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# EDITED TRANSCRIPT

IAG.TO - Q2 2017 Industrial Alliance Insurance and Financial Services  
Inc Earnings Call

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## AUGUST 03, 2017 / 6:00PM, IAG.TO - Q2 2017 Industrial Alliance Insurance and Financial Services Inc Earnings Call

### CORPORATE PARTICIPANTS

**Carl Andrew Mustos** *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

**Denis Ricard** *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President of Individual Insurance and Annuities*

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

**Rene Chabot** *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

**Renee Laflamme** *Industrial Alliance Insurance and Financial Services Inc. - EVP of Group Benefits and Retirement Solutions*

**Normand Pepin** *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President and Assistant to the President*

**Yvon Charest** *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

### CONFERENCE CALL PARTICIPANTS

**Doug Young** *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

**Gabriel Dechaine** *National Bank Financial, Inc., Research Division - Analyst*

**Mario Mendonca** *TD Securities Equity Research - MD and Research Analyst*

**Meny Grauman** *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

**Sumit Malhotra** *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

**Tom MacKinnon** *BMO Capital Markets Equity Research - MD*

### PRESENTATION

#### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the second quarter earnings results conference call. (Operator Instructions) As a reminder, today's call is being recorded, Thursday, August 3, 2017.

Now I'd like to turn the conference over to Mrs. Grace Pollock. Please go right ahead, ma'am.

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

Good afternoon, and thank you, Tommy. Welcome to our second quarter conference call. All documents related to our results, including the press release, the slides, the MD&A and the 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 and the question period is reserved for financial analysts. A recording of this call will be available for 1 week starting this evening. The archived webcast will be available for 90 days and a transcript will be available on our website in the next week.

I draw your attention to the forward-looking statements at the end of the slide package. A detailed discussion of the company's risks is provided in our 2016 annual report that is available on SEDAR or the IA website.

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

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#### **Yvon Charest** - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Good afternoon, everyone. With me today are all the members of the Planning Committee, which are: Normand Pepin, Rene Chabot, Michel Tremblay, Denis Ricard, Renee Laflamme, Mike Stickney and Carl Mustos.



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The second quarter marks another strong performance in the execution of our long-term plan. On top of the strong growth in premiums and deposits for the quarter and year-to-date, I want to comment briefly on the progress we are making in our various lines of business.

I'll begin with wealth management, which is a key area of growth for us. Momentum in net sales continue to be strong for both seg fund and mutual funds since turning positive 4 quarters ago. For the year-to-date, net sales total more than \$570 million, which stands out as one of our best performances. Our distribution affiliates are also making a stronger contribution. With the addition of HollisWealth that is scheduled to close tomorrow, we expect to see even greater momentum with -- from our wealth management affiliates in the future.

In our group operation, both on the wealth and insurance side, we are seeing stronger growth in recent quarters. This is in line with our strategy to have them become a more meaningful contributor to iA. Dealer Services continue to show good growth in extended warranties as well as in car loans. I'll remind you of our recent decision to exit the prime car loan market to focus on nonprime loans, where competition is less intense and expected returns are better. Nonprime loan originations for the quarter were up more than 40% year-over-year.

In our retail insurance business, our strategy is to reposition our sales mix. And as you -- we have seen in recent quarters, the sales mix is shifting to products with lower guarantees because of proactive pricing and product design. As for the lower sales in Canada in the second quarter, this appears to be industrywide and most likely a side effect of the high volumes in the last 2 quarters, related to the tax changes that took effect on January 1. In the U.S., the focus has been on the recruitment of new IMO's and production continues to be good. Beyond this good day-to-day progress by our line of business, we continue to look for acquisition opportunities. Our focus is on the U.S. where we would like to add to our existing insurance operation or enter a new business. After 7 years of hard work optimizing our U.S. operations, it's time to expand our footprint in that market.

So that's it for my comments today. I will now ask Rene to comment on Q2 profits.

