcotte, CFO; Darren Godfrey, SVP of Commercial Lines; Isabelle Girard, SVP of Personal Lines; and Patrick Barbeau, SVP of Claims.

We'll begin with prepared remarks followed by Q&A. With that, I'll turn the call to Charles.

Charles Brindamour
CEO & Director

Good morning, everyone, and thanks for joining us today. Last night, we announced strong fourth quarter results with net operating income per share of $2.08, that's an increase of 8% driven by strong underwriting results and growth in distribution earnings.

For the full year, net operating income per share was up 7% to $6.16 and brought operating ROE to 12.5% with 11% increase in book value per share. Top line growth was 12% in the quarter, driven by 13% growth in Canada, and a solid 5% in the U.S. after exiting health care. The fourth quarter combined ratio was 91.5%, with solid performance on both sides of the border. U.S. commercial posted 88.8%, a good indicator of our progress towards sustainable low 90s performance. The combined ratio in Canada was 92% with strong underlying performance. In Canada, we continue to see hard market conditions. This comes as no surprise. Weak profitability across all lines remains an industry challenge. Through Q3 2019, the industry posted a 12-month ROE of 4%. As we started to take action over 3 years ago, our ROE outperformance is running at 790 basis points at the end of Q3, well above our 500 basis points objective. Our focus is on returning operating ROE to the mid-teens.

Let's now look at our results by line of business, starting here in Canada. So it was a good quarter for personal auto. Premiums were up 15%, driven by rates, mix and customer growth. Combined ratio of 96.5% was our best fourth quarter performance in 5 years, driven by earned rate increases and the success of our claims and segmentation actions. Our auto business is well positioned moving forward. We're growing at double-digit with a strong focus on quality and sustaining mid-90s performance.

Personal prop premiums were up 9%, driven by rate increases as well as customer growth. The combined ratio was solid at 82%, despite CAT losses above historical fourth quarter averages. For the year, the combined ratio was 92.5%. So as we've mentioned before, this segment should be operating sub-95%, even in bad years and 2019, we think, was a good example of meeting that objective.

In commercial lines, continued momentum from rate increases and hard market conditions drove 12% premium growth in the quarter, combined ratio of 93.5% included approximately 7.5 points of losses from catastrophes.

Looking at the full year, a 96% combined ratio is not good. Both CATs and large losses were elevated in '19. However, the fundamentals in commercial are strong, and we're maintaining our focus on underwriting quality in favorable market conditions. While there may be some bumps along the road, this business is very well positioned for low 90s performance.

Let's turn to the industry outlook for Canada. So in auto, we expect to see upper single-digit industry growth in the coming year as weak industry profitability continues and capacity remains tight. In personal prop, we expect the challenging weather will continue to drive mid- to upper single-digit growth.

In Canadian commercial lines, growth in the double-digit range can be expected as the industry continues to struggle with underwriting profitability.

Overall, we expect the hard market conditions in all segments in Canada to continue until the industry's profitability has evolved closer to its historical 10% ROE level.

We move to our U.S. commercial segment. So despite the exit from the health care business, premiums grew a solid 5%. Our action plans to improve profitability are showing progress. Combined ratio was quite strong at 88.8% even with favorable seasonality in the quarter. We're executing well in the U.S., and we're on track for sustainable low 90s performance by the end of 2020. The market continues to harden. We expect mid- to upper single-digit premium growth for the U.S. commercial industry over the next 12 months.

Now if we turn to strategy. So as we outlined at our Investor Day, we've been fairly successful in delivering on our strategies and exceeding our financial objectives over the last 10 years, and '19 was another strong year with progress on many fronts. We have advanced our customer-driven digital transformation, adding many new features and functionalities to our digital and mobile platforms. We continue to bolster our data in risk selection capabilities for meaningful investments in AI. We see strong evidence that these investments will support the achievement of our financial objectives in the next decade.

And with the recent acquisitions, we've advanced many pillars of our strategy, the Guarantee and Frank Cowan added to our scale in Canada, bolstered our North American specialty platform and opened up a new pipeline of distribution earnings.

