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IAG.TO - Q1 2016 Industrial Alliance Insurance and Financial Services Inc Earnings Call

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CORPORATE PARTICIPANTS

Grace Pollock *Industrial Alliance Insurance and Financial Services Inc. - Director of IR*

Yvon Charest *Industrial Alliance Insurance and Financial Services Inc. - President & CEO*

Rene Chabot *Industrial Alliance Insurance and Financial Services Inc. – EVP, CFO and Chief Actuary*

Carl Mustos *Industrial Alliance Insurance and Financial Services Inc. - President, iA Clarington*

Mike Stickney *Industrial Alliance Insurance and Financial Services Inc. - President, iA American*

Michel Tremblay *Industrial Alliance Insurance and Financial Services Inc. - EVP and Chief Investment Officer*

Denis Ricard *Industrial Alliance Insurance and Financial Services Inc. – EVP, Individual Insurance and Annuites*

CONFERENCE CALL PARTICIPANTS

Gabriel Dechaine *Canaccord Genuity - Analyst*

Meny Grauman *Cormark Securities - Analyst*

Robert Sedran *CIBC World Markets - Analyst*

Thomas MacKinnon *BMO Capital Markets - Analyst*

Doug Young *Desjardins Capital Markets - Analyst*

Mario Mendonca *TD Securities - Analyst*

Sumit Malhotra *Scotiabank - Analyst*

Darko Mihelic *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to your first-quarter earnings results. (Operator Instructions).

As a reminder, today's call is being recorded, Thursday, May 5, 2016. Now I would like to turn the calls over to Ms. Grace Pollock. Please go right ahead, ma'am.

Grace Pollock ***- Industrial Alliance Insurance and Financial Services Inc. - Director of IR***

Good morning, and welcome to our first-quarter conference call. All documents related to our results, including press release, slides, MD&A and supplementary information package are posted in the Investor Relations section of our website at ia.ca.

This conference call is open to the financial community, the media and the general public. The question period is reserved for financial analysts.

A recording of the call will be available for one week, starting at 4.30 PM this afternoon. The archived webcast will be available for 90 days, and a transcript will be available on our website next week.

I draw your attention to the forward-looking statements at the end of the slide package. A more detailed discussion of the Company's risks is provided in our 2015 MD&A that is available on SEDAR or the iA website.

I will now turn the call over to Yvon Charest, President and CEO.

Yvon Charest *- Industrial Alliance Insurance and Financial Services Inc. - President & CEO*

Good morning, everyone, and thank you for joining us. We have the annual meeting today in Quebec City, so that all eight members of the planning committee is around this table for the call. So, Normand Pepin, Michel Tremblay, Rene Chabot, Denis Ricard, Renee Laflamme, Mike Stickney and Carl Mustos.

Our overall assessment of Q1 is a pretty good quarter, and very much in line with our 2016 plan. I'm [especially] pleased with the quality of our earnings, with gains in everything that is under our control.

Sales were outstanding in the individual insurance in Canada and the US for the sixth consecutive quarter, and were up 19%. Our seg fund business maintained its momentum despite difficult market conditions during the RRSP season, and we ranked number one for net sales in Canada in Q1 of this year. And this is the third time in the last 5 quarters that we have been number one for net seg fund sales in Canada. So, something good is happening in terms of momentum here.

As expected, the top line of our mutual fund business is still challenged by lower gross sales and redemptions. This is a situation that we are addressing with new products, some changes in portfolio management, and the realignment of our distribution affiliates.

In the year to date, we are seeing an overall improvement in performance across the fund family and a good start for new product launches, which is a step in the right direction.

Our group insurance businesses had good organic growth and a strong contribution from the CTL car loan business that was bought last quarter. By segment, employees' plans reported 18% growth in sales, Special Markets Solutions grew by 7%, and Dealer Services grew by 5%.

Group Savings and Retirement had an excellent quarter, with growth of 33%, coming from both accumulation plans and insured annuities.

