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IAG.TO - Q2 2019 Industrial Alliance Insurance and Financial Services  
Inc Earnings Call

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## AUGUST 01, 2019 / 8:30PM, IAG.TO - Q2 2019 Industrial Alliance Insurance and Financial Services Inc Earnings Call

### CORPORATE PARTICIPANTS

**Denis Ricard** *iA Financial Corporation Inc. - CEO, President & Director*

**Jacques Potvin** *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

**Marie-Annick Bonneau** *iA Financial Corporation Inc. - Head of IR*

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**Sean O'Brien** *iA Financial Corporation Inc. - SVP of Dealer Services*

### CONFERENCE CALL PARTICIPANTS

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

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

**Meny Grauman** *Cormark Securities Inc., Research Division - MD & Head 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 & Analyst*

### PRESENTATION

#### Operator

Greetings, and welcome to the Second Quarter Earnings Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded, Thursday, August 1, 2019.

I would now like to turn the conference over to Marie-Annick Bonneau, Director of Investor Relations. Please go ahead.

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#### Marie-Annick Bonneau - *iA Financial Corporation Inc. - Head of IR*

Good afternoon, and welcome to IAG's second quarter earnings conference call. All of our Q2 documents, including press release, slides for this conference call, 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 public. I remind you that 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 2018 MD&A available on SEDAR and on our website.

I will now turn the call over to our President and CEO, Mr. Denis Ricard.

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#### Denis Ricard - *iA Financial Corporation Inc. - CEO, President & Director*

Good afternoon, everyone, and thank you for being with us today. I will first go around the table and introduce everyone. Jacques Potvin, our Chief Actuary and CFO; Renee Laflamme, in charge of Individual Insurance and Annuities; Carl Mustos, responsible of our Mutual Fund Business and Wealth Management Distribution Affiliates; Mike Stickney, in charge of our U.S. Operations; Sean O'Brien, in charge of our Dealer Services in our iA Auto and Home; and Martin Bélanger, responsible of our Group Businesses.

Now with the results. Q2 was a very good quarter for iA. As we report today above targets' results. I will start with profitability. Please refer to Slide 3. With reported EPS of CAD 1.69 and core EPS of CAD 1.61, both well above guidance, we are very satisfied with the results for the second quarter.



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Year-over-year, this represent a 17% EPS increase. Net income to shareholders at CAD 181.4 million, increased by 14% year-over-year. Return on equity at 12.6% is also above our target range.

As you know, growth in expected profit is a clear indicator of our financial [sales] and of the underlying profitability. Our expected growth on in-force grew significantly with a nearly 12% CAGR over the last 5 years, that is from 2013 to 2018. In Q2 of this year, our expected profit on in-force increased by more than 10% year-over-year, which is significant, especially when on top of that we had experience gains in all our 5 business lines. So overall, due to multiple experience gains profitability was above guidance during the second quarter. It was not due to some exceptional gain, it was the result of several items that pointed all in the same direction as Jacques will explain in further detail in a few minutes.

As shown on Slide 4, the strong performance of our business was recently acknowledged by Standard & Poor's. Indeed last week. Standard & Poor raised our credit rating by 1 notch. In addition to our continued profitability, this positive review of our iA's credit ratings was based on many factors, including our diverse earnings profile, excellent capital adequacy and consistently strong and stable operating performance.

I will now comment on business growth in our different lines of business. Please refer to Slide 5. I will begin with individual insurance, which has returned to growth in Q2. Indeed, sales of CAD 48 million in were higher than in last year. The number of policies sold during the quarter also increased year-over-year showing again that there is ongoing activity in our distribution channels. These results show progress and we'd like to see continuous and increased growth of our individual insurance sales over the coming quarters. In terms of strategy, our focus continues to be profitable growth. So yes, we want to see good sales, but more importantly we want sales that generate interesting returns for iA shareholders.

On the individual wealth side, seg fund sales continue to be excellent. Gross fund sales increased by almost CAD 100 million, or 22% year-over-year. This is huge. Net sales also strong. And we continue to rank #1 for seg fund net sales in Canada. These are excellent results in the current environment, which is rather difficult for fund sales. The mutual fund business continued to be difficult, in an industry that is facing challenges. Sales performance of our affiliated distributors continue to do better than that of independent distributors, which reinforces our will to improve sales by leveraging our distribution network. This will continue to be an important aspect of our strategy to increase sales of mutual funds. A strategy that will produce more visible results over time.