With On Side restoration, we began a push to go deeper in the supply chain, to improve customer experience, capture margins and expand capacity in that space for all Canadians. All this progress would not be possible without our greatest asset, our people.

For the fifth year in a row, we were named as one of Kincentric's best employers and we're again recognized as a top employer for young people.

Our employees are at the forefront of everything we do, and I want to thank them for another outstanding year. They really make a big difference.

We had a solid year behind us, a strong balance sheet and a favorable outlook for capital generation. We're pleased to increase our quarterly dividend by 9% to $0.83 per share, continuing our 15-year track record of annual increases.

Moving forward, we're firmly focused on delivering on our strategies and financial objectives in the decade ahead. And that begins with 4 near-term priorities.

First, we aim to capitalize on the current favorable market conditions on both sides of the border. Second, we'll work to deliver on the opportunities brought by the acquisition of Guarantee and Frank Cowan's platforms.

Third, we'll continue to advance our customer-driven digital transformation to deliver best-in-class experience to our customers. And lastly, with the underwriting improvements we brought to our North American specialty platform, we can now look to better leverage our distribution capabilities through both organic and inorganic opportunities.

But looking more broadly, climate change continues to shape our industry. Extreme weather events in Canada have increased fivefold over the past 30 years, and events, both at home and abroad are clearly demonstrating the need for climate change adaptation. Building resilience as a collective effort. At Intact, we'll continue to remain very active on this front, working with brokers, governments and communities to help Canadians adapt to severe weather, protect the environment around us and make our communities more resilient. So in conclusion, '19 was a solid year. We head into 2020 with the best team, sustainable competitive advantages and a sharp focus on positioning the business for the long term while making the most in the short term. There is no doubt in our mind that we are well positioned to beat our objectives of outperformance and operating earnings growth for years to come. On that, I'll turn the call over to our CFO, Louis Marcotte.

Louis Marcotte
Senior VP & CFO

Thanks, Charles, and good morning, everyone. In the quarter, net operating income was up 8% to $303 million. This was driven by a strong 9% growth in underwriting income driven by top line growth and margin improvements. Strong distribution results also contributed to our earnings growth. In Canada, the combined ratio of 92% was solid, despite 4.8 points of CAT losses. Both weather and non-weather-related events drove $111 million in CAT on a pretax basis, well above expectations, leading to our press release on January 8. In U.S., we delivered a solid combined ratio of 88.8%, partly reflecting the seasonality of our operations, but also good progress on profitability improvements.

Net investment income of $142 million was down 1% compared to last year, as the impact of higher invested assets was offset by lower reinvestment yields. We estimate net investment income in 2020 will grow by approximately 4% compared to 2019.

Distribution EBITDA and other income grew 7% to $45 million in the quarter, including the results of both On Side and Frank Cowan.

For the full year 2019, distribution EBITDA was up 19%, driven by a strong year for broker revenues as well as M&A activity. We continue to expect 20% growth in distribution income in 2020. There is no doubt our businesses have delivered solid operating results in the second half of the year. Although we measure ROE on a last 12-month basis, the ROE for the second half of 2019 gives us confidence in our near-term mid-teens ROE objective.

Now let me provide some additional color on the underwriting results beginning with Canada. Personal auto written premium growth of 15% was fueled by rate increases of 7%, unit growth of 2% and the remainder to mix. With such levels of growth, we continue to focus on the quality of the portfolio. Written rate changes in the system will drive earned rate growth north of 7% into the second half of 2020.

Auto profitability was solid in the fourth quarter at 96.5% with a 1.4-point improvement in the underlying current year loss ratio. Although Q4 is generally impacted by unfavorable seasonality, 2019 Q4 performance was driven by our continued profitability actions. Prior year development was muted in the quarter as expected, and we expect it to remain muted in the near term.

In commercial lines, premium written growth was robust at 12% with contributions from all segments, led by rate increases. The combined ratio of 93.5% included $36 million on -- of non-weather catastrophes.

