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PRESENTATION

Operator

Greetings, and welcome to the Industrial Alliance Third Quarter Earnings Results Conference call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. (Operator Instructions) As a reminder, this conference is being recorded on Wednesday, November 3, 2021. I would now like to turn the conference over to Marie-Annick Bonneau, Head of Investor Relations. Please go ahead.

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

Good afternoon, and welcome to our third quarter conference call. All our Q3 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 risk is provided in our 2020 MD&A available on SEDAR and on our website.

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

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Good afternoon, everyone, and thank you for joining us on the call today. As usual, I will start by introducing everyone attending the call on behalf of iA. First, Jacques Potvin, Chief Actuary and CFO; Mike Stickney, Chief Growth Officer and responsible among other things for our U.S. operations; Alain Bergeron, Chief Investment Officer; Renee Laflamme, in charge of Individual Insurance and Saving; Sean O'Brien, responsible for our mutual fund business and Wealth Management distribution affiliates; Francois Blais, in charge of Dealer Services, Special Markets and iA Auto and Home; and Eric Jobin, responsible of our group businesses.

IA Financial Group's third quarter results released this morning are solid and exceed expectations in many respects. They are a very good indication of the soundness and robustness of our business model. Indeed, as we continue to be focused on the execution of our strategy, sales momentum remained very strong, the investment portfolio and financial position are robust, and profitability is very high.

Slide 4 presents 6 key performance indicators. All of them are very solid. Starting with profitability. Core EPS of $2.23 for the quarter is again above guidance. This result raises the profit for the first 9 months of the year to $6.31, which is $0.21 above the top end of our year-to-date target range. Core ROE of 14% is at the top of guidance and in the middle of the midterm target range of 13% to 15% that we wish to move forward by 2023, as announced at our March 2021 investor event. This metric is on a trailing 12-month basis and demonstrates the strength of our last 4 quarters.

The next 2 metrics are reflective of our tremendous growth momentum. First, premium and deposits totaled a solid $4.1 billion, up 4% above a very strong quarter last year. As our AUA/AUM of more than $214 billion, it represents a significant 15% increase over the last 12 months. Our capital position is solid, with 131% solvency ratio, up by 1 percentage point, to which should be added our distinctive market protection now equivalent to 8 percentage points. Finally, we placed great emphasis on growth in our book value since it represents the actual value-added for our shareholders. This ratio, which has been growing on average by 10% per year over 20 years, has increased by 12% in the last 12 months, a great performance.

Now turning to Slide 5, which illustrates our business mix. Starting with foundation businesses in which we already have a well-established leadership position, Individual Insurance, Wealth Management and Dealer Services in Canada all exceeded profit expectations in Q3. As for sales, the very strong momentum continued in individual insurance and for net fund entries in Wealth Management. As you know, our strength in distribution, our high-performance digital tools and our broad product offering are the main factors supporting our success in retail insurance and wealth.

In our support businesses, I want to highlight another quarter of strong profitability from iA Auto and Home, our Quebec P&C affiliate. In addition to its contribution to the company's profitability, iA Auto and Home, like our other support businesses, is a source of synergies. With this in mind and to offer our clients outside of Quebec, easier access to P&C products, we announced yesterday the acquisition of 70% of Surex. Mike will comment further on this acquisition in the next few minutes.

Finally, our expansion activities, which are our distinctive activities with high growth potential, performed well in the third quarter. Noteworthy, our sales in the U.S. Dealer Services division, which grew by 33% year-over-year. In the context of low car inventory, this result confirms the growth potential of this market. We continue to execute our digital strategy, a multifaceted program that includes a 360 client view, operational efficiency and talent development. By bringing together IT, client experience and employee experience under the responsibility of Pierre Miron as Chief Transformation Officer, we've put in place key conditions for success as we move forward with this project. On another note, employees are essential to iA success, and we are committed to being an employer of choice. This is why, as announced in August, we've opted for a hybrid and flexible approach to post pandemic work, an innovative approach that was recently recognized by the Healthy Enterprises Group.

In closing, as the COP26 conference unfolds, a word on ESG. Participating in the global effort to mitigate climate change is a priority of our sustainable development program. In addition to being carbon neutral since 2020, we're working to achieve our greenhouse gas reduction targets while analyzing how we can go even further. I will now let Mike comment further on business growth. Following Mike's remarks, Jacques will provide more information on our Q3 earnings and financial strength. I will pass it over to Mike.

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

Thank you, Denis, and good afternoon, everyone. With double-digit business growth in several of the group's sectors, Q3 sales matched the performance recorded in previous quarters. Sales were solid even when compared to a very strong third quarter in 2020, thanks to diversified business mix that allows for synergies and complementary products sold between business units. Individual Insurance and Wealth Management added another great performance through the recent string of successes. We also saw strong results from U.S. Dealer Services despite the low vehicle inventory environment. These results further confirm the strong growth potential of this segment, which contributes to the increasing proportion of capital-light products in our business mix.