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**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Good afternoon, ladies and gentlemen. Our Q2 results highlight the underlying strength of our key business drivers. Both reported and core EPS came in at \$1.19, which is close to mid-guidance for the quarter. ROE on a core basis was 11.8%, also within guidance for that metric. The quarter's items of note are shown on Slide 8 and basically cancel out.

I want to draw your attention to Slide 9 that presents our policyholder experience by line of business. Individual Insurance report a significant improvement over Q1 for policyholder experience. We have some adverse lapse experience in Canada, offset by some gain in the U.S. for a net loss of \$0.01. Unfavorable markets cost us \$0.02 on UL policies.

Strain on new business came in at 3% and add \$0.02 to earnings. This result is due to a more favorable sales mix and reflects the active work done by management to reposition its sales mix. For the year-to-date, our strain ratio is at 5 versus guidance of 6 for the year.

Our Group Insurance sector reported a loss of \$0.04, including \$0.03 in our Special Markets segment for higher travel and AD&D claims. The other \$0.01 loss is in the Group Employee Plan sector and is related to short-term disability.

Dealer service and car loans were in line with expectations.

In our wealth management sector, retail wealth has a gain -- a net gain of \$0.04. Gains from the dynamic hedging program, favorable longevity and lower expenses contribute a total of \$0.06, offset by \$0.02 for the HollisWealth integration. The group wealth sector report an investment gain of \$0.01.

Income on capital reflects a loss of \$0.04 from iA Auto and Home, related to flooding and other claims, as disclosed in our last conference call. The month of April was particularly difficult, but the rest of the quarter was in line with expectations. The results at iA Auto Home were attenuated by higher investment income on capital for a net loss of \$0.02 per share. Our solvency ratio at quarter end was 220%, reflecting movement in the macroeconomic environment in Q2. Taking into account the HollisWealth acquisition, the ratio would be 206%.



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I would like to end with a few comments about lapse. In light of the adverse experience in the first half of 2017, we accelerated our internal review and discover a trend that appears more unfavorable than the industry study published in 2015. We will, therefore, take action at year-end to strengthen our lapse assumption. While I cannot give you a firm number today, I am confident that there will be little or no impact on the bottom line for 3 reasons. First, the CIA has recently published a new mortality improvement table and it is very favorable for us. As you know, we keep more mortality risk on our balance sheet and it has always been a good business decision for us. Second, the CIA has recently confirmed that the prescribed URR would be at 3.2% at year-end. We are already at 3.1%, so 10 bps ahead of the curve. Third, we continue to actively transact our portfolio of assets and generate investment gains that are favorable in the year-end review. And finally, we have seen improvement in rates recently and this is also favorable for us, especially with the positioning we took on the IRR at the last year-end.

That concludes my comment. Operator, we will now take questions.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions) And we'll proceed with our first question on the line from Meny Grauman with Cormark Securities.

#### **Meny Grauman** - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Last quarter, you talked about high redemptions in the mutual fund business. You talked about seasonality. This quarter, if I look at it, it's also high and, in fact, maybe a bit higher than in Q1. So I'm wondering, is it still seasonality that's impacting the numbers here? Or is there anything else that you would highlight that's going on in terms of redemptions?

#### **Carl Andrew Mustos** - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Thanks for your question. Yes, it's Carl here. Yes, there's still a seasonality effect, Q1 versus Q2. We have the RRSP season and high turnover. And I would add, there's been a relatively heightened sense of redemptions from the Laurentian Bank channel, but nothing of significant outlier.

#### **Meny Grauman** - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. And then so I just had a separate question. It's a small number but I noticed that when you look at the individual wealth business, the strain is up quite a bit on relative terms. And I'm wondering what that is related to and if you can comment on that number specifically.

#### **Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Yes, Rene speaking. It is related to a business we write in the United States. So we write life insurance business in the United States that has 2 parts, basically a life insurance part and a savings part. And there are some elements related to the savings part that is put into the wealth management section in our disclosure. It raised up this quarter because we sell a bit more of the product and also because of the rate environment out there.