The Canadian expense ratio of 27.8% for the quarter improved across all lines, mainly driven by rigorous expense management and the benefit of growing premiums.

Turning to U.S. commercial, top line growth of 5% was largely impacted by the exit of health care business. However, excluding exited lines, this segment had solid growth of 13%. The underlying loss ratio of 53.4% in the quarter improved 2.2 points, which was driven by the exit of health care and a positive impact from business mix.

Favorable prior year reserve development of 1.6% was better than expected, with strengths across all ongoing businesses. We continue to expect little impact from prior year development in the near term. The U.S. expense ratio of 36% was 2.3 points higher than Q4 last year, largely driven by variable compensation and mix.

For the full year, the expense ratio of 37.6% was in line with our expectations. While we delivered a solid quarterly performance in the U.S. at 88.8%, results in this segment can be volatile quarter-to-quarter, and one should not extrapolate our Q4 results to all future quarters.

We remain committed to delivering a sustainable low 90s combined ratio from our U.S. business on an annual basis, and I think we are well on our way. Focus is now on sustainability, and we'll need a few more quarters before declaring victory.

Exiting health care was 1 key step we took earlier this year to improve our future results. At year-end, we took a further step to protect our results by reinsuring the runoff health care business. In short, we transferred most of our current and unearned exposure to a third-party for a fee. The net result of the transaction is included in the results from exited lines.

Now a few words on our balance sheet. We ended the year in a strong financial position with total capital margin in excess of $1.2 billion.

In Canada, our MCT was 198%. And in the U.S., the RBC regulatory capital stood at an estimated 457%, both well above minimum required levels. Our debt-to-total capital ratio was 21.3%, slightly above our 20% target level following the acquisition of the Guarantee and Frank Cowan.

This strong position provides us flexibility to capture future growth opportunities.

During the quarter, we grew book value per share by 5% sequentially to $53.97. This was mainly driven by earnings and the share issuance to partly finance the acquisitions of Guarantee and Frank Cowan. With a strong balance sheet and confidence in our outlook for growth and profitability, we are pleased to raise our quarterly dividend by 9% to $0.83 per share. This represents an 11% annual dividend growth rate since our IPO in 2004.

In closing, with a talented team, robust operating platforms and solid fundamentals, we're well positioned to execute on our financial objectives to outperform the industry ROE by 500 basis points and grow net operating income per share by 10% over time.

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

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

Question and Answer

Operator

[Operator Instructions] The first question comes from Tom MacKinnon of BMO Capital Markets.

Tom MacKinnon
BMO Capital Markets Equity Research

Questions about the exited lines, the $34 million charge you took in the exited lines, it sort of -- it doubled quarter-over-quarter. Just kind of curious as to what the outlook of this should -- what we should be modeling this to be going forward? I see that you bought some new coverage for the health, and maybe you can talk about what prompted that? Was that covered in the old $200 million coverage you had and how much of that $200 million coverage is left?

Charles Brindamour
CEO & Director

Yes. To your question, I mean, the double impact is very much driven by the protection that we bought and charged in the quarter. I'll let Louis give a bit of color on that. Louis?

Louis Marcotte
Senior VP & CFO

Yes. So at the very end of the year, we decided to acquire a reinsurance to protect ourselves against any development in health care going forward. This basically covers us from 20 -- for the years -- accident years 2017 to 2019. And the cost -- the net cost of the coverage of $13 million is included in the exited lines results. So that's really the jump, I would say, that you've seen in the quarter compared to previous quarters.

Charles Brindamour
CEO & Director

So going forward, to your question, Tom, our expectation is that this should be immaterial to our -- to the overall economics of the business because I think we're reserved and protected properly for these things. The third thing is the exited lines are becoming more mature now. I mean we've exited 2 of the 3 lines, pretty much at closing and so health care is the latest one. And we think we've got good protection anyways.

