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IAG.TO - Q1 2019 Industrial Alliance Insurance and Financial Services
Inc Earnings Call

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MAY 09, 2019 / 3:30PM, IAG.TO - Q1 2019 Industrial Alliance Insurance and Financial Services Inc Earnings Call

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PRESENTATION

Operator

Greetings and welcome to the First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded, Thursday, May 9, 2019. I would now like to turn the conference over to Marie-Annick Bonneau. Please go ahead.

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

Thank you. Good morning everyone and welcome to our first quarter conference call. All our Q1 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 one 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 Denis Ricard, President and CEO.

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

Good morning everyone and thank you for being with us today. First, I'd like to go around the table and introduce everyone. Jacques Potvin, Chief Actuary and CFO; Renee Laflamme, in charge of individual insurance and annuities; Carl Mustos, responsible of our mutual fund business and distribution affiliates; Normand Pepin, Executive Vice President and Assistant to the President; Michel Tremblay, Chief Investment Officer; Mike Stickney in charge of our US operations; Sean O'Brien, in charge of our Dealer Services in our iA Auto and Home; and (inaudible) responsible for Group businesses. Today is the last conference call for Normand and Michel who will both be retiring during the second quarter. On behalf of the Board and Management, I want to thank them for their respective contribution to the success and development of iA.



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Now with the results. Globally, we are pleased with the first quarter, which is in line with guidance and with our long-term growth objective. I will first comment on business growth in our different lines of business. Please refer to Slide 4. Starting with individual insurance, sales of CAD 41 million in Canada were lower than last year, partly due to a decline in excess premiums. Minimum premiums also decreased, but were generally within expectations. Our distribution networks continued to be active as shown by the year-over-year increase policies sold during the quarter.

On the individual wealth side, in the context of a difficult RRSP season for the fund industry, we are quite pleased to post positive total net flows for the first quarter. While the mutual fund business remained challenging, the results coming from our affiliates were positive. On the seg fund side, gross fund sales of more than CAD 610 million were similar to same quarter last year, which is a very solid result. This allowed us to rank #1 for net sales and second for gross sales.

Now moving to Group businesses were all divisions posted solid growth. Employee plan sales were up by 33% and Group savings and retirement by 26%. As for dealer services sales increased by 7%. The increase came mostly from P&C products and car loan origination. Special markets solutions sales were also quite good with a growth of 13%. Overall, we recorded double-digit sales growth in our Group businesses and it was as strong with our U.S. operations. Indeed, we are also very satisfied with the growth of our U.S. divisions. Individual insurance sales grew by 11% and dealer services sales by 25%. With such a strong momentum, we will continue to focus on the U.S. in our growth strategy and to look for opportunities to increase our presence in these markets.

I will conclude on business growth with 2 important metrics, Premium and deposits and assets, which both posted year-over-year growth. Net premiums and deposits continued to increase during the first quarter and were 2% higher, while assets under management and administration were 4% higher. Another important metric is the book value per share and by generating a 10% growth of the book value per share over the last 12 months, we demonstrated again our ability to create value.

I will end my introduction comments with a few words on financials trend. As you may know, I [diverted] our attention to our balance sheet and I'm quite pleased with our overall situation. As Jacques will explain in further details, we continue to have a very comfortable financial position, which allowed us to pursue our buyback program and to increase by more than 8%, our quarterly dividend to common shareholders.

On that note, I'll now pass it over to Jacques to comment on our Q1 profit.

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

Thank you, Denis and good morning everyone. In terms of profitability, we are satisfied with the results of the first quarter, which are globally as expected. As you can see on Slide 5, reported EPS of CAD 1.40 was better than expected and 9% higher than Q1 last year. Core EPS of CAD 1.28 is within guidance, near the midpoint of the target range. It is less than Q1 last year, but as you may remember core EPS of Q1 2018 was particularly good, due to mainly to positive policyholder experience in many lines of business.

Reported and core ROE are respectively 12.4% and 12% are strong and in the higher end of guidance. Items of note appear on Slide 6. At 24%, the effective tax rate was higher than expected and impacted negatively our earnings by CAD 0.05. Policyholder experience, which I will comment in a moment was also unfavorable by CAD 0.04. On the positive side, in addition to market-related gains, strain and income on capital were better than expected.