#### **Meny Grauman** - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

So looking forward, what do you expect there? Is it -- it seems like it's pretty -- sort of a onetime kind of a step-up?



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**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It is a onetime kind of step-up. It could fluctuate from 1 quarter to the other and it depends a lot on the product mix we sell in a specific quarter.

**Operator**

We'll get to our next question on the line from Gabriel Dechaine from National Bank Financial.

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

I have a question, first of all, on your P&C business. So another loss, but not as bad as I was looking for, and you've -- I just want to look forward on this business and what we can expect from that segment. You've indicated that you're repricing it, are you repricing your policies? Can you frame that in terms of what kind of pricing actions are you taking? How much of the book has been repriced, et cetera? And then are there other profit headwinds currently in the numbers that could be fading? I believe you've got a partnership with CAA, and that that's required you to make internal investment in systems and stuff like that. Can you highlight that as well, please?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Okay, so -- many questions, Gabriel. I will try to handle it one at a time. And if I forget some, remind me. So first of all, with respect to the loss of the quarter, I think that if you remind my openings remark, I told you that it was mostly April numbers that create that losses basically and we already disclosed it last quarter that we would have that kind of situation. The last 2 months of the quarter were in line with expectations, which is very positive for us. First point. With respect to repricing. With respect to repricing, we follow our plan. There is price increases implement on our whole book, both on the car side as well as in the home side. And they will be implemented in the third quarter. That's with respect to your second question. The investment with the CAA is in line with expectation and doesn't behave differently than the rest of our in-force, basically so...

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

I guess my question on the investment is, is that going to be reduced?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

The investment is already engaged. So we are just building up the business out there and building up the premium income according to our plan.

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

So how long does that elevated spending last? Or does -- is this part of your permanent cost structure now?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It was a 4-year breakeven point situation and we're going to be in the third year next year.

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

Okay. That's helpful. My next question is on this lapse issue. Thank you for the disclosure and the guidance, I guess, on the potential lapse charge and what the offsets are going to be. I'm a bit surprised, though, at that comment because the trends were -- or the experience this quarter, it's \$0.03 negative. That's within that plus or minus \$0.04 experience gain or loss variance that you set as a normal fluctuation. So what are you seeing



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that we're not seeing that has happened over the past 2 quarters? And then if you were to compare what you're seeing or what came out of your lapse study to what happened in 2015 when you took a \$400 million lapse reserve charge, should we expect a much lower charge, are things just moderately off of your assumptions or are they still quite bad?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It's too soon for me, Gabriel, to give you additional color on the numbers. Because what we have done is a diagnosis at the moment. So we know that there is something that we have to adjust. Then we will be in the calculation process in the next quarter and so because, as you know, we always give you a preview in Q3. So I gave you a preview of my preview, to a certain extent. So and I have done so because I noted the reaction of the investors in the market to our Q1 results. So I feel that it was important that I took note of this and that I accelerate the process, and this is what I asked my teammates to do. We have done it. So what we know is that there had been some declining shifting in our experience. And we want to avoid being caught in a kind of slippery curve that's going to just build additional and additional element. We want to protect our expected profit on in-force. And we feel that it's time to act to avoid any potential impact out there. And this is what we're going to do.

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

And with regard to the -- I should just disregard the plus or minus \$0.04 deviation versus what happened this quarter. It's just a longer-term perspective you've got that things might actually get worse from here in terms of lapse rates, and you want to protect yourself against that?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It is correct to say, Gabriel, that you should take a more long-term perspective here and this is it.

**Operator**

We'll get to our next question on the line from Sumit Malhotra with Scotiabank.