Tom MacKinnon
BMO Capital Markets Equity Research

So the $34 million in the quarter, should we look at that kind of as a run rate for 2020 or running at something less than that?

Charles Brindamour
CEO & Director

No, I think you should think about that as less, if not much less than that. Because a big chunk of the $34 million is driven by the exit of health care and the protection we bought and the premium we paid for the protection is in that number. And that's a onetime, obviously.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And how much of the covered -- of the $200 million coverage is left?

Charles Brindamour
CEO & Director

I think at this stage, I would say, 3 years in, we've used a good chunk of it. But given the maturity of the exposure, we feel that we're in good shape.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And just -- if I can just squeeze another one. With respect to integrating and restructuring costs, I mean, they jumped in the quarter. Should these come back down again? And same thing about the amortization of intangibles?

Louis Marcotte
Senior VP & CFO

So on the integration costs, obviously, they fluctuate with acquisitions. So it should not come as a surprise right after an acquisition that the numbers jump as we take actions to integrate. So that will fluctuate with our transactions and as the integration process goes on. You'll -- we had in the past the OneBeacon integration that drove some of those numbers. Now it's the GCNA transaction. So there is some drag driven by these elements.

In terms of the amortization of goodwill, that number depends effectively on the transaction. So a new transaction we had a bit of -- will drive some increase in the amortization for the portion that's amortized. And that's what you've seen in Q4 essentially.

Operator

Your next question comes from Meny Grauman of Cormark Securities.

Meny Grauman
Cormark Securities Inc., Research Division

Just going back to the exit lines and specifically the reinsurance coverage on the health care. I'm just wondering what surprised you in the health care business that pushed you to take on this reinsurance coverage?

Charles Brindamour
CEO & Director

Well, I think that there's 2 issues when it comes to the health care business. As you might recall, we have put it under a profitability improvement plan at closing basically. And I think that there's 2 dynamics in that space that we felt were problematic. One was inflation. But the other one is the fact that because of health care reforms in the U.S., services being provided in various types of health care facilities have shifted. And as such, the exposure that one takes in writing those facilities has changed in the past few years, and we felt that pricing for that business was too complex for our capability and decided to exit.

Meny Grauman
Cormark Securities Inc., Research Division

Was the reinsurance coverage, sort of, the plan all along or is it more of a recent development?

Charles Brindamour
CEO & Director

No. The reinsurance coverage comes from the fact that we've decided to exit that segment, and we wanted to make sure that the year '17 to '19 would not be a drag on results going forward. Wanted to close the door and move on to running our continuing businesses as best we could.

Meny Grauman
Cormark Securities Inc., Research Division

And then just a broader question. Definitely, a lot of -- has been discussed and written about just the rise of social inflation in the U.S., it's come up a lot. So Charles, I'm just wondering your views on the risk on this phenomenon. And especially just in terms of the frequency and magnitude of verdict, especially in the United States, but if you could touch on Canada as well?

Charles Brindamour
CEO & Director

Yes. I mean we've been focused on this for many years. We have talked about the sources of inflation in liability for many years. And therefore, we're not really surprised that a number of the moves we have made in terms of exiting lines in the U.S. were very much driven by the fact that we felt that pricing for the sort of liability exposure that we took in areas like architect and engineers and health care and programs really hard to do. So I'll let Patrick, who runs our claims operation, as you know, share his perspective on that. But I think it's -- these are words we use -- that are being used in the industry more frequently, but certainly not a new phenomenon as far as we're concerned.

Patrick Barbeau
Senior Vice President of Claims

Right. The -- no, we can't define, broadly speaking, social inflation as tendency, of course, decisions to become more favorable to plaintiffs over time. Either because of new types of liability, just an increased amount of litigation in our products over time or a few adverse decisions that sometimes can open door for more similar cases to be brought in front of the courts going forward. You might recall a few years back, when we're talking about Western Canada, there were decisions around chronic pain that created cost inflation in that line of business, and we reacted with some response from a claims perspective as well as reflecting proactively in our pricing and reserving assumptions those trends.