Slide 7 presents policyholder experience by lines of business excluding market impact. We report an experience loss of CAD 0.06 per share in individual insurance. This comes mainly from mortality and morbidity experience and higher expenses. Results of our Group businesses and U.S. operations were solid and represent a total gain of CAD 0.03 per share. Despite a hard winter, iA Auto and Home also posted positive results and contributed to the positive income on capital by CAD 0.02.

Moving on to capital, please refer to Slides 9 and 10. As you can see, we continue to have a very comfortable capital position. Our solvency ratio of 124% is well above our 110%-116% target range and higher than 12 months ago. Buyback of 1.8 million shares, implementation of IFRS-16, and the narrowing of credit spread explain the decrease from Q4.

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In view of the macroeconomic variation that occur during the first quarter, our solvency ratio reacted consistently with sensitivity vectors provided last quarter. Our leverage ratio is relatively low at 21.3% and should be lower by about 3% when we redeem debentures in May as already announced in April. When we consider our solvency ratio, our capacity to generate capital organically, and our leverage ratio, we have a very solid balance sheet with good capital flexibility. Finally, last month, among other changes, the Actuarial Standard Board decreased the long-term URR by 15 bps. As a reminder, we are already properly positioned in respect of the new promulgated rate.

This concludes my comments. Operator we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question coming from the line of Meny Grauman with Cormark Securities. Please proceed with your question.

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

Hi, good afternoon. You talked about the further deleveraging from an already low leverage ratio. So I'm just wondering, what point to view leverage ratios as being too lower sort of, what can we expect here in terms of, sort of a sustainable leverage ratio over the next year or 2 years?

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

Yes, it's Denis here. Actually, we have not done the exercise of defining exactly where is the point where we believe it's going to be too low. Obviously, the optimization of our capital position is key. So, I think it's a balance between the level of growth that we can get from acquisition in the future, you know, the expectation of what we can do. And we always like to have the idea of having some margin to maneuver with the low ratio. But it's, I guess, it's too early to tell right now, what will be the level at which we were going to see this is too low.

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

I guess, putting it another way, is this a reflection that you're maybe getting a little bit more concerned about the risk environment. Can we read into this continuing deleveraging, a sign that you feel you have to be more defensive in nature?

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

I don't know, I don't think you should read that. You should rather read that, you know, we have more ammunition for growth.

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

And if I could just ask another question in terms of the P&C business, assuming with the results in Q1, but we know that there were significant weather events, I guess still ongoing in Q2. So I'm just wondering if you give us any guidance on what your claims experience is right now for Q2 given the flooding and what kind of outlook do you see for that business, given the natural disasters currently happening?

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

Yes, this is Sean O'Brien. So we are seeing higher claims in Q2 related to that. But our current outlook is that we're still going to be able to be on plan for the year. So the current experience is probably about a minus CAD 0.02 for the quarter that we've seen so far, minus CAD 0.02.



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

Thanks for that.

Operator

Our next question coming from the line of Gabriel Dechaine with National Bank Financial.

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

Just to clarify, that minus CAD 0.02, you're talking about the current quarter impact of Quebec floods?

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

Yes, that's correct.

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

Got you . Okay, first question is on the, well, first real question, on individual wealth. So earnings growth was negative year-on-year and we get that weak starting point from what markets did at the end of last year. I'm just wondering if there's a way to quantify how you're positioned vis-a-vis your -- the guidance that you gave for this year for the wealth business there was supposed to be a drag on earnings. But given what markets did during the quarter there are very strong, are we possibly ahead of plan there? It's hard to kind of figure that out.

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

Thank you Gabriel, Jacques speaking. For sure it's a positive for us. So in addition, with all the initiatives we are working on, we are really confident in delivering our 10% growth and perhaps above.

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

Okay. So the wealth, just if you can confirm that the wealth outlook is probably tracking ahead of plan.

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

Yes.

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

Okay, thanks. My next question is about individual insurance where we had the negative experience loss during the quarter. I mean, I don't want to dwell too much on the quarter. But a couple of things, one, the expense, experience was the bigger component of that loss. I thought expense management was going to be a positive driver of growth this year. Then second on, maybe a more extended period, if we look at that business, excluding market impact, it's been pretty volatile with earnings growth down 26% 2017, up 15% this past year 2018 and now we're down 2% in Q1. That's excluding the market impact on the UL business by the way. I'm just wondering, is there an internal view on how volatile that business has been and have become and what you're possibly going to do about it?