**Sumit Malhotra** - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Just to pick it up there, Rene. The end-of-year impact and the strengthening you'll have to take, I think it's pretty clear that with the mortality, you should be able to offset the bottom-line impact. But as far as earnings are concerned, in the second half of the year, are we going to see a more negative lapse experience that impacts the quarter-to-quarter numbers in the second half of the year? That would be part 1. And then part 2, in your opinion, is the negative lapse experience that you're enduring, is there something specific that you've seen in your business that's causing this to reoccur so quickly after the 2015 strengthening that you undertook?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

With respect to your first part of your question, Sumit, I mention very often that I don't know what could happen in the quarter. You have seen in the first quarter the lapse assumption was about \$0.08 off. And this quarter, it's \$0.03 off. So from 1 quarter to the other, it's very difficult to predict what's going to happen. When we look at what we have seen in our experience, we noticed that there is some element that we have to fix. So we expect some losses in the coming quarter, probably something quite similar to what we have seen this quarter would be within what we expected. With respect to your second part of the question, I think I answered it to Gabriel, we want to -- we noticed that our experience behaved differently than the Canadian Institute of Actuaries study. We know that our experience is much more recent than the Canadian Institute of Actuaries study. We are probably 3 more years more recent than the study. And rather than wait and accumulate an issue, we prefer to act and avoid having hit in front of our face.



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**Sumit Malhotra** - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Okay. That's fair. So you -- as you said, you gave us a, how did you put it, preview of your preview so what -- we'll have more information on this in 3 months.

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

I cannot give you more at the moment.

**Sumit Malhotra** - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

That's fair. Let me wrap up with one for Carl. You mentioned -- or it was mentioned that HollisWealth is going to close tomorrow, so that channel will go into effect for you. I -- maybe this is the right way to think of it, maybe it isn't. When I just look at your gross flows in mutual funds and I go back to before the Laurentian issue started, you were -- the levels that you were running at in terms of gross flows are a lot higher than they have been in the last couple of years. With Hollis coming aboard for your mutual fund franchise, do you have an impact on -- or do you have an estimate as to what this is going to add for you in terms of gross flows to your mutual fund franchise?

**Carl Andrew Mustos** - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Thanks for the question, Sumit. It's a good question. It's too early for us to predict what that will do with our gross sales trajectory. We're excited about this coming together. This starts next week, but far too early for that. And we're -- we have been blessed by some good performance and strength in our other channels that's been taking us along so far.

**Sumit Malhotra** - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And the reduction in net flows, I mean, I always think Q1 with RRSP season, you're going to have a stronger quarter. And that was certainly the case. The number that we saw in terms of net this time around, do you have any reservations or concerns at this point in being able to stay in positive trajectory? Or do you think you're fully back on track now it's been 3 quarters?

**Carl Andrew Mustos** - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Wealth Management*

Yes, it's a good question. I don't have a perfect crystal ball and we know it's going to be bouncy along the way. But we're really encouraged. If you go back to the Investor Day, we talked about our 2-track approach and we're going to have our affiliates and with our managed solutions there, and that's getting solid traction. And the independent channel with our income solutions, and that, too, is. So we're confident that we're on a good trajectory, but we don't have perfect clarity for the future.

**Operator**

We'll get to our next question on the line from Mario Mendonca with TD Securities.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

First, on Hollis. Have you already disclosed the amount of the integration charges we're going to see next quarter and if there will be material charges going forward?



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**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

No. Do you want to go ahead Normand?

**Normand Pepin** - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President and Assistant to the President*

Normand Pepin, I'm going to take that one. No, we have not disclosed, but we -- there will not be something really out of the ordinary. So far -- you've seen the charges so far. We're spending about the same amount on a monthly basis and it's probably going to be less in July and August than it was, let's say, in June or May.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

So we're not going to be surprised by, like, a large integration charge?

**Normand Pepin** - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President and Assistant to the President*

No, no, no. not at all.

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

I was expecting the same, \$0.02.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

Okay. Hollis also, the last we checked or last I checked, was you had talked about \$34 billion in AUM, being about \$0.05 accretive in 2018 and making a very modest contribution in '17. Has anything changed in that respect?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

No, nothing changed with respect to that.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

And how will that play out in the sources of earnings? just higher expected profit and then maybe a little bit of a drag in the source -- in the earnings on surplus? Is that the right way to think about it?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It will be mostly higher expected profit in the Individual Wealth Management businesses.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

But you -- and you -- but you don't anticipate any negative through your earnings on surplus?