Now moving to Group Businesses. At CAD 4.1 million employee plan sales were soft during Q2. As you know, employee plan sales vary significantly from 1 quarter to the other, depending on the size of the Group's sold. To me, what really matters is that profitability continued to be solid in that division. Dealer services sales were good and increased by 4% year-over-year, mainly due to an increase in P&C Insurance and car loan originations. Special Markets Solutions sales continue to grow steadily by 8% over the same quarter last year. As for Group Savings and Retirement, sales were 3% lower than last year. You may remember that sales were quite strong during the first quarter of that division. Therefore, they are still 14% higher than last year for the first 6 months of the year.

Let's now talk about our U.S. Operations. We are very satisfied with the growth of both U.S. divisions. Individual Insurance sales grew by 15%, and Dealer Services sales by 11%. As you can see, there is really a strong momentum with our U.S. business. These continuous good results confirm the potential for growth that we see in these markets and we will continue to look for acquisition opportunities.

I will conclude on business growth with a few words about iA Auto and Home. Sales in our iA Auto and Home subsidiary increased by 7% year-over-year. As for profitability, despite the flood in the province of Quebec at the beginning of the second quarter, experience was overall positive and iA Auto and Home was more profitable than expected.

Before handing over to Jacques, we will further discuss our second quarter earnings results. I would like to conclude by saying a few words on the progress made by iA, since I took the CEO office last September, and since our last Investor Day about 1 year ago. And I would refer you to Slide 6.

I first want to talk about earnings growth. iA is recognized as a company with the steadily growing EPS guidance. As you know, we are committed to 10% EPS guidance increases and we have identified many levers to reach or even exceed this objective. We have delivered on our targets in the past and we plan to continue. So far, 2019 is pointing in the right direction with expected profit on in-force growing by more than 10%, combined with experienced gains exceeding CAD 30 million and coming from all 5 business lines. All in all, I am extremely pleased with our earnings growth.



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I also want to say how comfortable I am with our capital position. Indeed, our capital position is very, very strong at the moment. In fact it is better than ever. What makes our position even more interesting is that we now generate capital organically more than ever. Also, our people have worked very hard to reduce our sensitivity to macroeconomic variations and our solvency ratio now has a low sensitivity to such factors. Moreover, our balance sheet is very flexible, with a low debt ratio. So what do we plan to do with this capital? The priority is clear. We want to use this excess capital for acquisitions. This is dry powder. And as mentioned earlier, although we are looking for different opportunities, we have great interest in the U.S. market.

And why the U.S.? Well, I already mentioned that the growth potential is particularly appealing in the U. S. Let's take a step back and remind ourselves that we enter the U.S. market, a little more than a decade ago, and it is quite impressive to see how we've been able to grow our Individual Insurance Division internally and through acquisitions during that period of time. About 15 months ago, following an acquisition, we entered the market of car dealer insurance services in the U. S., and today, we are very pleased with the performance of both divisions. They have a strong growth momentum for both top and bottom lines, which is why the U. S. market is our main area of focus for the next acquisitions.

On that note, I'll now pass it over to Jacques to comment on our Q2 profit.

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### **Jacques Potvin** - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Thank you, Denis, and good afternoon, everyone. As outlined by Denis, we are quite pleased with the earnings results for the second quarter. Indeed, profitability exceeded our expectations and the guidance that we provided at the beginning of the year.

As you can see on Slide 7, reported EPS of CAD 1.69 and core EPS of CAD 1.61 of both above guidance and represent a 17% year-over-year growth. Reported and core ROE at 12.6% and 12.1% are also strong and around the top of our guidance.

Slide 8, presents the main items that supported profitability during Q2. In fact, many items were positive and contributed to our good earnings results. Policyholder experience, income on capital, strain and the hedging program all generated gains this quarter.

During the second quarter expected profit grew by more than 10% year-over-year. In addition, policyholder experience remain globally positive as shown on Slide 9. Lapse, mortality, morbidity, longevity and several other items generated experience gains in this quarter. Most of the experience gains for Q2 came from Individual Insurance, which globally had a positive experience gain of CAD 0.06 on the EPS. As for the slight negative experience in Individual Wealth Management, this was offset by a gain from the [hedging program, which explains that overall all business lines generated experience gains during Q2.