Now please refer to Slide 7, as I will comment on our Q3 sales results by line of business. In Individual Insurance, strong momentum with total sales of $68 million during the third quarter, a substantial increase of 28% year-over-year that further cements our leading position in the mass/mid market. Again, this quarter, growth was supported by the combination of 3 factors: Strength of our distribution networks, the superior performance of our digital tools and our comprehensive range of products. In fact, this was recently recognized by the industry when iA ranked #1 overall in the Advisor Perception Survey for the very first time.

Now looking at Group Insurance, Employee Plan sales amounted to $19 million compared to $26 million for the same period last year. As you know, sales in this sector tend to vary considerably from one quarter to another, depending on the size of the contracts sold. In the Canadian Dealer Services division, sales of $300 million are similar to those of $310 million from a year ago, a good performance in the context of vehicle inventory shortages. In the Special Markets division, sales were up 20% year-over-year, driven by the sales of AD&D and critical illness. In the U. S. now, Individual Insurance sales of $34 million were similar to those of a very strong quarter last year and up 6% year-over-year for the first 9 months of the year. In the Dealer Services division of our U.S. operations, sales were 33% higher than last year, resisting the industry's inventory challenges. These very good results are mainly attributable to the strong synergies between DAC and IAS. Note that the persisting low vehicle inventory situation is expected to impact sales for the remainder of the year for both Dealer Services divisions, both Canada and the U. S.

Now turning to Slide 8 for Individual Wealth Management. Guaranteed product sales continue to be good, totaling $213 million. Looking at segregated funds, the company continued to strengthen its position in the industry and ranked first in net sales for the first 8 months of the year. Gross segregated fund sales exceeded $1.1 billion, up 58% year-over-year, while net sales totaled $839 million for the quarter, more than doubling year-over-year. As with Individual Insurance sales, distribution networks and digital tools have been the key to our success. Now we are enhancing our product offering with the addition of 4 new global segregated funds as recently announced to the market.

As for mutual funds, sales growth was also excellent, thanks to the strong performance of the fund lineup. Indeed, gross sales were up 21% year-over-year and net sales recorded solid inflows of $261 million for the quarter, showing continued momentum in bringing net sales close to $1 billion on a year-to-date basis. In Group Savings and Retirement, very good sales of $810 million compared with those of $1.2 billion a year earlier, when a major insured annuity contract was signed. Finally, direct written premium in our P&C affiliate, iA Home and auto continued their steady growth and increased 7% year-over-year. Overall, premiums and deposits totaled more than $4 billion during the third quarter, driven by the Individual Wealth Management sector. In addition, growth of the financial markets and solid net inflows of funds propelled assets under management and administration to a record level and resulted in a 15% increase year-over-year.

Turning to Slide 9. As introduced by Denis, we've just announced the acquisition of 70% of a digital P&C distributor named Surex Direct. This acquisition has a high strategic value because of Surex's digital expertise and distribution capabilities. It is also a good strategic fit as Surex will act as a growth generator for the other business units, giving our clients access to the P&C market across Canada. Surex further enhances our well-established strengths in distribution, product shelf and digital tools. In addition, it is a capital-light business expected to contribute to the ROE expansion of the company. I will now turn it over to Jacques to comment on Q3 earnings and capital strength.

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

Thank you Mike, and good afternoon everyone. Again, this quarter, results were strong and earnings were above expectations. Starting with Slide 11, which compares our results with the guidance that was provided at the beginning of the year and on which you can see that both for Q3 and year-to-date results are generally in line with our better than guided. This is true for core EPS as well as for core ROE for the trailing 12 months, a key metric that we aim to increase. Core ROE is currently at the very top of our guidance range, owing to our solid performance in the last 12 months. Also, both organic capital generation and the solvency ratio are above guidance. Finally, the dividend payout ratio reflects the combined effect of current regulatory restrictions, prohibiting dividend increases and our good profitability.

Now refer to Slide 12, on which we compare core earnings to reported earnings. Overall, the impact of market was nil this quarter, and the only adjustments were for IAS integration costs, which were slightly higher than expected. And amortization of acquisition-related intangible assets and non-core pension expenses, which were close to expectations.

Slide 13 presents the source of earnings for Q3 results on a core basis. First, when adjusted to exclude Q2 2020 IAS expected profit, which, as you may recall, was recorded together with the results of the third quarter of 2020, core expected profit of $255 million for Q3 2021 is up 11% year-over-year. This increase in expected profit can be explained essentially by organic growth, mainly high net fund entries and a favorable impact of financial market. In addition, policyholder experience gains contributed to the strong profitability with a $0.06 EPS gain. Experience was particularly favorable for Individual Insurance and Dealer Services in Canada. For more details regarding policyholder experience by sector, please refer to Slide 22 in the appendices, where you will know that an experience loss was recorded in our U.S. Dealer Services division in Q3. A provision for sales bonuses due to the strong year-to-date sales, slightly higher claims and timing of revenues explain this result. The latter has come about as we harmonize and refine the practices across the units of this division. This exercise, which will shortly be completed, brings some temporary volatility in the results of our U.S. Dealer Services. More specifically, the impact was a little negative in Q3, but the finalization of this refinement should result in a positive adjustment for year-to-date results that will be recognized in Q4. Overall, year-to-date core experience for this division has been better than expected.