Finally, sales in our auto and home subs were up 12%, with a good contribution from the new partnerships that we signed last year. We expect these partnerships to contribute significantly to the top line in 2016 and in the years to come.

During the quarter we made another two acquisitions that enhance our existing private wealth operations and our insurance distribution capacity. These are relatively small transactions, but they are part of our step-by-step approach to build upon what we already have in place. Over time, that will contribute to the EPS growth of our organization.

So, that being said, we also continue to scan the environment for opportunities to deploy our capital, either in the US or in Canada. And the intention obviously is to continue building the long-term value of our shareholders.

On that note, I am pleased to conclude by announcing a 7% increase in our quarterly dividend on common shares, which is the fourth increase in the last 2 years, for a cumulative increase of 28%.

I will now pass it over to Rene to comment on the first-quarter profitability.

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

Good morning, ladies and gentlemen. The year is off to a good start as we deliver on the key matrix of our 2016 plan. We report earnings of CAD0.96 per share, which is slightly above the mid-range of our EPS guidance for the quarter. This represents an increase of 9% over the previous year, after adjusting for some significant items that had a net of CAD0.15 per share last year.

If we turn to slides 5 and 6, Q1 was the fourth consecutive quarter of favorable policyholder experience for our insurance operations as a whole, which aligns well with our plan for 2016. Employee plans performed better than expected on long-term disability, with experience gains of CAD0.04 per share.

Dealer Services delivered experience gains of CAD0.03, reflecting lower claims and additional contribution from CTL organization -- more than what we already expected. I also remind you that the 2016 plan for Dealer Services includes the CTL contribution. And Individual Insurance had experience gains of CAD0.02 per share, related to mortality and morbidity good experience in the quarter.

The other big piece in our 2016 plan is strain improvement. Strain was 17% in Q1, which beat our expectation of 20% for the quarter. This was due to a favorable product mix which added CAD0.01 to our EPS. I remind you that in 3 of the last 4 quarters, sales mix has been a positive element in our strain ratio; so, another good start to the year.

The equity market worked again us this quarter, which had an adverse impact on our individual insurance and wealth sectors. The total market-related loss was CAD0.11 per share -- CAD0.04 for our UL policy; CAD0.06 related to our hedging program for seg funds; and CAD0.01 for MERs. If market had been neutral, we would have had an outstanding quarter.

Income on capital benefit from a gain of CAD0.03 per share on investments during the quarter, with the result of iA auto and home, which reflects normal earnings seasonality, and its new investment in a new subsidiary, was in line with our expectation. So, when we evaluate the quarter on a core basis, using IA's methodology, our view of core earnings is CAD0.98 per share, which is close to the top of our guidance for Q1.

My final comment is on capital. We finished the quarter with a solvency ratio of 205%, versus 213% at the end of Q4 of last year. About half of that decrease is related to macroeconomic factors in the quarter, and the other half is related to our seg fund portfolio. The fact that we receive no hedging credit in the capital formula for our hedging program means that you will see variations like that, and this is inappropriate to our current situation.

So, that completes my comments. Operator, we will now take questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Gabriel Dechaine, Canaccord Genuity.

Gabriel Dechaine - ***Canaccord Genuity - Analyst***

Just want to ask you about the capital impact from the macro factor -- the -- I guess that's mostly on the rate side, but then also the impact of the seg funds. Can you explain to me why that was so steep? Markets in Canada, anyway, were up quite a bit during the quarter. So, what am I missing in that particular item, which seemed kind of large?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

So, I think you don't missing anything, Gabriel. So, you're right -- the impact is related to macroeconomic factors and they are pretty in line with guidance we provided to the marketplace on that metric.

One thing to add maybe here is the fact that you know we provide a proxy, but our portfolio had a bit different holdings, so the movement in rate was slightly higher on our portfolio than what we disclose to the Street. So, this is for the macroeconomic part.