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**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It has already been done.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

Oh, that's right, because you issued the equity before. And then finally, this is perhaps more for Yvon. Your opening comments, you talked about a deal in the U.S. It wasn't surprising to hear that you're interested in the U.S. What was surprising is that you would look at other business lines. Is that a new -- is that something new you've added to your opening comments? Or have you offered that before? And maybe you could just talk about what business lines you were thinking about.

**Yvon Charest** - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Yes, we did offer that before, that comment. It was mentioned at the last Investor Day in June of 2016. What we said is that we'd like the U.S. to be a growing contribution of total iA net income. And we figure out that while we were in a pretty good niche and we like the growth potential there, and we feel that we still could get acquisition from that current line of business. We felt that if we want to have a growing contribution from the U.S., we have to consider in our business line as well. And at the conference call, at the Investor Day, we mentioned, for example, that we were a leader in Canada in terms of the Dealer Services insurance operation and that we will have a look in the U.S. into it. So it has been mentioned at the last Investor Day.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

Okay. And then finally, on specialty lines. This quarter did sort of throw me off a little bit. That was fairly significant adverse experience in travel and then accident claims as well. Is there anything, Rene, you can point to there? Did that catch you off guard as well, like, how large that was?

**Yvon Charest** - *Industrial Alliance Insurance and Financial Services Inc. - CEO, President and Non-Independent Director*

Mario, we have 2 Rene here, and it's going to -- your answer will come from Renee Laflamme, the head of the business line.

**Renee Laflamme** - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Group Benefits and Retirement Solutions*

This contract has been with us for a long time. Did it caught us off guard? Yes and no, but we're managing it. And we've repriced and we'll see the effect of that. So yes, it also relates to experience. And the repricing is done and other management's actions are on the way.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

Sorry, did you say it related to a single contract?

**Renee Laflamme** - *Industrial Alliance Insurance and Financial Services Inc. - EVP of Group Benefits and Retirement Solutions*

Yes.

**Operator**

(Operator Instructions) And we'll get to our next question on the line, from the line of Doug Young from Desjardins Capital Markets.



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**Doug Young** - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

I guess just going back to the lapse, Rene. I assume this is with the same block of business that gave you problems in Q1, the level cost of insurance UL?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

You're right, Doug.

**Doug Young** - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Yes. And then just -- I know you can't quantify what the charge would be, but maybe going at it a different way, what's the level of cushion you have? I mean, you gave us 4 items that give you confidence that there's going to be no net impact on earnings. And so I'm wondering, I guess, are you willing to lower your URR 10 basis points so we can do the math on what the potential benefit would be? But in terms of investment gains and then improvements in rates, I mean, if we add up all of that and if you can include the mortality, what's the level of cushion that you're sitting on right now?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Doug, I don't want to get into this detail at the moment. The objective of my comment was to tell you the elements that I have in my hands at the moment. So we'll do the math. I'll remind you that it is a preview of the preview. We'll do the math. We'll get back to you in Q3 and we'll give you more color at that moment.

**Doug Young** - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. I guess just I mean, on the URR, just to finish off with this. So by you naming it in there, I guess you would be comfortable taking that 10 basis points back? Is that a fair assumption?

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It is an option out of many other options.

**Doug Young** - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. All right, I won't belabor that. And then just on the wealth management operation. I mean, expected profits increased quite nicely quarter-over-quarter, it was 20% and I know equity markets were down. Just wanted to know why there was a discrepancy there between where the markets went and where expected profits went. And along the same lines, I just noted in wealth management like there wasn't a negative impact on the MER, which I would have expected because I think you assume markets go up 1% to 2% per quarter, I believe. I mean, AUM was only up -- 0.4%. So just trying to get a sense of the expected profit growth, what drove such a huge increase and what negated the negative impact on the MER in the wealth side.