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

Jacques Potvin speaking. In fact when we prepared the expected profit, you know, when we look at experience gain and loss, you have always to factor in the expected profit as well. And every year we don't have crystal ball, so what we do is our best to give our best shot in regard of expected profit and after that the experience materialize during the year, creating gain and loss. When I look at the first quarter and the recent quarter, I don't see any trends here that makes me uncomfortable with our guidance for the year.

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

Okay. Maybe I'll follow that up at a later date. And my last one is just the tax item, the CAD 0.05, is that truly a one-off because it sounds like it was attributed to being a multinational corporation, which -- while you are and that's not changing anytime soon, can you explain that one a little bit more?

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

Jacques speaking again, actually it's related to the Canadian Investment Fund that brings volatility to the results. The Company status as a multi-national insurer has resulted in higher than expected taxation of foreign investment assets. Part of the loss is related to the macroeconomic variation we had during the quarter. What I can add to that is the new structure we will implement will reduce that volatility of the CIF element. And I'm quite confident that for the year our guidance, I didn't change the guidance, because I still believe our guidance will be good for the year.

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

Thank you.

Operator

Our next question coming from the line of Sumit Malhotra with Scotiabank. Please proceed with your question.

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

Thanks, good morning. Probably start with Denis, I want to make sure, I captured all of the expense commentary that Gab was getting at. If we go back to some of the conversations we've had Denis, you've talked about iA needing to be smarter in terms of how the company thinks about and allocate the technology spend, and you have given us a number somewhere in the CAD 80 million range. So when we see the expense experience being negative in individual insurance, is it appropriate to think about that related to any project or technology spend or was this a little bit more specific than that in terms of the start to 2019?

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

No, you're absolutely right, Sumit. It's based on all the initiatives that we are having. And as you mentioned, we have invested significantly in improving our different platforms and technology has been a key theme here, so you're right. But on the other hand, you also have to know that, there's a bit of timing issue here in terms of the expense so that some of these expenses you should not see. I would say these losses being recurring event during the year. In fact, we believe that we may see some recovery even at the end of the year.



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

All right, so it's basically, to be formulaic about that, you bake-in some level of investment spend, and in any given quarter it could be higher or lower and that's obviously going to drive what you report to us in terms of experience?

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

You're correct.

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

All right. So that's more back and forth, we'll call it.

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

Maybe Jacques would like to add some flavor on that.

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

Sure, yeah.

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

Yes, the only thing I will add on that, we have to remember that the expected we factor in some synergies there in the expected profit.

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

From the acquisitions or -- when you say synergies?

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

If you remember what we said at our Investor Day, investment in technologies and there will be expense synergies in our trend line of business. So it has been taken into account in our expected profit. That's the only point I wanted to add.

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

Okay. I hear you there. And maybe Jacques, while you are there, let's stay with you on Slide 10. So you've given us this capital flexibility number or bullet over the last few quarters and you put the number out there of potential capital deployment of CAD 1.1 billion. Can you just remind me in terms of your key levers, your solvency ratio and your leverage, what are you contemplating in that CAD 1.1 billion estimate?

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

What we have here to consider is, all the different constraint, there are some constraint in regards of Tier 2, as a percentage of Tier 1, limitation of the pref share path as well as the core ratio. So that CAD 1.1 billion is really the capital we can deploy and making sure that we are respecting all those trend metrics.



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

So I'm guessing you'd go to the low end of your LICAT ratio target range and what are you -- what would be the constraint on leverage?

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

The leverage we increase that to close to 30%, in regard of the ratio, it will be 116% not the bottom of our range, it's really the top range. The core ratio is a constraint, that is hurting us a little bit more on that.

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

Okay. So 116-ish on LICAT and all the way up to 30 for leverage would get you that full number?

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

Yes.

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

All right. Last one for me and probably back to Denis for this. One of the interesting disclosures, you had given us at Investor Day was and thinking about the growth targets you laid out, one area we should put more weight into than perhaps we have in the past is some of the investments you've made in distribution. I know this quarter there was a reference to PPI fee income being a bit lower. So again, maybe not to focus just on one quarter, but when we think about Hollis, PPI, ABEX, these distribution investments you've made, what's the best way in your opinion for the market to track your progress on how distribution acquisitions or investments from iA are proceeding towards the growth objectives you've communicated to us?