On the seg fund side, I mentioned that we had some fluctuation in this quarter, and one of the problems is the fact that the capital formula is not really appropriate to our own situation. Because you know that we hedge more than 90% of our coverage out there. So, this is the type of thing that could happen in one quarter to the other, because of that misconnection.

The key element of the quarter is a relief that has been done by our regulator on that topic. It is one of their main priority this year, to finalize a new conceptual framework for our seg fund capital that will recognize our hedging situation and that will be more aligned with our situation. That's the key element.

Gabriel Dechaine - ***Canaccord Genuity - Analyst***

Okay. Actually, just speaking of the regulatory capital reforms, I know you're responding to the AMF, not OSFI, but they'll probably move in a similar direction. I'm just -- broad question here. What's your early interpretation of what we've seen from the LICAT so far, that doesn't include anything on hedging for seg fund risks?

And I'm looking at -- particularly at the duration of your liability structure, which forces you to go long on duration in your bond portfolio. It looks like the charges -- the asset risk charges on long-duration assets is really pretty -- changing in a pretty steep manner. Is there any offset anywhere in there that we could look forward to, or is this potentially something that's problematic for your capital ratios? Or, is it too early to tell?

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

It is too early to tell, Gabriel. And the reason is that there is still discussion with the industry on many of the metrics in the capital formula on the LICAT that you were just talking about. So, it's preferable to wait and see what's going to be the final discussion out there, to see what's going to happen. You're right; there is some negative elements. But there is some positive elements out there too, and you have to balance both of them together to see what's going to happen.

So, for us, it's too early to comment. I just want to repeat myself a little bit here. The key point for us is that on the capital for seg fund it's a different framework -- when the LICAT framework you talked about. And we have good news in the quarter on that metric.

Gabriel Dechaine *- Canaccord Genuity - Analyst*

Okay. I'll have to follow up. But as far as the LICAT goes, the negative element -- am I right, the duration of your bond portfolio is possibly a negative. What's the most positive element that you're seeing? More inclusion of PfADs in your available capital? Is that one of them?

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

There is positive element on the PfAD, as you mention. You're right. And there is also positive element on the lapse equation too. So -- and as I mentioned, we will have to wait and see the total picture before commenting on this, Gabriel.

Gabriel Dechaine *- Canaccord Genuity - Analyst*

Okay. And my last one is on the strain. Similar to in prior periods, we're seeing you're doing better on the strain than you'd targeted or guided to. I'm looking forward. How low could the strain go?

So, if you're in a position at the end of the year where the wealth business is still a challenge for your earnings growth -- and that's definitely an issue now -- do you still have more levers to pull on the strain where you can just wipe it out completely? Or, what other parts of the business are you looking at to offset the issues that are -- the earnings issues in your wealth business?

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

To answer your question, Gabriel, we could go as low as zero, but it wouldn't happen in the near term. So, the point is that, right now, we are very pleased to deliver what we tell to the Street. There was -- maybe some skepticism on that, but we were -- not on our side. So, we delivered on that metric, and that's very positive for us.

In addition to that, I mentioned many times that strain is a process by itself, that we always look at it, and we always try to improve it. So, it's a continuous improvement process philosophy that we have on this, and we will update you on a yearly basis on how is it going on that metric.

Gabriel Dechaine *- Canaccord Genuity - Analyst*

But if push comes to shove, you're willing and able to lower strain again.

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

I will not add anything else to my comment, Gabriel.

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Gabriel Dechaine - ***Canaccord Genuity - Analyst***

Okay. Thank you.

Operator

Meny Grauman, Cormark Securities.

Meny Grauman - ***Cormark Securities - Analyst***

Just wanted to ask about expected profit. Expected profit growth slowed down quite a bit on a year-over-year basis, and then last quarter you went into detail, talking about some of the drivers here. So, I'm wondering -- kind of, taking Q1 into account, what's your outlook going forward? Is premium growth the weak link here? Was that the weak link in Q1? Any comments would be helpful on that.