Now moving to income on capital on slide 13, it was higher than expected. Again, this positive result is due to many factors. In addition to iA Auto and Home's good results, the most important ones were: gains on available for sale securities] (added by company after the call) and lower financing expenses resulting from the debenture redemption in May. Strain on new business, which is presented on Slide 19 was very low and better than expected. This low strain is mainly due to a favorable sale mix. Taxation was more difficult with a loss of CAD 0.01 for the quarter.

Please go to Slide 15. At 22.4%, the effective tax rate is above our guidance and slightly higher than expected. It can be explained by 3 items; first, our status as a multi-national insurer resulted in an increase in taxes. This is the same item that had a negative effect on taxes in Q1. Does it mean that it will be recurrent? We do not know for sure as there are some volatility. What I can tell you is that we are not happy with the situation and that we are working to optimize our tax position.

Taxes were also impacted by the implementation of an investment strategy to reduce the sensitivity to macroeconomic fluctuations. I will comment on the strategy in a few minutes. Regarding its impact on taxes, you should note that it caused a slight tax increase, that will be recurrent. For Q2, the increased resulting from this investment strategy was CAD 0.01. Over the 1-year period the impact should be about CAD 0.05.

For us in terms of taxation, the good news for the quarter was the drop in the corporate tax rate in Alberta. This reduction offset most of the 2 previous items, which explains why globally the negative impact of taxes on EPS in Q2 was CAD 0.01. At this point of the year with the information we now



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have about our tax situation, we expect that taxes of 2019 will be slightly above the target range that we provided for taxes in February. More specifically, we expect our effective tax rate for the year to be around 23%.

Moving on to Capital. Please refer to Slides 11 and 12. As of June 30, our solvency ratio was 127%. This is higher than at the end of Q1, and well above our target range. The debenture redemption on May 16 along with our ongoing NCIB program had the downward impact of 4% on the solvency ratio. On the positive side, investment strategies to manage macroeconomic risks and organic capital generation had a total upside effect of 7%. More specifically, since the beginning of the year investment strategies allow us to generate about CAD 360 millions in capital release. In addition, we were able to organically generate about CAD 145 million in accordance with our plan. At 18.1%, our leverage ratio is low. Taking into account both our solvency ratio and leverage ratio, our potential capital deployment is very interesting, which is a good reason to be satisfied with our current capital position.

I will conclude my remarks by saying a few words on an important investment strategy that was mostly implemented during the second quarter. The goal of the strategy is to limit our exposure to a market downturn. We are very happy with the strategy because, yes, it really reduces our risks and just come with the significant reduction in our required capital. This strategy creates value for our shareholders as the resulting ROE is quite interesting. This concludes my comments.

Operator, we will now take questions.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions) One moment please for the first question, which comes from the line of Meny Grauman with Cormark Securities.

#### **Meny Grauman** - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Just wondering if you're still on track to take the IRR sensitivity down to zero by 2020, or is the current rate environment changing the timing of this could it even maybe accelerate the timing of this?

#### **Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Jacques, speaking. We are still on track. So far, however, we always mention that we will continue to be disciplined. So we really want to do those transaction where the condition are the right one. So we will continue to monitor that, but so far so good.

#### **Meny Grauman** - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Does the current rate environment make it tougher more challenging to get that sensitivity down?

#### **Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

It may -- it really depend on the slope of the curve. It depends at which duration of the asset we're looking at. So days in, days out our investment guys are always looking at the curve position and they will transact if the conditions are okay. So even if the curve was not that great during the first half of the year, there were days in which we did very, very positive transactions.

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**Meny Grauman** - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Can you discuss how well positioned you are to deal with low rates? I assume that the overall indirect impact is negative. And I'm just wondering what offsets you would highlight when it comes to offsetting the impact of lower rates?

**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

I suppose Meny, that you're referring to the reserve position and earning position. So if you consider -- if we consider the URR, we are already -- we have already factored in the 15 bps reduction that the CIA recommend for this year. So we all set on this one. As for IRR, we've done enough management actions, since the beginning of the year. So that I can face the rate that has decreased. So I'm not concerned at all. We will be okay with that.

**Meny Grauman** - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

I'm talking more indirect, in terms of impact on Strain, expected profit and just overall, the business mix that you have, that's maybe less rate sensitive, if you can comment on that?