So clearly, not new. As Charles mentioned, even before the acquisition in the past of OneBeacon, because of volatility caused by such trends, we exited some lines of business. So we will be proactive in managing our risk appetite to reflect where this cost pressure is more significant in the states. Here in Canada, it's really around personal lines, mostly, that this is -- and we've kept our eyes very close to it. One last point I would mention is our strategy to internalize the claims, legal work is probably an asset that helps us understand more, even before many others, how this is developing. We have more than 400 valuers internally and legal professionals, and we internalize 70% of our defence costs. So that allows us to be, one, proactive, but also understand well those trends in our lines of business.

Charles Brindamour
CEO & Director

Exactly. And I think the fact that we've bought protection for the past when we entered the U.S. as a first step in the U.S. is a reflection that there is inherent volatility in liability in the U.S., that is not new over the last 6 months, that's very much been a core part of doing business in the U.S. and social inflation is something I think Warren Buffett was talking about in the 80s. And so I don't think people should be overly surprised by the trends there.

Operator

Your next question is from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

2 questions. I guess the first one. Charles, I'm looking at the improvement that you saw in your Canadian commercial line underlying loss ratios, you described it as kind of the earn rate coming through tempered by higher losses, that was a pretty meaningful improvement. Is that something that we can kind of expect going forward, that magnitude of improvement?

Charles Brindamour
CEO & Director

I'll let Darren, who's been 1 month of the job -- on the job comment on that.

Darren Christopher Godfrey
Senior Vice President of Commercial Lines

Thanks, Brian. Yes. I mean, as you say, I mean, nearly 5 points of underlying improvement supported slightly by a more favorable weather year-over-year in Q4. But as you highlight, rate increases continue to flow through the portfolio. We definitely have good momentum there. So we're encouraged in terms of the improvement that we are seeing. Obviously, as you could tell in our results, a little bit of large loss activity as well too. So that's a little bit of a counter to some of the underlying improvement that we're keeping a very close eye on. But with the fundamentals remain strong in the commercial lines portfolio, obviously, the 96% combined for the full year is disappointing. But as I said, the fundamentals remain strong, and we still believe that the portfolio is well positioned for low 90s performance.

Charles Brindamour
CEO & Director

Yes. And so if we look -- if you think a year-over-year approach, you should see, and we expect underlying improvement to take us in a zone that's closer to low 90s.

Brian Robert Meredith
UBS Investment Bank, Research Division

The low 90s, great. And then second question, just looking at the personal auto business, it looks like we're about to see some year-over-year policies for growth. Do you think that's going to happen next year? Or should we see kind of a good acceleration there given your competitive positioning right now in the marketplace?

Charles Brindamour
CEO & Director

The market is quite hard in personal automobile. You know that we have started to take action 3 years ago. And I think now there's momentum in that space. It's been -- I shouldn't say surprising, but the speedup change is certainly impressive. I will let Isabelle give her perspective on top line and how she feels about quality of the growth. Go ahead, Isabelle.

Isabelle Girard
Senior Vice President of Personal Lines

Thanks, Charles. Yes, we're seeing growth in personal auto in the second half of 2019, and we feel that we're well positioned in the market, and given that now competitors are catching up on rates to improve their profitability. So our focus now is really to make sure that the quality is there. So that's something we monitor closely on a regular basis and to make sure that we're comfortable with what we see. Of course, that's a line that we'll keep a close eye on, and we'll continue to take trade when needed, and that's our forecast for the coming months.

Charles Brindamour
CEO & Director

I think Isabelle it would be helpful if you unpack the 15% for Brian.

Isabelle Girard
Senior Vice President of Personal Lines

Okay. Let's break down the 15% in the quarter. So main driver of growth in the quarter is coming from rates at about 7%. We also have an impact on -- coming from the written units that are increasing north of 2% in the quarter, and the remainder of the growth is driven by what we call mix. So we're attracting more new businesses, as I said, than last year because our competitive positioning has improved and new businesses has an average premium that is higher than our current. That's creating a positive mix and that's contributing to the growth that we see in personal auto.