The next item in the source of earnings is the impact of new business, which with a strain of 3% for Q3 and 2% year-to-date is very close to expectations, being in the middle of our target range. iA uses a conservative approach to manage the impact of new business, and we are pleased with the current level of strain close to 0. Particularly as we prepare to transition to IFRS 17. Income on capital was higher-than-expected in Q3, resulting in $0.10 EPS gain. This result is essentially attributable to the very favorable experience from our P&C affiliate, iA Auto and home, mainly due to lower claim ratio, mostly from home protection. Finally, income taxes were within guidance, but slightly higher than expected, resulting in a $0.01 EPS loss. In the end, a $2.23 core EPS was $0.08 above the top of our guidance range.

Moving to Slide 14, which provides an update on the additional protection added to the reserve to account for the pandemic uncertainty in 2021. During the quarter, the mortality was slightly higher than expected. This results in an experience loss in Canada, while in the U. S., it was offset by the carryforward provision arising from better-than-expected mortality in the first half of 2021. Please note that there is still a carryforward provision amount available in the U. S. for potential use in the future. As for adverse policyholder behavior, the additional protection remains intact as no adverse experience was recorded during the quarter.

As shown on Slide 15, we maintain a very strong financial position with a solvency ratio of 131%, well above our target range. In Q3, the increase in the ratio was supported by continued organic capital generation, while the impact of market-related variation was slightly unfavorable.

Now to Slide 16, which shows that the equivalent of 8 percentage points can be added to our solvency ratio to reflect our distinctive market protection, enhancing the robustness of our capital position. Organic capital generation was again very strong this quarter at about under $150 million, and after 9 months, we have already exceeded our target for the year. Organic generation is highly dependent on profit, of course but it is also correlated with the macroeconomic environment and the business mix. In Q3, all the sector had a positive impact on organic generation.

I now refer you to Slide 17. The annual review of actuarial assumption has begun and will be finalized in the coming weeks. Although, the final outcome is still unknown, we expect a nonsignificant impact on the fourth quarter results. To conclude, we entered Q4 well positioned and confident that core EPS for the last quarter of 2021 should be at the top and all above our guidance range, provided that financial market and the evolution of the pandemic remains favorable. Our good results are expected to continue in 2022, although some items that were extremely favorable in 2021, such as our P&C and car loan results may be less so in 2022.

In closing, a few more words about the year 2022, during which we will be transitioning to IFRS 17. Our preparation for the transition continues to progress well, and thanks to our long-term and economically based management approach, we have a strong capital position and will be comfortably positioned to move under the new accounting standard.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from Gabriel Dechaine with National Bank Financial.

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

I'm sure I've asked this before, but the P&C business just keeps knocking the ball out of the park here. And I'm just wondering how we should look at the profitability over the past 3 quarters relative to that $13 million expected level that you put in your slide, excluding seasonality, whatever. Does that differential represent what the normalization of P&C profits could be? Or is this a business that's just simply more profitable than it ever has been because we've been repricing and taking other actions.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

It's Denis here, Gabriel. Thanks for the question. If you look back in 2020, let's say, Q2 and before that, the run rate was something around $13 million, and that's what we kept in terms of guidance. And what you've seen over the last 6 quarters is amazingly much better, obviously. We had -- I mean, I would say that the answer probably, on a long-term basis is somewhere in between those 2 numbers. Because when you think about it, we've made a lot of changes in our pricing of those products over the last several years. And we were already starting just before the pandemic, to get the benefit out of it, and it was accelerating. So I would say that the long-term would be somewhere in between.

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

Okay. Something we should talk about a bit more in detail of in another forum. Now it's more of a philosophical long-term picture type of question here, but if I look at this year's growth, a big chunk of it coming from IAS accretion, the P&C business, auto lending, the lower loan losses. And now you've made the Surex acquisition. And I'm spending more time talking about auto-related and P&C businesses when it comes to Industrial Alliance, very little talking about Individual Insurance because that's kind of not a topic these days. Do you -- I don't know why you've structured your business in a certain way, but to be more capital-light and all that but is the direction you're going with this company, more of a financial conglomerate type structure? Or is that just the way the trends are going these days and your diversified business, some are doing well right now, others will pick up the slack down the road, that type of thing. A bit of a complex question there, but hoping you can talk a bit about that.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Hopefully, I've got an easy answer for that. I mean we've shown at our investor event, the 3 different categories of businesses, and it's still in the package. And that's the way we look at our businesses. And the way you should position Surex, for example, it is really a support business. The same way as iA Auto and Home is a support business. Now we're not buying a manufacturer, and we don't intend to be a manufacturer of P&C. We basically bought the distribution shop. But the idea is to do what we're doing in Quebec. In Quebec, we are basically making some revenue synergies out of iA Auto and Home with the referral programs with either dealerships or with the career network like the life insurance reps? Well, we're trying to do the same outside Quebec with the acquisition of Surex. So I mean, you can see we have a lot of businesses. We are conglomerate but at the end of the day, you really have to put them into categories. We have our foundation business, which are still our main core business, Individual

Insurance, Wealth Management and the other businesses are really there, either the high-growth or to support those businesses where we want to be a leader, basically at the end of the day. Hopefully, that answered your question.