**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Director*

Hi, it's Denis here. I think what I'd like to say about that is that we are managing the company assuming that the very low interest rate environment is going to stay. So whether it's in our pricing, we are embedded in our pricing, the current situation, and when you look at the profit of in-force, it's -- I mean, we shown we've shown over the years that we were able to deliver. And when you look at the last 5 years, for example, we're talking about 12% increase in EPS and then look at the decrease of interest rates over that time. So when you look at the past 5 years, we've been able to grow the EPF significantly even though the interest rates went down. So in the future we are well positioned.

**Operator**

The next question comes from the line of Doug Young with Desjardins Capital Markets. Please go ahead.

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

Maybe Jacques, you peaked my interest with this investment strategy. And I'm just hoping you can elaborate on a little bit, what's been done to lower the macro risk, because it looks like it lowers macro risk, it looks like it is advantageous to your solvency ratio. And I'm just wondering, if you can explain a little bit more detail about it? And then what's the cost of doing this?

**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Jacques, speaking. What we've done, we've limited our exposure to market downturns. There are many positive impacts. There is a real reduction in our risk exposure to market. There is a huge reduction in the required capital actually more than CAD 400 million of excess capital has been freed over the last 4 months with that strategy. There is also a reduction in our URR sensitivity. It's a very positive transaction on our ROE. There is 1 negative impact, which is on EPS and it comes from 2 sources. The first 1 and it relate to the cost that you are mentioning Doug, there will be a slightly lower expected return on investment income. We're speaking here about CAD 0.03 per annum. And also the second impact is, there will be a lower tax advantage on the Canadian dividend stocks, which represent an net impact of CAD 0.05 per year. So we freed more than CAD 400 million of capital and we give up an expected of CAD 0.08 per annum of EPS.



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

What is this strategy, like, what -- can you talk about what actually you are doing?

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

Actually, what we've done, we've replaced our stock portfolio with long-term bond and derivatives to limit our exposure to market downturn.

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

And then secondly, just I was a bit surprised with your iA Home and Auto. I mean, it was, I know this is a business that resides in Quebec, the weather has been tough. And I think you guided last quarter that the hit would be about CAD 0.02. So I was bit surprised that actually relative to your expectations, it was a positive. So I'm sure the weather had a negative impact was there another offset that came through, just hoping to get a little color?

**Sean O'Brien** - *iA Financial Corporation Inc. - SVP of Dealer Services*

This is Sean. Yeah. We were happy with how the quarter ended the losses didn't come in or the claims didn't come in quite as that related to the flow as we expected. And we're also trending lower on expenses for the quarter in that business.

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

Is this a timing event, or is this just the issues have been done, the claims that you think are going to come in or in? And so this isn't something that could trickle into Q3?

**Sean O'Brien** - *iA Financial Corporation Inc. - SVP of Dealer Services*

No, this is -- we're pretty solid on it now. And the business is looking to be on target for our plan for the year overall.

**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Director*

I'd like to add some color on that. Over the last couple of years, we've made significant changes in our pricing. We were ahead of the industry. And what you see right now, it's paying off. I mean, it's not all the players in the industry have done those moves and even though the, there has been some unfavorable temperatures of weather for the quarter. We've been able to show a profit and we are very confident that we'll be able to perform very well until the end of the year. And just obviously there is a climate whatever event, but we're quite confident with our business.

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

And then I'll just limit myself to 1 more here Jacques. Industrial predominantly does their actuarial review at the end of the year. And just wondering if there is anything, it doesn't like the experience looks fairly favorable this quarter except for the expense side, which is 2 quarters in a row, where I think expenses have been an Individual Insurance at this time an individual well has been negative relative to expectations. Just wondering if there's anything that you're thinking about as you go towards Q4 that you're doing a deeper dive on that, where you could make some changes to assumptions in Q4?





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**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Jacques, speaking. It's too early to tell Doug. I don't see that much trend and even on the expenses. If you recall, well, at our Investor Day, and earlier this year we spoke about initiative on the synergy side. So when we have some experiences we have to keep in mind. We always comparing with an expected return that take into account those synergies. So I don't see anything for the moment in regard of that, it's too early. But there is no huge trend. We can see that when we look at our experience gain and loss over the past 12 months.

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**Operator**

Okay I mean, this question comes from the line of Tom MacKinnon with BMO Capital Markets.

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

So let's start with a question just with respect to the tax. The only adjustment you seem to suggest us to make going forward is for the fact that you're trying to reduce the sensitivity and the impact I guess on the dividend taxes as a result of that, and that's a nickel a year. But what about those other tax items -- the status as a multinational and the Alberta corporate tax. Are those just [one]timers or how should we be thinking about those?