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

Thank you for the question. I think everything is in line with the slide we provide to you last quarter, when we basically told you what we were expecting in every line of business.

What I think people miss in our last quarter disclosure was the change in our seasonality guidance that we provide to the Street. We reduced by CAD0.05 our EPS for the first quarter, with a compensation in the third quarter. And that -- and it seems to me -- I'm not so sure about that, but it seems to me that we miss maybe on that metric. And that's the reason why you see lower growth in terms of expected profits in this quarter, and we're going to see better in the next 3 quarters.

Meny Grauman - ***Cormark Securities - Analyst***

Okay. Thanks for that. And then if I could just ask, maybe zooming in on the US business -- definitely a good-news story. I'm wondering what the outlook is there, especially if the Canadian dollar really shifts from being sort of a help to a hindrance, in terms of the results there.

And then also, kind of -- we're lapping kind of the -- on the sales front, at least, lapping some of the weaker results as we move into the second half of the year in 2016. Wondering what you see for the US business in terms of potential to keep the momentum going there.

Mike Stickney - ***Industrial Alliance Insurance and Financial Services Inc. - President, iA American***

Yes. the numbers probably look better than they are. When you measure US dollars year over year, we're up 24%, and I expect that kind of trend to continue for the year of 2016.

Meny Grauman - ***Cormark Securities - Analyst***

Okay. Thank you.

Operator

Robert Sedran, CIBC World Markets.

Robert Sedran - ***CIBC World Markets - Analyst***

Rene, thank you for the color as to what moved the capital ratio this quarter. I guess I'm curious as to, as you're getting closer to that 200% level again, I know, Yvon, you've been comfortable below that level -- very comfortable below that level. But is it -- has anything changed from that perspective? Should we expect you to take action to stay above 200%, or is this going to kind of go where it goes?

Yvon Charest - ***Industrial Alliance Insurance and Financial Services Inc. - President & CEO***

Robert, thank you for reminding everyone that you know we are aiming at that 175% to 200% for 15 years. With that, we have -- always have a A+ rating from S&P and no issue at all with regulators.

Starting in this quarter, you will have some disclosure of other companies for the first time, in term of their MCCSR ratio at the holding company level. So, for the first time in 15 years you will be able to compare some apples to apples.

So, Rene mentioned to you one important development this week. I think it was on Tuesday that the AMF said that apart from the regular changes to the capital formula, that after having worked for 2 years in the capital formula for seg funds, they came to the conclusion that the formula should be different when you have hedging credit or not. And you know that we are -- we have an important seg fund business operation. We now rank third in Canada in term of assets and we have great momentum for net sales.

So, I don't know the speed at which we'll have the development for that credit. The regulator said that they are aiming to implement that on January 1, 2017. So, this development by itself -- it's pretty good.

You also have to keep in mind that, contrary to some other competitors, we do have some room where people are nervous, which is for the long-term interest rate. We have some room in the liability and we also have room for the stock backing liabilities. So -- and I think it's important in the equation when you compare apples to apples. So, I'm not particularly nervous to conclude that we have a ratio of 205% at the moment.

Robert Sedran - ***CIBC World Markets - Analyst***

Okay. And -- thank you. Just quickly on iA auto and home, I know Q1 is typically a seasonally soft one, but it did feel like a slightly milder winter this time around. I thought maybe there'd be a little bit better result there. Can you give a little bit of color as to performance there?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

Yes, Robert. And it is all aligned with the change that we have made to our seasonality guidance, basically. We reduce it by CAD0.05 this quarter. And last quarter we disclosed to you that change in seasonality, as well as the fact that we're making new investment in iA auto home that will cost us some benefit. So, if you put these two in the equation, you will see that we have something that in our point of view is in line with our expectation.

Robert Sedran - ***CIBC World Markets - Analyst***

So, is it fair to say, if it was a harsher winter, this number then would have been worse? Like, this isn't actually experience; it's other factors coming through.