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

It does. Do you have any stats on, I guess, cross-sell from Individual Insurance into P&C products in Quebec? Because it's like going the other way from all Individual Insurance clients in BC or whatever to buy P&C products through -- is there any kind of benchmark that you have for Quebec?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Well, I can tell you one thing is that when I look at the sales of iA Auto and Home in Quebec, the majority of the sales are coming from, let's say, traditional networks like the carrier networks or the dealer business, although we do some direct-to-consumer, but the vast majority comes from, I would say, something around 75% comes from the synergies between other sectors.

Operator

Our next question comes from Meny Grauman with Scotiabank.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Jacques, I just wanted to make sure that I heard you correctly, I think you were suggesting some positive experience in Q4 for the U. S. Dealer Services business. So I just wanted to check that. And if that's the case and understand better why you believe that's likely to be the case?

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

Thank you, Meny, for the question. Yes, right. That's what I said. Actually, we're refining the accounting. There's many different operation. iA has gone through many acquisitions in the recent past, so we have just harmonizing all the approaches and the way of accounting for those different businesses. And we thought we will be able to complete the work in Q3. We were not able. So the part that we booked in Q3 has had a negative impact. It's part of the result but what's coming -- what we have identified since that time is in positive territory. I will say between $0.02 and $0.05. That's what we have, but we are not completed yet. We believe we will complete it in Q4. But so far, there's positive coming, and it's really related to the business year-to-date.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

And it's Denis here. The good news is that when you look at the year in total, with the -- what Jacques is just seeing right now, the expectation is that we're going to be higher than what was expected at the beginning of the year. And at the same time, the business is growing significantly. So so far, we're pretty happy with that business.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Got it. And then just if I'm looking at it a high level, it sounds like you're suggesting somewhat of a normalization in your P&C business also on the credit side of the auto loan business. Where is the offset there? As you look to 2022, what's likely to improve into next year? When I hear you talk about Dealer Services, in particular, it sounds like supply issues will still be a problem. So where is the upside as you look to 2022 in terms of the results?

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

Actually, I would say, it's really a tough question because you know what we're still in the pandemic. If you look in the U. S., I believe the life has come back to normal much more quickly than in Canada. Can we see that today, they are in a normal situation, maybe not, but they are closer than in Canada. In 2022, we will return gradually to normality. So there are things that will settle down for sure. We have had good experience, P&C credit loan experience. We have had some negative as well. If you look at mortality, also group insurance that has been affected negatively. So it's very tough to say at which pace we will return to normal and so on. The best guidance I can provide today, and we will provide the guidance when we will disclose the Q4 results, but it would be quite a wide range that I would give you, but that's maybe -- that's the best we can do for today. So if you use the $6.31 after 9 months, you had the top of the guidance provided for Q4, so it brings it to 841. I would say that you cannot expect a 10% increase over that. So this is the top, really the top of the range that you can have. And we used to increase our guidance year after year by 10%. So if you use mid-guidance of 2021 and raise it by 10%, it's the bottom of the range. So it will be in between those 2, and it will vary about the pace. So we will finalize that, and we will come with a guidance with what's our best view for next year.

Operator

Our next question comes from Tom MacKinnon with BMO Capital Markets.

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

A quick clarification and then a follow-on question. Jacques, the $0.02 to $0.05 in U. S. Dealer Services that you identified in the fourth quarter, is that an experience gain? Is that kind of an expense experience gain, just sort of reversing what was done in the third quarter? Is that how we should be looking at that?

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

No, it's not a reversal of what happened in third quarter. Actually, if you look at that division, there are 3 types of, I would say, income. You have the admin services that you're providing for the admin services. Most of the revenue is earned in the first year because that's where the services -- most of the services is provided. If you look at -- after that, the insurance part because, of course, there are a lot of dealer. We pass some experience with a lot of dealers through reinsurance deal, et cetera, but we're keeping some of that underwriting risk as well. For this one, we set a premium and the premium will -- the profit will be earned over the life of the contract. And after that, there's what we call a clip fee when you have an insurance company that are backing an obligor. And for that part, also, it's insurance. So this profit is earned over the life of the contract over 5 years. So we have discovered by moving to IFRS 4. I'm confused sometime with IFRS 17, sorry for that. So we discovered that practices were not exactly the same for all the different businesses. So what we are doing now, we are moving to a similar approach for all of them. So that's really what is happening here.

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

Okay. So that is actually going to be an expected profit and not an experience gain, correct?

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

It would be, I would say, an experience gain because experience profit is already booked as the expected, but it will add to the total profit. But we will see what would be the experience of Q4. But if we will have recorded it in Q3, it will have added to the expected profit, it will have been a gain.

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

Okay. And if -- now my question is on expenses, though. It seems like the expenses were higher in Dealer Services as a result of sales bonuses. Is that going to continue into the fourth quarter if sales continue to be strong? And then if I look in the group retirement, group savings and retirement, you had an experience loss there related to higher expenses as well. So can you talk about what drove the expense increase in the quarter? And more importantly, do you see -- what are you doing going forward to be able to perhaps curtail those expenses?