Charles Brindamour
CEO & Director

So Brian, when we step back and look at the business, I would say, today, we're very focused on the quality of the new business that's coming in because it is -- in a hard environment, we're comfortable with the adequacy of pricing, but the mix is changing, that's a function of the fact that we're growing in provinces that have higher average premiums, maybe a little faster than the average and that the mix itself, as Isabelle was talking about. Rates in the 7-ish percent range is what we expect to see throughout year. I think that's good. Then you look at the units per se. And the units are still in the low single-digit range. So on one hand, there is big focus on quality which would, say, we're trying to temper some areas to the extent we can. On the other hand, we think there is still room for upside on the units. And so, we feel good about where we are from a pricing point of view, we feel good about the actions we've taken, in relative terms, much sooner than the market, and we want to make sure that we grow in the right places. But it's a good environment given what we've done.

Operator

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

Geoffrey Kwan
RBC Capital Markets, Research Division

First question is on personal auto. You've -- just talking about the improvements that we're seeing on the DPW side, and you've generally talked about the mid-90s combined ratio. I'm just wondering in terms of how to look at that based on the crystal ball right now. Obviously, a lot can happen over the course of 2020. But would you say the bias of -- if you're not going to be in that mid-90s, is that given the price increases that you're seeing that it would potentially be better than 95%? Or is there something that you're seeing going on kind of percolating underneath that could result in potentially going the other way?

Charles Brindamour
CEO & Director

I'll let Isabelle share her perspective on where she thinks we are, and then I'll add a bit of color on what is percolating one way or another. So Isabelle?

Isabelle Girard
Senior Vice President of Personal Lines

Yes. So yes, that's true. We have seen strong improvement in performance of personal auto in the last 24 and 30 to 36 months following our action plan. But I think there's still volatility in that portfolio, given it's a long tail line of business. So far, we've done a successful job at reducing inflation with our action plans, but we know inflation still exist in this portfolio. So that's why we continue to push for rates into 2020. So we're taking a cautious approach, and we think we're in the zone we're shooting for, meaning the mid-90s combined ratio. And I think that's what we can expect for the future, and we're comfortable growing in that environment.

Charles Brindamour
CEO & Director

Yes. Now that's exactly right. We think we're in the zone where we said we'd be, and there's good momentum, there's no doubt about it. The action plans we put in place are gaining traction. There is inflation in the system. Therefore, we remain prudent from an underwriting, from a pricing, from a reserving point of view. And there's a meaningful tailwind of new business coming in. And as you know, you've got to be cautious with new business. We feel really good about where we are in personal automobile. But given where we're coming from, we're taking a cautious stance here and looking forward to grow in that segment.

Geoffrey Kwan
RBC Capital Markets, Research Division

Okay. And then just my other question. The industry pools, we've seen elevated activity over the past couple of years by the industry as a whole. Just wanted to get your sense on the outlook in terms of the trend? Do you see this as a bit of the new normal? Or do you see this as more of a cyclical aspect? And then on the net-net, how has the experience been beneficial? Or has it been more negative with respect to the combined ratio?

Charles Brindamour
CEO & Director

Isabelle, do you want to share your perspective on pool?

Isabelle Girard
Senior Vice President of Personal Lines

Yes. So yes, increase in the volume of pools is clearly linked to hardening market. So people -- capacity is tightened. So it's more difficult for some risk to get insurance or some insurers to be comfortable with some risks. So ceding more to the pool. So I think it's -- as you said, it's really in line with the cycle we're in. And I think in terms of impact on our combined ratio, the pool's impacts are really volatile from quarter-to-quarter. So from an annual basis, it's a limited impact, and it's really volatile from a quarter to the next.

Charles Brindamour
CEO & Director

Maybe we can ask Patrick to share his perspective. He's our representative with the FA. So might want to share your perspective on pricing and...