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**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Jacques, speaking. In regard of the tax, there is a strategic explained that will have an effect of CAD 0.05 per annum. So 1 -- a little bit more than CAD 0.01 per quarter. And after that, that's our status as a multinational insurer. There we -- when we provided the guidance earlier this year, we are working at -- with our holdco structure to get in a better position to be more efficient with our tax, but it will come in Q4. We are working for that in Q4. So we don't have it for the moment. So for the moment we are not efficient on that side. The other effect-- that happened that we have live with is the fact that interest rate has decrease and it has increased the value of our derivative portfolio. And this create inefficiency for us. So those ones will have to work to optimize that situation. And that's why, I mentioned in my allocation that we expect now to have -- to finish slightly above our guidance at 23%.

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

So it sounds like the -- you're going to be temporary elevated outside of this movement of the nickel that you're talking about, CAD 0.05, you're going to be elevated for just maybe the next quarter or so until you kind of figure out some tax planning in order to help mitigate the impact of this multinational stuff. Am I phrasing that correct?

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**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

You're correct, Tom.

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

So then that means next year you wouldn't be a 23% tax. Will it be better to go with something in the 20% to 22%-ish range or something like that, 21% (inaudible)?

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**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

Actually, we are aiming -- like I said, we are aiming for that with our project in Q4. So we will see when we will provide the guidance next year.





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

One other question really is, could be with respect to a PAR product. How do you guys come along in terms of -- this is been a reasonably good seller and with rates continuing to go down maybe it might even be -- even a better product. So I'm just trying to figure out where you might be in terms of the plan to launch a PAR product?

**Renée Laflamme** - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

This is Renee, speaking. Of course, we are closely monitoring the PAR product in the marketplace and we are very aware about the trends in the markets. We've had the initiatives early in July that were related to our -- the product that we currently have the term and adjustable product regarding approval at point of sale and increasing face amount and some of our simplified issue product. So, so far, we keep on with the same strategy, we've had a very good momentum in Q2 in all our distribution network. There will be other initiatives coming in Q3 and Q4, and we believe that will continue to support this good momentum.

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

And then the last one, Denis, your share counts down like almost 3% year-over-year. You've generate quite a bit of excess capital organically. You still have a lot of excess capital on top of that. How should we be thinking about buybacks going forward, you seem to use them fairly steadily over the last 12 months. Is this sort of -- is this just opportunistic tool or do you see it as a -- you mind as while return the nice organic capital that you're generating back to shareholders through buybacks?

**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Director*

Well, it's very clear that my preference is not to do buy back. We are opportunistic in the sense that we believe that when there is a good -- I would call it price for us to invest in our own stock, we take advantage of that. Our preference is to deploy capital through growth like with acquisition, for example. So that has been our focus and we are working on work -- on that side. I mean, that's certainly our preference at this point.

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

And you've pretty -- feel pretty comfortable about the 10% growth objective even without the benefit of share buybacks?

**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Director*

Well, I mean the 10% EPS growth, it's all in, because on 1 hand our preference is to grow organically obviously and by acquisition that we are confident we can deliver on our 10% EPS growth. But if for any reason, we would be unsuccessful to make an acquisition, then we will have to see it whether or not we should speed up the buyback program and this would have an impact on the 10% EPS growth as well. So, but it's -- like I said my preference is number one.

**Operator**

The next question comes the line of Mario Mendonca with TD Securities.

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

If you could just go back to the investment strategy. It seems like that's an awfully good trade-off, CAD 8.5 million call it earnings give up for CAD 400 million of capital relief is, first if you could just help me understand how this might work, the reduction in your equities, it looks to be about CAD 300 million, but on Page 19 of your supplement the rolling [9]. It shows that the market risk is down over CAD 400 million. So how does that play out, how could the market risk be down so significantly from that, what seems like a modest change in equities?

**Jacques Potvin** - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Jacques, speaking. Actually there are other element that affect the value of stock portfolio and it's CAD 1 billion of stock that we've done the transaction on which is our portfolio of public equity. Why the transaction is so good. I think, it's the fact that the LICAT formula is really looking at the risks on the 1 year period for long-term businesses. So when we do such a transaction we are managing the company with a long-term view, and we did, what we've considered a good economic transaction. However, we benefit from the fact that the capital formula is very punitive on the equity side by charging too much capital. That's why the transaction is, seems so good.