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

Okay, that's a good observation, Tom. Actually, of course, when you have such level of sales, you can expect that expenses will be higher. So it's part of the equation for sure. Another part of it also, we mentioned at our Investor Day that we have many digital initiatives. And for those initiatives, you know there are some expenses that have to be spent. You cannot capitalize all expenses there. So this brings also some noise quarter-to-quarter in the different lines of business. So that's really what is happening with the expenses.

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

Okay. That's great. And the last question is just on the U. S. Individual Insurance. The sales are great in 2019 and 2020. Now the decline -- is the decline year-over-year just because they were so good then, and you can't really continue that pace? Or what's sort of happening with the market here? Why we think so good before and then they're starting to decline now with respect to U. S. Individual Insurance?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

I guess this is for you, Mike?

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

Yes. Thanks for the question, Tom. You've got a -- I'd say, read the situation pretty accurately. We had a great run through say, the previous 3, 4, 5 years. Things are kind of flattening off. And I'd say the market continues to grow because the demographics as much as anything, and I think people are more interested in insurance these days. And I think we're continuing to -- we're continuing to work hard on growth and grow our sales, but it's probably not going to run at the rate we saw, say, 15%, 16%, 17% that we saw 3 or 4 years ago. But we're not giving up. I mean, it is -- we try to grow our sales at least 10% every year. So a lot of it is just getting the recruiting and finding new distribution. So yes, we continue to try to grow that business, but it is slowing down a bit.

Operator

Our next question comes from Scott Chan with Canaccord Genuity.

Scott Chan

If I just focus in on expected profit and look at your Wealth Management, you said you did $80 million this quarter versus $67 million last quarter. I mean, 80 is a record high if I kind of look back. Was there something unusual that happened this quarter to drive that? Or with the asset growth and the expected asset work we're seeing in Q4, we should see that number kind of trend a bit higher.

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

It's really a great market performance as well as the net fund entries that really the sum of it here.

Scott Chan

So if those persist, then that should be higher in subsequent quarters?

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

I'm sorry, could you repeat, the sound is not great. I'm sorry, Scott.

Scott Chan

Yes. You talked about the market performance and net fund entries, which I think in Q4 is a lot better than Q3. So from what I'm hearing from you, that should continue to drive better expected profit going forward?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes, absolutely. It's Denis here. Yes, you're absolutely right. I mean we do reevaluate the expected profit for us each quarter. And when you have a good market, good net entries, obviously, this goes up.

Scott Chan

Okay. And just on the seg fund sales and then you launched new products, and I think the new products were -- the 4 new products were kind of post quarter, but is the sales within the segment more industry related, like COVID related? Or is it more specific to iAG, you think?

Renée Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

This is Renée speaking. Thanks for the questions. I think you need to look at it in twofold. What we are doing at iA and Mike mentioned it, the strong distribution, the technology as well as our fund lineup that is very, very competitive. Externally, of course, we see the client behavior with COVID, people having more savings in their pockets and the market being positive. So that's a tailwind for us that is really helping the business. So it's really in twofold, external and internal.

Operator

Our next question comes from Doug Young with Desjardins Capital Markets.

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

Just back on Surex, the acquisition. I just want to confirm, Denis, you're not signaling that you're looking to expand your P&C insurance manufacturing outside of Quebec. Like that's not what this is about. And then maybe just to tag on. It looks like if I look at Slide 9, this business is going to lose money on a net basis over the next 3 years, but be flat on a core basis. And I'm just curious as to what you think the return on capital, like what is the return on capital you expect to get from this business? And how quickly do you get it there?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Thanks for the question, Doug. Well, the answer is very clear on your -- the answer is very clear on your first question. We have no intention to become a manufacturer of P&C outside Quebec. It's really a distribution play here. And regarding your second point, the question was -- remind me what the question was.

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

The question was the return on that...

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

The return -- in fact, for the return, okay, what's going on here? Obviously, when we looked at it, we basically made projections, assumptions as to the kind of synergies that we can get out of this business. And most of the synergies are going to be revenue synergies. And so we don't show it here, obviously, but we have a model where we are going to make some return out of it. And the return at the end of the day, we expect will be higher than the target range that we do target. But it includes the fact that we have some synergies in between some sectors.

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

And those synergies are just through your distribution partners basically cross-selling the new agents that you deal with P&C insurance. And if I'm right that this is going to lose money on a net basis, but it's going to be flat on a core basis. Is that correct?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Well, yes, you're right. But at the end of the day, it does not include any synergies that we can have. We have not modeled -- when we see that it's going to be kind of neutral or a bit negative for the next 3 years. It does not include any synergies from other businesses.

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

And then what division, Jacque, is this going to be reported through?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Well, that business is going to report to the iA Auto and Home.

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

Okay. And then second, on U. S. Dealer Services, just a few things. I mean, I think it was mentioned that your experience was negative because you had higher claims. Hoping you can maybe just unpack that. And then, Mike, the sales up 33% was attributed to synergies. I assume that's cross-sell. Can you maybe talk a little bit about that? What are some of the key drivers for that increase of 33%? Is it mix shift? Is it -- anyway, I'll leave it there, if you can give us a little more detail.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Mike?