Patrick Barbeau
Senior Vice President of Claims

Yes. So maybe a couple of comments I could add. When we talk about the pools, there's really 2 main parts. There's the Facility Association rate, which is really for clients who don't find a room within the private sector. They get written in what we call the FARM, residual market. And then there's the pools, which is more each company is sending to the pool some risks where we feel we might be underpriced. If I take the first portion, we file rate based on the experience of that piece [indiscernible] this is not a drag on the industry. Usually, we file for the rate, and it's very close to adequacy. Of course, the other pool that is shared -- where the results are shared with the full industry, it is usually underpriced. It's the risk that we feel we are underpriced, all the players going at. But because of our size and some of our models, we feel that in general do a slightly better job than the average at identifying those risks. So if anything, long term, it's slightly positive on our financials.

Charles Brindamour
CEO & Director

Yes, yes, and the third point I would add is that with regards to the Facility Association, which in itself is an insurance company, we're one of the companies managing that, and we're getting paid for that. So when you stack our ability to cede well in the risk-sharing pool, the fact that the Facility Association itself, we think is well priced and the service fee that we're collecting as an organization, in aggregate, pool shouldn't be a meaningful drag, if anything, on our performance.

Operator

Your next question comes from Paul Holden of CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

So first question I want to ask is related to Intact's capacity to grow premiums relative to regulatory capital. Is there an opportunity here to increase underwriting leverage or will you have to kind of grow in line with the value of your capital?

Louis Marcotte
Senior VP & CFO

So I would say here, I don't see an opportunity necessarily to increase our leverage. I think the capital required to absorb the growth accumulates over time. So there's a transition period between the day you write the business and the day the capital is required for it. And at this point, we're going to be able to absorb within our current capital projections. We don't see any challenge there. Does it become an opportunity to leverage higher? Not clear to me at this point.

Charles Brindamour
CEO & Director

I think there's very good earnings generation and relationship with the organic growth we can capture in the market. And we feel like there's no need to really increase the underwriting leverage or gearing. Plus the debt-to-total cap is 21.4% and our objective is to get that back to 20. So that we're in a position to strike if there were inorganic opportunities in the marketplace.

Paul David Holden
CIBC Capital Markets, Research Division

Got it. The second question I asked, and something I'm just struggling a bit about, is the -- your outlook for the industry ROE and the relative outperformance on the part of Intact, which you say, clearly, is going to be something -- you expect it to be something higher than 500 basis points. The part, I guess, I'm struggling about is, why, as a Intact analyst or investor, should I care about the industry ROE? Like, is there still some kind of interconnection between your capacity to generate an ROE and where the industry sits.

Charles Brindamour
CEO & Director

Well, I think that when we think about creating value. And here, I talk in economic terms. It is about finding the right balance between growth and ROE. And the best way to create value in our space is to maximize ROE when the industry's performance is weak and then make sure that we're comfortably above our cost of capital when the industry is stronger to grab as much growth as possible. And this -- so that's the first point. I think in economic terms, driving the business to outperform is the best way to have the levers to maximize the economic proposition of the business, first point. Second, ROE outperformance equals moat as far as we're concerned, and moat equals ability to invest and ability to invest equals ability to outperform some more and to outgrow the industry. I mean it's very much been our practice over time. So I think, yes, one should absolutely look at and think about the ROE outperformance in assessing an opportunity because it is a sense of how you can take advantage of the market at different points of the cycle. So I don't know, Louis, if there's anything you want to add?

Louis Marcotte
Senior VP & CFO

No, well, the way we structure, the strategy is all aimed at outperforming, and we break it down into our claims operations, into our underwriting and capital management. And at the end of the day, we compare ourselves to the industry in those segments and really strive to keep our competitive advantage in those [4] segments. So yes, for us, it's fundamental to outperform the industry. In an environment where the industry is running at 4%, first, hard market conditions, which is a critical market behavior that we work with. And then when they return to historical levels, which were historically closer to 10%, which we thought was close to cost of capital, our performance was a fairly good indicator of how much economic value we were creating. So...