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**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

The best way to look at -- if I got correctly your question, Doug, the best way to look at this is on a yearly basis, from the Q3 of last year compared to Q2 of this year. And in that period of time, the markets were positive for us as well as the growth of our business for us. And that's the reason why the expected profit is moving up.

**Doug Young** - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

So the sequential, because it's such a -- I mean, it is not insignificant sequentially...

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

On the sequential basis, the performance in the first quarter was better. And then it helped our overall net assets under management, basically. And the profit, therefore, is better. So you have seen the turnaround in net sales. So that turnaround in net sales is pumping up our assets under management. And the market also pumped up that asset management and we collect the benefit of this.

**Doug Young** - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Yes, because I looked at it year-over-year, I mean, expected profits was up 18% year-over-year. The S&P was up about 8%. So there's -- and we can chat about this off-line, I just -- I'm just trying to get a sense of -- there seems to be a big discrepancy in news and -- but again, we can follow up.

**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

I don't think there is. Maybe I'm wrong. But I don't think there is. As you remember, we told you that we have changed our methodology many years ago. And we reflect both net sales and market movement on a quarterly basis in our expected profit.

**Doug Young** - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. And then just lastly on Individual Insurance. The -- just want to get a sense. Obviously, you've got the lapse items, but I just wanted to understand the competitive environment right now in terms of pricing and what you're doing on pricing on YRT UL and level cost of insurance UL?

**Denis Ricard** - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President of Individual Insurance and Annuities*

Yes, it's Denis Ricard here. Thanks for the question. Last year, and we've made a lot of changes to our products. Basically, what we tried to do is to reposition the product mix towards a low guarantee type -- more low guarantee type of products. So we basically improved our competitive positioning for products like YRT level -- sorry, term products, so low guarantee products. And we deteriorated our competitive positioning for products that were high guarantee, more demanding on capital like level cost of insurance. And it has succeeded so far. And we've seen it through the numbers that we have. Now you've seen that the -- in terms of competitive environment that the -- our sales are quite, like level for the quarter. And we have evidence, anecdotal evidence and real number, that the market has slowed down in this quarter. But we'll see over the next quarter how it will pick up.

**Doug Young** - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And Denis, we just -- I mean, is it a rational market out there? Are you seeing the industry pushing through price increases? Or is it just making shifts for mix purposes?

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**Denis Ricard** - *Industrial Alliance Insurance and Financial Services Inc. - Executive Vice-President of Individual Insurance and Annuities*

I would qualify the market this year not more rational or irrational than the previous year. For us, what was important was to reposition ourselves in terms of the product mix.

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**Operator**

And we'll get to our next question on the line from Tom MacKinnon from BMO Capital Markets.

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**Tom MacKinnon** - *BMO Capital Markets Equity Research - MD*

Sorry, I got on the call late, but -- so with respect to the lapse, Rene, did you flag that there could be some potential reserve strengthening in lapse for your year-end actuarial review but that likely could be offset by a series of things? And what were those series of things? Forgive me there.

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**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

Tom, you missed the punch. So basically, what I suggest is that you call me off-line and I will read you my opening remarks and you will get all the details on this.

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**Tom MacKinnon** - *BMO Capital Markets Equity Research - MD*

Okay. And was one of those -- what's your view on the ASB with some different views on mortality improvement? Is that a bonus to you guys as well?

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**Rene Chabot** - *Industrial Alliance Insurance and Financial Services Inc. - CFO, Head of IT & Legal Services, Chief Actuary and Executive VP*

It's all in my opening remarks, Tom.

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**Operator**

And Mrs. Pollock, we have no further questions at this time. I'll turn it back to you.

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

So that will conclude our conference call today. If you have any questions -- and we will call you, Tom -- our number is (418) 780-5945. And thanks for joining us today.

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**Operator**

Thanks, everyone. And ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you disconnect your lines. Have a good day, everyone.

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