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

Sure. There's a question before that question, but I'll leave it to you guys. Yes. On the sales side, 33% number is pretty good. The synergy issue, it's kind of an interesting one. One of the first synergies we identified when we got into the IAS file was that they were using a lot of third-party insurance companies to basically write the clip coverage on the business they sold. So we had a project going last year to transition all of that or most of that business to our insurance company, which is just called DAC. And so that kicked in at basically the start of this year, and that business is now getting recorded or reported as sales for us. And that's about half of the growth that you're seeing in the third quarter. The higher growth numbers in the previous quarters because we didn't own IAS in the first half but any way, it's a better measure now. And then basically, we've got some other tailwinds that have been supporting this business and good news from our standpoint. I think we've done well with our sales mix. We get about 50% of our sales from used car sales or activity, and the used car market has been stronger than the new car market, that's well documented. And at this point, we're starting to see increased penetration at dealerships of F&I products, which is kind of normal in a situation where you've got a market slowdown. So that's another tailwind. And finally, we've been signing up new accounts too, which always helps. And so overall, very positive result, and we want to keep the momentum going as best we can.

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

And the first -- sorry, go ahead, Jacques.

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

Doug, the question about claim is a little bit higher, but not that much higher. And it's normal. It's really returned to normal life, like I mentioned earlier, in the U. S., they are ahead of Canada, we see in terms of return to normal. So it's normal that claim has increased a little bit.

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

So nothing unusual.

Operator

Thank our next question comes from Paul Holden with CIBC World Markets.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

So first question goes back to the P&C business and the expected normalization there. I'm assuming some of the positive experience in the quarter is attributable to the auto business specifically. So maybe you can address that and address in terms of the normalization, some of the cost inflation we're seeing in the industry and particularly out of the U. S. auto insurers. It seems to be a major talking point for this quarter. You didn't see that. Do you expect to see it in the future quarters?

François Blais - *iA Financial Corporation Inc. - EVP of Dealer Services & Special Risks*

In P&C, we're back to pre-pandemic driving behaviors. So you see the results that are in line, slightly better than expected, but it's mostly on home insurance that we've seen some positive increases of profitability.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Second question is related to the organic capital generation, came in at $150 million this quarter versus the normalized expected run rate of $75 million. So wondering what is accounting for that extra $75 million? And then 2, given the type of growth you're putting up in these capital-light businesses would suggest there's some kind of upside to your current guidance range. So maybe you can address that as well.

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

It's Jacques speaking. Actually, the organic capital generation, there are 4 items to it. First one, profit has been great since the beginning of the year, and we intend that it will continue in the future. Second item is the mix of business, like you just said, and capital-light businesses, if you look at our sales results since the beginning of the year, mutual fund, low guarantee seg fund as well as the Dealer Business in U. S., they are all on fire and it's helping a lot. And even when we look at Individual Insurance, the mix is favorable so far. So we continue -- we try to continue to work that it will continue to go that way, for sure. And the third one is economic -- the economic condition. And on that, I will refer you to look at the seg fund guarantee risk and the rolling 9. You will see that last year, actually, we have to put more capital aside to support those guarantee while this year is completely the reverse. And it has to do actually with good economic conditions, the increase in long-term interest rates in Q1 and a good market performance. That's another thing. And the fourth element is the management actions we're doing every quarter to keep our risk profile within our risk appetite and tolerances. And some of those transactions may have -- may need some require capital to support them. Some of them may be neutral, some of them may be positive. And since the beginning of the year, actually, the first quarter, we were -- those transactions were requiring some capital, while in Q3, they were neutral. So all the 4 elements were very positive in Q3. When I look for next year, I can say that it will be much larger. Our expectation will be that -- and touching wood here that condition -- market condition will continue, economic condition will continue. And if we keep the pace with that mix of business, we can, I would say, guide towards something like $450 million, $500 million staff organic capital generation for 2022.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

$450 to $500, so that's a pretty increase versus current guidance. Interesting. That's great and I think that's all the questions I had. Thank you.

Operator

Next question comes from Lemar Persaud of Cormark Securities.

Lemar Persaud - *Cormark Securities inc*

My question is on the group insurance business and what drove flat car loan originations this quarter. I guess I would have expected more of a slowdown or reflecting some of the inventory issues. So maybe you could touch on that and then offer some commentary on the outlook heading into Q4 and into 2022? And maybe give us an update on where you think these inventory shortages might be coming to an end? Is it a 2022 or 2023 and beyond this year. So a lot in there. Hoping any color would be helpful.

François Blais - *iA Financial Corporation Inc. - EVP of Dealer Services & Special Risks*

Hello, this is Francois here. So on the sales side, we did see some slowdowns in Q3 with loan originations and as well on the insurance and warranty side for the car insurance. So although July was pretty positive, then we saw the most part of the slowdown happening after that. And we do expect that this will linger in Q4 and beginning of -- in Q1 as well in 2022 with some more getting back to normalcy after this rough patch.