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

And then so the market risk goes down fair a bit. I was looking for some obvious offsets there. And I see that credit risk is up a little bit, but nothing really, nothing else like I would have expected something like operational risk or counter-party risk, because if you're adding a bunch of derivatives and presumably other risks are kicking in?

**Jacques Potvin** - iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary

Yeah. You're totally right now. Your other risk are kicking-in, but they have all been considered because when we calculate the formula we consider all positions, all our derivatives, all the counterparties, all of the operational risk everything there. It's really a question of the capital required on stock is way at -- in our opinion way too much compared to the other ones.

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

So just a final question on this topic then is -- is there room to do a lot more, if it's this good, then I mean, is there room to take equities further take it down further?

**Denis Ricard** - iA Financial Corporation Inc. - CEO, President & Director

It's Denis here. I'd like to make a broad comment on this, because I think you should expect in the future that we pay, I would say a lot of attention to the optimization of our capital, and consequently to our ROE. So, sure, we are looking at all the areas in our portfolio, in our businesses, where we think we can do a good capital optimizations strategy or initiatives. And you've seen that you know when you look at for example, last year with the IRR decrease -- risk on the IRR side, now we came up with this strategy on stocks versus options. So my point being that we pay more attention and you should expect more of these.

**Operator**

The next question comes from the line of Sumit Malhotra from Scotiabank.



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

Denis, just stay with you for a moment. You've made it pretty clear that there are -- the commitment of the company is to grow and then you've got the balance sheet to put some of that money to work. In the past when you've talked about acquisitions, it's been diversified U. S. has been there, but you've also made a lot of emphasis on distribution and wealth. It certainly sounds like at least to me, that U. S. has moved up in your priority order. Is that the right read and besides the strong results of your business. So there specific opportunities that the company is seeing that is moving you more in that direction?

**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Director*

Well, I think it's a good reading, in terms of priority. And you've seen that the results in the U. S. have been quite good, and there we expect that the -- we're confident that they will continue to be very good. And you have to realize. Also in the U. S., our strategy in the U. S., obviously has not been to -- let's say, try to grow in markets where we are head-to-head with the industry, there are some very large players. We try to stay in niches where we can -- at some point have a leadership position that puts us in a much favorable position and being a ##10 in the market. So yes, you are right, they are -- I mean we're looking at different kind of businesses in the U. S. and the 2 businesses, we are in right now. We think that there are space for growth by acquisition. Obviously, we grew organically, as you can see. But yes, in terms of priority. Now that doesn't mean that, for example, if we find some good distribution, let's say, organization in Canada that we may not be interested on the contrary. But it's more like the opportunity. It seems to be more present in the U. S. then on our other Canadian business, I would think.

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

And from a numbers perspective and just the way we've talked about in the past. When you communicated to the market at Investor Day the desire to reduce the interest rate exposure. A big part of it was, you want the capital build to be more consistent and likely to use less equity on acquisitions when they came up. Your balance sheet now is as good as I've ever seen it both from capital and leverage. Is it appropriate for us to think that any acquisition activity that the company would be considering at this stage where your balance sheet is would not require any external financing?

**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Director*

And I would tend to see that, obviously, if we look for acquisition of let's say a size that we've done in the past, that would be I think a fair statement to say that we don't need to issue common shares. And obviously as the size of acquisition would grow it could mean that with a good story. Obviously, if we do an acquisition of a -- let's say, a sizable amount. At some point the story could be good so much that this common shares could be issued. So that could be the case, okay. But we definitely don't need to -- up to a very significant amount. And so we'll be very careful on that. So hopefully that gives you some colors.

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

No you're being very forthcoming and you have that slide you've been giving us the last few quarters in which -- so when I get the term rate, I think it's deployable proceeds or something like that is CAD 1.1 billion, CAD 1.2 billion. Again that would be fair to say that anything in that range, you don't need you're fine with your own resources. It would be bigger than that would require a top up?

**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Director*

Well, the simple answer is yes. But obviously if we are confronted in such a situation, we will look at all our options. It may be that in such situation, it makes sense financially, you need to have a small portion, which is in common shares. I don't want to promise that it's not going to happen.