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

There is both the fact that we recognize that Q1 is tougher usually for us; so, we have revisited our expectation with respect to that in Q1. And there is the fact that there is new investment in new subs that was also reflected in Q1 too.

Yvon Charest - ***Industrial Alliance Insurance and Financial Services Inc. - President & CEO***

Rene, if I may add something, you are right that the claims experience was great in both January and February. Winter has been relatively okay. But March has been more difficult for us. And you have to realize that the size of our home and auto operation is such that you could have that kind of fluctuation. So, I'd say personally that March was tough, more than we had a tough winter; but this being said, after reviewing all those claims, we came to the conclusion that underwriting, pricing, everything was okay.

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

And even if March was tougher, overall the quarter was in line with expectation.

Robert Sedran - ***CIBC World Markets - Analyst***

Got it. Thank you.

Operator

Thomas MacKinnon, BMO Capital Markets.

Thomas MacKinnon - ***BMO Capital Markets - Analyst***

A couple of questions. One is with respect to the mutual fund business. The gross sales and the redemptions continue to kind of disappoint here. I know it's on your action list to -- maybe you can update us as to how you're addressing the situation. And then I've got a follow-up.

Carl Mustos - ***Industrial Alliance Insurance and Financial Services Inc. - President, iA Clarington***

Great. Thank you. It's Carl Mustos here. Yes. It was a difficult quarter. First off, I'd mention that the markets were very volatile and the industry itself was very, very difficult for us -- for the entire industry. Our gross sales were down as a result of that.

But we're seeing some improvement within our redemptions quarter over quarter, and sequentially within the quarter as well, which we're encouraged. We continue to work with our affiliates, as we've talked about before, and some product launches throughout the year -- working through this program for the remainder of the year.

Thomas MacKinnon - ***BMO Capital Markets - Analyst***

Are there any more specifics you can give with respect to what you're trying to do with the affiliates or what sort of product launches you're looking at?

Carl Mustos - ***Industrial Alliance Insurance and Financial Services Inc. - President, iA Clarington***

Sure. Absolutely. The affiliates -- we're doing some -- obviously, some extensive marketing, but we're also -- we just launched managed portfolios -- fund-of-funds solutions for our affiliates, which is a very compelling solution that is used widely across the industry.

Thomas MacKinnon - ***BMO Capital Markets - Analyst***

And when do you -- did that just get launched in the first quarter?

Carl Mustos *- Industrial Alliance Insurance and Financial Services Inc. - President, iA Clarington*

Actually, in fairness, it just got launched a couple of weeks ago. So, it's brand-new. Yes.

Thomas MacKinnon *- BMO Capital Markets - Analyst*

Okay. And then maybe a follow-up with respect to the hedging experience loss in the quarter, as outlined on slide 11 of the -- of your slide show. I'm trying to -- maybe you can guide us -- help us to determine how -- what movements in the markets drive some of these ups and downs and these hedging impacts. Is it interest rate-driven? It is equity market-driven? How should we look at why these things move as such?

Michel Tremblay *- Industrial Alliance Insurance and Financial Services Inc. - EVP and Chief Investment Officer*

Hi. It's Michel Tremblay. We look at it on -- from two angles. One is the hedged risk versus the unhedged risk, like the basis risk. So, the hedged risk is mostly impacted by volatility -- volatility in rates, and volatility in stock markets compared to the experience, or the expected volatility. And in this quarter, as you know, volatility both in rates and the stock market was greater. So, then it did cost us something on the hedged part of the portfolio.

On the unhedged risk -- the basis risk -- most of the time when the market is going down, the basis risk is costly, and when the market is going up, the basis risk will be positive. So, that's what happened during the quarter.

Thomas MacKinnon *- BMO Capital Markets - Analyst*

Yes. The markets went up, though, so --

Michel Tremblay *- Industrial Alliance Insurance and Financial Services Inc. - EVP and Chief Investment Officer*

It went down first; and secondly, it was down on some aspects. So, the basis risk was costly during the quarter. But most of the time when the market is up, the basis risk is positive, and when the market is down it's negative. So, it was down substantially, and then it was up, and at the end of the quarter it did cost us something.