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

Well, if I look at one KPI is the expected profit on in-force, this is where we embed the various results of those acquisitions. So that would be my answer.

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

All total company expected profit?

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

Well, if you talk about wealth management, for example, you just -- if you look at the EPIF (expected profit of in-force) of the wealth management and on the life side it will include PPI.

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

All right. We'll stay on top of that. Thanks very much.



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Operator

Our next question coming from the line of Doug Young with Desjardins Capital Markets.

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

Good morning. Just maybe Jacques, to clarify that tax item of CAD 0.05, I guess I wasn't crystal clear. Is that just an unusual item that won't recur or is that something that could recur in a few quarters, but then is going to actually as you make some adjustments is actually going to move down, I just wasn't crystal clear on that.

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

The best way Doug to answer that will be to say that, I still believe, we will meet our guidance for the year, but there will be some volatility. So the CIF is bringing some volatility there depending on many, many different factors. So it's quite difficult to completely predict. And like I said, our evolution to the new structure with the Holdco will help to reduce the volatility going forward. But we won't be there -- I expect to be there by the end of fourth quarter or beginning of next year.

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

Okay. So it's going to stay, but basically you're making some adjustments in some of your -- already adjustments you've made should help you reduce that impact over the next year. Is that fair characterization?

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

Could you repeat -- could you repeat, please?

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

Well, the time, just wanted the tax item is going to continue to be there, but you've made some adjustments around the holdco structure and some other changes that should help you alleviate that pressure over the next year.

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

Like I said, Holdco structure will materialize now in Q4 or Q1 2020. So we will expect to continue to have some volatility, but overall for the year we expect that we will be within our target guidance.

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

Okay. And maybe just -- maybe on to the mortality and morbidity in the individual insurance, can you just unpack exactly what's that related to?

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

It's -- our life insurance book of business. Actually last year or for the -- we had 3 positive quarter, 1 negative quarter. Overall it was a CAD 0.03 gain, the first quarter this year started negatively, but it's volatility. So I don't see any trend here. Yet.



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

And that's on mortality and morbidity?

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

It's on mortality mainly.

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

And what's the morbidity?

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

Negligible.

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

Okay.

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

It's disability and critical illness exposure.

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

Okay. And then just you had unfavorable experience in the P&C products, was mentioned in dealer services, is that related to extended warranty? It's the first time I think I've seen that, maybe I missed it otherwise. But just hoping to get a sense of what actually occurred there?

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

This is Sean. That was -- it was related to our replacement insurance policy in the first couple of months. And we expect that won't be reoccurring.

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

Replacement insurance mean residual value or is that?

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

No, it's a policy that covers sort of after an accident covers or bring you back to the -- an OEM product.

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

Yes, yes.

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

(inaudible)

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

Yes, okay, I got that. Okay. That's it from me. I will leave it there. Thank you very much.

Operator

Thank you. Our next question coming from the line of Thomas MacKinnon with BMO Capital Markets.

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

Yes, thanks. Couple of questions here, just wondering, as we kind of move into potential actuarial assumption review, if there is anything that you might be able to share with us, in particular with respect to the IRR, I think we've got, as you show on Slide 19, you talk about 42 bps of protection, over and I guess that's over the Canadian 30-year rate at December 31. Would you have a Canadian 30-year rate now of 192. So based on my math if we went below 176 have you kind of run out of protection here and you would have to start to beefing up the IRR or beefing up reserves for the IRR?

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

Thank you for the question, Tom. Like any other years, iA is doing management actions to manage the interest rate exposure to make sure that we can concentrate on the long-term view that the management of that kind of business with a long-term view. So it's the same in the first quarter this year, we did some management actions. So I don't have any pressure whatsoever. I have -- debt margin has been replenished and we are very well positioned and in regards of year-end decisions if the current interest rates stay at that level, I have the power to cover that.

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

So, why do you put in this 42 bps of protection because from what you're telling me, you've got management actions to help you even if you did go beyond this 42 basis points of protection?