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

And last 1 for me back to the actual businesses is for Renee. It's not really specific to IAG, but I think individual insurance sales in Canada have been flatter for the industry. And when I look at your results for last year and a half and we've talked about this, you've been in a pretty specific range. Just kind of -- I don't know if you can judge body language on the phone. But your tone seems to be much more positive and obviously sequentially, the growth was up in Canada. Sorry if I missed some of this before, but there are specific green shoots in the business, you're seeing that, that give you that more positive outlook for where the sales trend in Canada is heading?

**Renée Laflamme** - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

This is Renee speaking. Yes. We're positive. I mean, we have a good momentum. Our strategy with distribution is going well. All distribution channels that we're dealing with we have a good momentum. As I said before, we've had good initiatives in July, that were launched in the market. We do have some other things coming to sustain that momentum. The industry is relatively flat, as you've said. But if you look at our performance year-over-year in Life Insurance and we've been able to sustain the growth. And again, we believe that good momentum will continue.

**Operator**

The next question comes from the line of Darko Mihelic with RBC Capital Markets.

**Darko Mihelic** - *RBC Capital Markets, Research Division - Financials Analyst*

Most of my questions have been asked and answered, but I just wanted to return one more time back to the optimization of capital. And I just wanted to make sure I was clear on a couple of things. First, Jacques, I think you've mentioned that the way we should be modeling this, we're thinking about this is a CAD 0.03 per share impact, because of a slightly lower return on capital. But and perhaps I'm wrong on this, but if you had moved stocks that we're backing liabilities, why is this affecting the income on capital?

**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

It's really not on income on capital, is expected income. So maybe I did not use the right word, but it's really expected income, it's long-term Life Insurance we're speaking about here. So you're totally, right.

**Darko Mihelic** - *RBC Capital Markets, Research Division - Financials Analyst*

And then you also decreased your URR sensitivity. Is that in -- as I see it now or should we expect in future quarters to see that a less sensitivity versus -- of the URR?

**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

No. We did that transaction actually what happened there is stock -- common stock are not sensitive to interest rate, while derivatives are, so that's why we've got the reduction of our URR sensitivity. So it's a 1 shot. We did the transaction. It's down now within the portion we want to be in.

**Darko Mihelic** - *RBC Capital Markets, Research Division - Financials Analyst*

But how did it not result in, if you're removing I guess at the end of the day you're mimicking the stock portfolio, so it doesn't really change the overall expected return of the invested assets. Is that the way I should think of that?



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**Jacques Potvin** - *iA Financial Corporation Inc. - Executive VP, CFO & Chief Actuary*

No, actually we limited our exposure. So we will get the return within the certain -- within the acceptance range -- within acceptance range. And above are below that range we are not exposed to it. So we've limited both on the upside and on -- and mainly on the downside of the market.

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**Operator**

The next question from the line of Tom MacKinnon with BMO Capital Markets.

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

All asked and answered. No problem. Thanks.

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**Operator**

(Operator Instructions) There are no further questions at this time. I'll now turn the call back to you. Please continue with the presentation and or closing remarks.

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**Marie-Annick Bonneau** - *iA Financial Corporation Inc. - Head of IR*

Okay. Denis will come back with key takeaways from the call.

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**Denis Ricard** - *iA Financial Corporation Inc. - CEO, President & Director*

I just want to a couple of things here that I put a note. We're very pleased with the fact that the individual life insurance sales seems to be on the right direction. You know what, in the past year, we've gone through situations where there has been some blips and we've always been able to come back. So this is certainly a core business for us and we intend to continue to grow for sure. The other thing that I think is worth noted here is the fact that the expected profit on in-force is showing the strength of our business. There are margins there. We are obviously working hard to make it happen. It's doesn't come easily. But when we said to you at the Investor Day that we were having different initiatives to increase the profitability of our in-force, well, there you go. I mean, you have the answer. The cap -- on the capital side, as I've heard in the call, we've never been in such a great situation. So we have the lot of dry powder to grow on the acquisition side. And lastly, the U.S. business, I mean, the U.S. business is fantastic these days. And it's because it's again is the hard work of our people. And we are very confident that the growth will continue. So that's about it. Thank you very much.

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**Marie-Annick Bonneau** - *iA Financial Corporation Inc. - Head of IR*

Thank you all for attending today. I just want to remind you that our third quarter 2019 results will be released on Wednesday, November 6 in the morning. And the conference call will be held on the same day at 2:00 PM. I thank you, again. This concludes our call for today.

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

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