Thomas MacKinnon *- BMO Capital Markets - Analyst*

Okay. So, we should be looking at the average over the quarter, rather than the quarter endpoint for that.

Michel Tremblay *- Industrial Alliance Insurance and Financial Services Inc. - EVP and Chief Investment Officer*

Yes. Exactly.

Thomas MacKinnon *- BMO Capital Markets - Analyst*

Okay. And then one final question, I guess on the seg fund market. You've had really good success and gross sales are starting to roll over a little bit right now, so maybe some commentary as to the segregated fund market and how you see that one transforming.

And then maybe you can put that in light of the context that it did hurt your MCCSR probably more than was anticipated, and the hedging costs associated were probably more than anticipated as well. So, how you want to look at managing those risks with that business going forward.

Denis Ricard - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & Chief Actuary***

It's Denis Ricard here. First, regarding the market, we're pretty pleased with what we've done on the seg fund side. We've had a specific sales team doing the promotion. And so -- and when you look at the impact of the sales this quarter versus last year, it's -- yes, it's down, but it's much less decreased than the market. So, all in, we're pretty pleased with the direction it took on the sales side. And the momentum is still very good.

Thomas MacKinnon - ***BMO Capital Markets - Analyst***

And the balancing of the risks -- is there any commentary on that?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

Yes, I do. And I just want to add on Denis and say that we are still number one in term of net sales of seg fund in the quarter. So, that's quite positive too. And with a good distance with the second runner-up.

So, with respect to the profile, keep in mind that, also, we -- over the last 2 years, we sell more and more of the lower-guarantee seg fund in our portfolio. So, we have -- we are building a less risky profile overall, and that's very positive too. More than 70% of our sales are in what we call low-guarantee seg funds, very similar to what the mutual funds sell on the market.

Thomas MacKinnon - ***BMO Capital Markets - Analyst***

Okay. Is that more of the 75% guarantee? Is that what you're relating to?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

Exactly.

Thomas MacKinnon - ***BMO Capital Markets - Analyst***

Yes. Thanks very much.

Operator

(Operator Instructions). Doug Young, Desjardins Capital Markets.

Doug Young - ***Desjardins Capital Markets - Analyst***

I just wanted to clarify something on just the equity market impact. It's -- is this because the average -- the year-over-year period was up, or sequential period on equity markets was up but the average was down, and then you took a hedging impact on the period-end to period-end, but the MER was on the average? Is that the way to think about the equity market impact in the quarter?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

The MER -- you're right -- is on the average. And as Michel mentioned, on the hedging side it's a daily process that you have to look all around your -- all around the quarter, and he answered correctly the question, in my point of view.

Doug Young *- Desjardins Capital Markets - Analyst*

Okay. And then just back, Rene, on the MCCSR impact on seg funds -- I mean, I just thought of, you're growing your seg fund business and 70% of sales is going into the lower-risk product, which I would have thought would have been less capital-intensive, but there was a 4-basis-point impact from your seg fund business on the MCCSR. So, what am I missing?

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

What you are missing is that the current capital formula is not appropriate to our situation. So, it's quite a complex calculation, by the way. And from one quarter to the other, because we have hedged our position, there's going to be some discrepancy or, I would say, unintended consequences out of these capital formulas. And that's the reason why we worked so much over the last 2 years to try to change that situation, and we are very pleased that in 2017 there's going to be new -- a new world for us coming in.

Doug Young *- Desjardins Capital Markets - Analyst*

Okay. I'm going to follow up. And then, just lastly, I just saw the earnings on your wealth -- individual wealth. I think it was around CAD10 million. It fell -- declined significantly. And even if I back in what the impact from equity markets, it was still down I think sequentially about CAD10 million. Is this just the reset of your expected profit on your individual wealth business?