Lemar Persaud - *Cormark Securities inc*

Okay. So it's likely going to continue in 2022? And maybe it...

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Well, it's fairly dependent on the car sales as well. So we know that for the next 2 quarters, it's going to be some softening, but we believe that it's going to be back to normal somewhere in 2022. And we don't see any reasons why our competitive positioning would deteriorate at that point.

Operator

Our next question comes from Mario Mendonca with TD Securities.

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

This might be best for Jacques. When I learn about a company benefiting, let's say, from much lower credit losses in the auto business or really good claims experience in P&C, my mind immediately goes to what is the company doing to prepare for the flip side. So as it relates to the credit insurance, is there anywhere in the disclosure where the company talks about the level of allowances relative to those loans? I see $1.49 billion in auto, non-prime finance receivables and dealer services, which, of course, are the car loans. Does the company disclose anywhere what the level of allowances the company holds against those loans and how that's changed over time?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

It's Denis here. I think I'll take that question because I was there when we started, we entered that business. I'm the cause of this, I guess. The expectation for us going forward is a credit loss of about 5%. I mean, on the long-term basis, that's what we think we would get out of the quality of the portfolio we have. And you may remember when we bought CTL, we were much above the 5%, something around 8% because the -- we were -- at the beginning, we were more on the subprime side, and then we moved towards a more near prime as opposed to a subprime. So the expectation is something around 5%. So the idea right now is that we are at 2 point -- I think it's 2.4%, but we believe that it will gradually go back to the 5%. And obviously, the provisioning of our allowance will adjust as we go there. It's going to take some time to get there. So that's basically how I see this moving forward.

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

Denis, does the company currently apply IFRS 9 to this loan book?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

I think I'll leave Jacques for that question.

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

Maybe my mic was closed. Sorry for that. The answer is no.

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

So well, presumably, the company will apply IFRS 9 in 2023 in conjunction with IFRS 17. Is that the expectation?

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

You're correct.

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

Okay. So as of right now, there are no performing loan reserves against that book of business. Is that right?

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

We have provision. We have provision, but the provision is not billed the same way as -- it's not procyclical as it is for IFRS 9. You know IFRS 9, what it will bring to the table. As soon as you have a short term, I would say, bad experience, you have to assume that bad experience will last forever. The reverse, if it's good. Now what we have is a provision that has more a long-term, midterm view. So this is more stable, but we have a provision.

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

So am I correct to assume that right now, the company doesn't disclose what the provision is or the allowance against that book. That's not disclosure that you're prepared to provide?

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

No, we have not provided it. What we have provided is now the extra provision we put in place last year because of COVID.

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

Okay. And a similar question as it relates to the P&C business. The claims have been very good. What I'd like to know is, has the experience even been that much better and the company is building up some IBNR in anticipation of a deterioration in claims experience. Like where does the reserves for prior year development, where does that sit in the P&C business? Have you been setting aside additional reserves to prepare for the reversal?

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

Actually, this is annual pricing policy. Those policies are repriced every year. So it's not long-term policies. So what we have right now is provision according to the actuary standard. So that's the way we manage the business. And what will happen next year will be a return to normality. Francois was referring that on the auto side, we have returned to reality. But we will see when it will come there. But actually, there's no pressure on pricing. I would say that the most important thing is for reserve on pricing from competition that may reduce the profit. And we are not seeing that for the moment.

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

And my final question is a more broad general question. The interest rates have become a lot more volatile recently and expectations for the short end have moved a fair bit in the last few weeks in Canada and even around the world. I want to resist the temptation to assume that higher rates are always necessarily good for life insurance companies. Is there anything you want to alert us to about this volatility that could impact the company in 2022? Either in terms of policyholders or anything else?

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

Yes, actually, we have derisked our IRR position. For sure, 2022, we will transition to IFRS 17, which is something that is important. But the most important thing for life insurance, we have very long-term commitment to policyholders, so a rise in long-term interest rate will be beneficial. Sometime, it doesn't show on the metric. We could have -- just remember what happened in Q1 when our ratio reduced when interest rates increased but over the long term, it's really positive.

Operator

Our next question comes from Darko Mihelic with RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Just quickly want to return to Mike. Your comments on the third-party sales synergy between IAS and DAC this quarter. Is that like a one-and-done kind of synergy or will there be improved sales from here on?

Michael Stickney - *iA Financial Corporation Inc. - EVP & Chief Growth Officer*

Yes, good question, Darko. It is from a sales reporting standpoint, it's -- we pick up additional sales this year and in future years, but there's no more growth, like it's just -- it will carry on going forward. There is -- but in my mind, the real synergy is on the profit, which is amortized over the lifetime of the contract. So there will be ongoing growth and profit over the next 4, 5 years is the way I would look at it. But Jacques, you might want to add a comment there.