Charles Brindamour
CEO & Director

The other thing, Paul, is that when you invest in P&C, you got to be ready to live with the fact that there is cyclicality in the business. There are natural disasters and so on, certainly true by quarter. And so to come at this thinking, there would be 1 flat ROE year-after-year, in my mind, means that you're missing opportunities. And if you go back 20 years, and you look at the patterns of the industry's performance, it's ranged between 2% and 17%. And I would say, if the industry hits the top of the bracket, you want to make sure that, a, you outperform and grow in that environment. Not clear to me that running the business flat in a cyclical industry is the best way to create value. But I think you got to be ready to modulate. Our point is, it's got to be at least 500 basis points every year given the nature of the business, and we've built our strategy to do that. And if you look at the last 10 years, we've run it at 700 basis points. So I think -- yes, go ahead.

Paul David Holden
CIBC Capital Markets, Research Division

I was going to say, just to complete that, can you open kind of where you think the industry will be in 2020, and where that opportunity is between maximizing ROE differential and grabbing additional share? Because it's being blurred a bit, right, we're transitioning where we are in the cycle.

Charles Brindamour
CEO & Director

Yes. I think that's the key question in my mind. And so we don't think the industry is going back to 10% in 2020. We think the industry should be somewhere in between 4% and 10%, okay? Now you look at where we are in the cycle, growing at about, let's say, 10% and now we're talking about Canada, and I think, the U.S. is probably not that far off, if you remove the noise of exited lines. Quite frankly, our objective is to get back to mid-teens ROE, okay? And once we feel we're there, this is where I think you capture growth and try to maximize margins where you can, depending on the market. We feel like, from a pricing point of view, we're very much in that zone, as we've talked about this morning. And given we're in that zone, we're open to growth. And if the market is hard to a point where we can exceed being in that zone from an ROE point of view, we certainly will do it. But we feel like we're in the zone where units of growth are very accretive from an economic point of view, and we'll remain focused on those. As you do that, then the units of growth are plentiful, you've got to keep your eyes on quality. And I would say, if you ask people, the people of Intact in the field, quality is the first word they will talk about. And if they don't, give me a call because somebody didn't understand.

Operator

There are no further questions at this time. I will turn the call back over to Ken Anderson. Oh, we did get 1 more question. So you next question is from Jaeme Gloyn of National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Just a real quick one on the investment income and where invested -- or the yield on invested assets might be headed this year, a little bit of a drawdown in Q4. Can you just sort of talk about the evolution of yields earned on that portfolio as we sort of enter a little bit of a lower rate environment here and the progression over the course of 2020?

Louis Marcotte
Senior VP & CFO

Sure. So we guided to almost 4% growth in the investment income. Easier for us to provide clear guidance on the dollar amount rather than the yield because the yield takes into account the market fluctuations of the asset base and sometimes gives unusual results. But we know, clearly, the fixed income portfolio gets reinvested at lower yields right now, that's very clear. But it turns over at a pace of about 50% of the portfolio per year. So it takes a couple of years for the entire portfolio to switch over. And our guidance for next year encompasses the fact that there's growth in assets on one hand and the declining yields. So they sort of offset each other. And then you add the impact of GCNA, which drives essentially the 4%. So that's how we sort of have guided rather than trying to give a yield which might fluctuate because of asset movements.

Charles Brindamour
CEO & Director

Yes. And I think that when one thinks about how we're running the business, we're not reaching for yield in that sort of environment. I mean we're pricing to achieve certain levels of ROE depending on the line of business. And when interest rates change, the underwriting margin is meant to compensate. And so this means that in practice, we're not expanding the risk envelope to reach for yield, but rather making sure that our prices are adequate across the board to achieve our objectives.

Operator

I will now turn the call over to Ken Anderson for closing remarks.

Kenneth Anderson
Senior VP of Investor Relations & Corporate Development

So 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. Our first quarter 2020 results are scheduled to be released after market close on Tuesday, May 5. So this concludes our call. Thank you, and have a great day.

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