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

This is exactly aligned with what we disclosed in the fourth quarter when we gave you all the key drivers of the 2016 plan. I would even say that in the first quarter of this year it's slightly better than what we gave to you.

Doug Young *- Desjardins Capital Markets - Analyst*

Okay. So, yes. Okay. Great. Thank you very much.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca *- TD Securities - Analyst*

I guess it may be too early, Rene, to talk about what sort of capital relief, or the benefit to MCCSR from any hedging credit. Is it too early to comment on that?

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

Unfortunately, Mario, it's too early. Because we have to see the final setting, basically. So -- but if you read the paper, you will see that AMF mention that for companies who have hedged their portfolio, they're going to have less capital volatility and they could have less capital than a position that is not hedged.

So, this is two key elements for us, the most important being the volatility of capital, in our point of view. And this is the reason why we say that the -- it's a good news for us, and this is something that's going to help us to eliminate some unintended consequences that we currently have with the current capital formula. They also announced that there are going to be a fall survey between the different players involved in that market, and we will get clarity at that time.

Mario Mendonca - ***TD Securities - Analyst***

Okay. So just to clarify, not only will there be the reduced volatility, but there could also be just capital relief from the introduction of hedging standards or (inaudible)?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

There could be. We will need to wait and see what's going to be the final formula.

Mario Mendonca - ***TD Securities - Analyst***

This quarter, the 4-point decline in the MCCSR directly related to segregated funds. That did stand out for me as well, as being large. Have you seen similar changes of that magnitude in other quarters?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

Yes. That's the second quarter in a row that we see this. So, there could be some elements like that. Some time it's positive; some time it's negative. And I'm just repeating a bit myself. I'm happy to see that I'm expecting better days on that one.

Mario Mendonca - ***TD Securities - Analyst***

Sure. Now -- so, you've seen other quarters like this. So, nothing changed this quarter with the application of the standards. Is that fair to say?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

That's fair to say.

Mario Mendonca - ***TD Securities - Analyst***

Okay. And then the final question is, you make reference to the CAD2.7 million charge related to a new Group Savings client in the quarter, and that was -- I suspect it went through strain. So, that's the first part of the question -- am I right to say it went through strain? And then, secondarily, why would a fee like that or some kind of expense related to a new client, or a new sale, not be deferred and capitalized?

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

You're right, Mario. This is related to strain. It is a single-premium immediate-annuity contract. Every time we write this contract, we do have some strain. So, we have a yearly budget on strain on that segment. It's just that we have probably used a bigger piece of our budget in the first quarter.

Mario Mendonca - ***TD Securities - Analyst***

So, that CAD2.7 million comes back into earnings over time, just -- I suspect your profits.

Rene Chabot - ***Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO***

Yes. It's coming back from the margins we put in the reserving process.

Mario Mendonca *- TD Securities - Analyst*

Thanks very much.

Operator

Sumit Malhotra, Scotiabank.

Sumit Malhotra *- Scotiabank - Analyst*

First question for Rene is on policyholder experience. And it seems like if we go back a number of quarters, we're certainly asking a lot of questions on what you were doing to improve trends, especially in the Group business, when your claims experience was going against you.

I don't know; it's too early to call it a trend, but it does feel like you've had a much more positive trend line here in the last couple of quarters, in both the group and the individual book. So, wanted to ask you -- I know this stuff bounces around, but is there anything specifically in terms of any changes in pricing or claims management that you've put through, that leads you to believe that experience is now something that should continue to move in your favor in the [interim]?

Rene Chabot *- Industrial Alliance Insurance and Financial Services Inc. - EVP & CFO*

So, we told you that we were working on that situation for the last 2 years. So, what happened now in this quarter -- it's some benefit of all the review that we have done on our disability management process. So, we are very pleased with it, and we are very encouraged with it. And it's the effect of that hard work that we have done over the last 2 years.