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

Tom, we've always presented that protection, we work with it during -- it evolved during the year. We've never provided that number except for the protection at the end of the year. That's where we want to make sure that our reserve are well positioned, we have -- always have a prudent approach. And during the year, it increase and we use that margin to manage the reserve change at during Q4, that's the way we've been working and we will continue to work that way. But presenting a number will be very complex.

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

Okay. So, I think what you're saying is, if I take 42 bps of the 2.18 that we start -- with December 31, that's 176, even if we went below that you still have management actions to cover yourself?



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

Exactly. You're totally right, Tom.

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

Okay, thanks. Then with respect to CTL, the non-prime payments receivables, they are up 8% quarter-over-quarter to CAD 572 million and they've gone up 50% year-over-year, do you have any kind of internal threshold. I know that, the credit losses remain pretty comfortable with respect to this business. But is there any kind of -- help us feel comfortable with this kind of growth in this business?

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

So, this is Sean O'Brien. We have a limit set at CAD 750 million or a review line set at CAD 750 million. And we expect to probably hit that in 2020. And the growth we're seeing this year is on plan, what we are seeing is, though the industry is growing in total, so although new car sales are down, there are more non-prime applications coming to the market. So we're kind of benefiting from an industry growth in that area.

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

Okay. And so, what happens at CAD 750 million, do you have an internal review and you say, yes, business is good, let's just keep our pedal on the gas here or foot on the gas or what -- help us understand what would happen in this review?

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

Yes, we would review the growth we've had in there. The growth we're seeing is very measured growth. We're actually continuing to take more near-prime business and better credit. And the incoming application volume we're seeing is reflecting that. So we take a look at the mix of business and therefore comfortable with it move ahead.

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

Okay. Thanks for the color.

Operator

(Operator Instructions) Our next question coming from the line of Mario Mendonca with TD Securities.

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

Good afternoon. Jacques, can we go back to the explanation you offered to one of the questions, I know it's Gab's question, you said it's appropriate to look at expected profit and experience gains together. Now I fully understand that, something I have done for some time now. When I take a look at that and I exclude market related experience gains, so I want a cleaner look at the underlying business here. The observations are fairly clear, over the last 2 quarters, the sum of experience gains, so non-market experience gains and expected profit, if you look at that year-over-year, it's deteriorating, it was down, say 8% in Q4 '18, down another 6% in Q1 '18 year-over-year. Can you help me understand, like what are we seeing here, is the individual insurance business just becoming structurally less profitable. And if so, what are some of the reasons for this?

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

I don't believe that the line of business is becoming less profitable, the business grow our PfAD at what we said are still well positioned. Extra gains there will be some volatility in -- from one year to the other. What I wanted to answer to Gabriel was mainly that -- was really the fact that, one, when we look at the volatility, we should look at everything like, what you mentioned, but I'm fairly confident that my assumption are very well positioned that we have the good Pfad in place to face what is coming. So that's the way I'm looking at it.

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

Okay, so I looked at over the last 2 quarters and admittedly, that's a fairly short period of time. So I also looked at it over a long period of time. I looked at 2018 relative to all of '17. And that's where you see the growth still emerging. So, is that what you would advise us to do, not to focus on these two quarters, but just take a nice long-term approach, and because on a longer-term basis, the sum of expected profit non-macro and experience, I'm sorry, expected profit to non-macro experience is still positive. Is that what you'd guide me?

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

Exactly, Mario. You're very good at explaining it. I am always looking at that line of business, our commitment to policyholder will mature on average in 40 years, so that we will manage that business with a long-term view. It's always that we will look at it and there will be some volatility from one quarter to the other, but we need to manage that business with the long-term view.

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

Okay. Now, on the tax thing and just the tax then throws me off a little bit, the Company has been multinational for some time, but you say Jacques that, there was greater volatility and that's what sort of triggered the higher taxes, is that way how you describe it?

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

Yes, however, our project to go into an Holdco structure is to give us more room to -- so that we are less exposed to that volatility. But we're not there yet, so what we're seeing here is really what we were expecting in regard of the fact that the magnitude of the volatility could be higher, that's why we are moving to the holdco structure. And I would say that, the big part of the volatility is coming from the different market variation that will happen on those asset classes there. Asset, we have asset that are in the international firm, asset in the Canadian firm and both of them will work differently from one quarter to the other quarter and that brings the volatility.