What pleased us even more than that is that you know that in our 2016 plan, we plan for better -- we plan for some improvement from that line of business. And we overdeliver on that plan improvement. So, we are very pleased. Very good start, in term of our 2016 plan.

That being said, we should not expect this happening every quarter. We are very pleased to see it coming. We'll wait and see what's going to be on the other quarter. We continue to work on that. But we told you that we would change it, and it seems that we go in the right direction now.

Sumit Malhotra *- Scotiabank - Analyst*

And my second question is for Yvon. I'm sure we'll get into this more at your Investor Day next month, but it's on the acquisition appetite of the Company. It -- most of these have been relatively small, but it has been a -- quite a steady flow of acquisitions that Industrial has announced over the past 6 or 9 months, and a lot of them appear to be in the wealth management distribution space.

Is there -- I remember that was more in the middle of the pack in terms of your wish list, if I can call it that, for acquisitions. Is distribution something that you're putting more emphasis on from a wealth perspective, and acquisitions in particular?

Yvon Charest *- Industrial Alliance Insurance and Financial Services Inc. - President & CEO*

Well, let's say that we have always put a lot of efforts on growing our distribution networks. But with the demographic trends in Canada, what is happening with the ageing of some distributors -- there might be more distribution networks willing to monetize their organization. And the fact that we have good relationships with many of them, could put us in a good position to make a trade with them.

So, I'd say there has not been a change as such, that we want to put more efforts on distribution. It has always been there. But the fact that we are close to many of them, and the fact that there is an ageing of distributor, has helped us to make quite a few deals lately.

Sumit Malhotra *- Scotiabank - Analyst*

Thanks for your time.

Operator

Darko Mihelic, RBC Capital Markets.

Darko Mihelic *- RBC Capital Markets - Analyst*

Two questions. First, the -- with respect to products, has there been any significant product pricing changes or product launches that would suggest your sales mix would change for the foreseeable future? And has there been any competitor response that would suggest that the sales mix would change?

Denis Ricard *- Industrial Alliance Insurance and Financial Services Inc. - EVP & Chief Actuary*

On the individual life side -- it's Denis Ricard here -- to be honest, it's been a very calm quarter lately. I have not seen significant changes. I think you should expect, however, that in the fall, that there's going to be a lot of changes because all the companies will need to reprice their -- some of their products because of the new taxation coming up in the beginning of next year. So, we'll see them in the fall. All companies will have to adjust to that. But, for now, it's pretty calm.

Darko Mihelic *- RBC Capital Markets - Analyst*

Okay. Thank you. And then the second question is one perhaps for Yvon. The sunset clause for the Bank Act was pushed out in the recent budget. Just curious if you've heard anything as to the potential for -- or is -- are the powers that be looking to potentially allow insurance sales through bank branches? Has there been any movement on that front, do you know?

Yvon Charest *- Industrial Alliance Insurance and Financial Services Inc. - President & CEO*

I'm not aware of discussions on this. I would add, though, that we have close to 2,000 captive agents in the Province of Quebec, and in the Province of Quebec Desjardins, who control 40% of the banking sector, was given the power in 1998, I guess, to distribute insurance products in their branches.

So, we do know we are competing with them for more than a decade now. And a lot of people were wondering what would have been the impact of that. And you could have seen that for us it has not been a material event. It has not been significant on our operation. So, no; we have not heard anything coming from the federal government. But given our experience in Quebec, we don't see that as a big change, if that was to happen.

Darko Mihelic *- RBC Capital Markets - Analyst*

Okay. Thanks very much.

Operator

And Ms. Pollock, we have no further questions on the line. I'll turn it back to you.

Grace Pollock *- Industrial Alliance Insurance and Financial Services Inc. - Director of IR*

Thank you, operator. So, that will conclude our conference call for today. If you have any further questions, you can call us at 418-780-5945. Thanks for joining us today.

Operator

Thank you very much. Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation and ask you to disconnect your lines. Have a good day, everyone.