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

Okay. So when you say you're comfortable with where the tax guidance is now, but you won't have a more permanent solution until much later. Can I just read between lines and take that to mean, there just could be some unusual tax gains emerging over the next few quarters that offset the higher tax rate, is that about right?

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

No, with tax you can -- we can say that way, I tend to look at the Core on a yearly basis. So on that one is like that (inaudible) the tax guidance, we look at it on an annual basis, taking into account that we will have the holdco structure. And that Holdco structure will help to reverse some of the things that we've seen in Q1. So that's the way we look -- I am looking at it.

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

Okay. Thank you.

Operator

Our next question coming from the line of Scott Chan with Canaccord Genuity.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

Maybe going back to Sean on the car loans, on slide 16, can you remind me why the average loss rate has declined since CTL, is it the mix of business or seasoning or is it something else?

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

Yeah, sort of the gradual decline we've been seeing is, reflects the better mix of business we've been seeing. So moving more from non-prime when CTLs are started to near-prime in today's market. Any way it has started to stabilize, so you could see the sort of the loss number in Q1 that starting to show with the seasonality popping in, but it's right where we want it.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

And could you share perhaps a proportion of what's non-prime and what's near-prime in that portfolio right now?

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

It's hard to drive the mix of the line, but our top 2 sort of categories, we call them gears represent 60% of our business.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

Gear is non-prime?

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

Yes, our risk grid I guess you call it, yes.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

Okay. Thank you very much.

Operator

Our next question coming from the line of Darko Mihelic with RBC Capital Markets.



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

Just first a clarification and maybe if you can also provide some color. When I look at the sales numbers in individual insurance for Canada, I think in the beginning of the commentary, you suggested that some of the decline was expected. Can you provide a little more color on why that is and -- but more importantly, what is your outlook for sales and are you doing anything on the sales side that would suggest that sales should be better for the rest of the year?

Renée Laflamme - iA Financial Corporation Inc. - Executive VP of Individual Insurance and Annuities

Hi, this is Renee speaking. So of course, we are not pleased with the results from CAD 46 million to CAD 41 million this quarter, quarter-over-quarter. As Denis mentioned, most of this variation comes from the excess premium. The minimum premium we're striving to get 5% growth. What we've said is, not so far from what we're looking at, but we're minus 5%. We certainly want to move back to plus 5% for the year. We certainly have initiatives and I will summarize that in threefold actions on distributions, on product and on technology. Those initiatives you will start seeing some effect in Q3 and full effect in Q4 and beyond in 2020. So I don't know if that answers your question?

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

So it suggests that really we should be expecting stronger sales starting Q3 and Q4. And I guess the other side of the question is, is there something going on in the marketplace with respect to pricing that we're seeing from competitors or is it something that's happening purely on the distribution side?

Renée Laflamme - iA Financial Corporation Inc. - Executive VP of Individual Insurance and Annuities

In terms of, there's nothing specific on pricing. Distribution is always important, there are different products, different aspect, technology and distribution. So that's why we have all those initiatives on the threefold that I've said before.

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

Okay, fair enough. So the current level of sales or something, let's say we should consider for Q2 and then thereafter we should see a bump once your initiatives start to take hold, is that a good way to think of it?

Renée Laflamme - iA Financial Corporation Inc. - Executive VP of Individual Insurance and Annuities

It's a fair statement.

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

Okay. Thanks very much.

Operator

Thank you. Mr. Ricard, there are no further questions at this time, I will now turn the call back to you. Please continue with your presentation or closing remarks.



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

Okay, thank you very much. As you've seen here, with the quarter as -- there are 3 things I'd like to talk about in the quarters. The first one is, in terms of profitability, it's the 10% expected profit in-force increase. So we're pretty pleased with that, it the other -- we like the 10% number because at the end of the day, we also had that number for the book value increase for the year. So that's been quite positive. On the sales side, there are some very good spot, very bright spot like the U.S. is one of them. We're very pleased with that growth. And obviously there are areas to improve and it was identified in the call. And keep in mind that, in the past, this organization has been able to identify quickly where is it that it needs to improve and make the necessary steps to improve it. We've seen that recently with iA Auto and Home and Group. So that's my second point, sales, very confident that we can bring that back up. And lastly, capital generation, you've seen it in the quarter, we are delivering on our capital generation objective. So with that, I'll leave it to -- it's done. Okay, so thank you very much.

Operator

Thank you. 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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