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

Nothing to add, Mike.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. And then just a follow-up, and this question is for Denis. Denis, when I -- going back to some of the questions that were thrown at you today with respect to the sort of the long-term strategy of how you're building your company where I -- from where I sit, when I look at all of the life insurance companies that operate out of Canada, all of them have been deploying capital in capital-light businesses. All of them, to some degree or another, have been reducing long-tail insurance. I think of Great-West with the big reinsurance, I think of Sun life exiting annuities. I think of Manulife exiting many legacy businesses that are long tail in nature and building wealth businesses and other capital light. So I guess when I look at what you've been doing recently, it also seems to be going down that path. And so I guess the question is, you mentioned that you still like a long-term, you still like the long-term business. But all things considered, are you not going down the path? Like why not commit to going down to suggesting that you are going down the path of going to shorter tail business, fee business and away from the long tail, long-term life insurance business.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

So I will make a couple of distinctions. This is a great question, Darko. Yes, we are going into the capital-light business. But that does not mean that it -- let's say, we go away from individual insurance business, for example, which are like long-term business. The idea is risk management, who's bearing the risk at the end of the day. And there are products in the life insurance well, for example, where the risk is being borne by the client or is being shared by the clients and the company. So the idea for us is to move away as much as possible from high capital-intensive business, which some of them -- I mean, the low capital business could be also a long-term business, okay? This is my point. There's a nuance here that is important. We are leaders in sectors where we have long-term business, and we're going to stay in those businesses. But at the same time, we want to develop businesses that are capital-light. Some of them are, let's say, short-term in their nature. So that's the way you should look at it. I mean -- and it pays off. When you look at the ROE that we are generating this year, there's no coincidence. It's not luck. It's the fact that we have chosen over the years to move away from, let's say, long-term guaranteed product with high capital, very intensive product because what -- because of the accounting and regulatory regime, is long-term guarantee.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. That's a fair point with the nuance. I get that. My last question is just a very quick follow-up to Jacques. Jacques, you mentioned in your prepared remarks that you were looking at IFRS 17 carefully with respect to strain. Maybe we can follow up offline, but my understanding is strain is strain under -- you may call the contract onerous under IFRS-17 but really, there's no difference, given the fact that you produce strain now and strain will come through a strain in IFRS 17. So what in particular are you alluding to with respect to that changeover and with respect to strain?

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

Yes. I think there are trend moving parts when we will transition to IFRS 17. There's the CSM that you can -- you are not allowed to frontend profit. But for us, there are also other elements like we no longer require to keep the stock market protection. We don't need to have a margin for interest rate risk and non-attributable expenses. So overall, when we look at the situation, we are quite confident that the level of strain we're having here will be pretty much the same level of strain we will have when we will look at our contract. We don't have that many contracts that are qualified as onerous. So that's really where we are sitting. And we have been prudent over the previous years because of that fact. We didn't want to be in a situation where we will reverse the profit.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. I think maybe we'll follow up on that. I appreciate that.

Operator

We have a follow-up from Gabriel Dechaine with National Bank Financial.

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

I just want to clarify something you mentioned earlier, Jacques. So I'm talking about this year's profits running above the target range pretty consistently, but also cautioning that 10% growth off of what annualized EPS could be is probably a bit more optimistic. But I was more interested in hearing about the -- how you get to the low end of next year's range. You would use the midpoint of this year's target range, which is around 7.9% and grow that by 10%, and that would be the low end of next year's range roughly.

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

No, I'm sorry. No, that's not -- I'm sorry, if it came across like that. That's not what I meant to do. I was just giving -- the guidance would be provided in Q4. In February when we will give our Q4 results. I was just trying to give you an idea about what could be a low and what could be high, but it won't be the guidance. The guidance will be worked on during Q4 and given in February.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Another way to look at it is that traditionally, we said in some years that the guidance was last year guidance increased by 10%, okay? So if you do that this year, that would be way too too low because there are some benefits that we've encountered this year. And we're saying that it would be way too conservative to do that. On the other hand, if you take the actual results of 2021 projected, let's say, with the high end of the range for cross bar, you add 10% out of it, that would be probably too much. So you see the point here?

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

I see that point. I was just trying to get to how you formulate your guidance for next year, like based off of guidance from...

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

We don't formulate it. It's going to be in Q4.

Operator

Mr. Ricard, there are no further questions at this time.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Thank you. Thanks a lot for being at that call. It's funny because I haven't got any questions about capital allocation, which I guess I will take advantage of my concluding remarks to just talk a bit about it. As you've heard and seen our generation of capital is very, very strong and it's going to be strong next year, thanks to the initiatives we took to move away from capital-intensive business. So the idea for us, obviously, is to focus on growth because organic growth because of our current businesses are bringing very, very interesting ROE. Obviously, whenever the restrictions on capital -- I'm sorry, on dividend is lifted, we will increase the dividend. So if, for any reason, whether this week or next week or in a month, the regulator lift their restrictions, next quarter, we're going to increase the dividend. And our intention is to move towards close to the -- or at the center of the mid of our range, mid target of our -- how do you see that. In the middle of our target range based on core earnings. NCIB, there's -- I guess, that's the last result to some extent. And obviously, we are continuing -- continuously looking at opportunities acquisition, and we've just announced one. So nothing major, I guess, for the next year in my radar, but certainly something we are always looking at. So that concludes this conference. Thanks. And I think that Marie-Annick Bonneau is going to continue. She's got a message for you guys.

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

Yes. So in closing, I just want to draw your attention on the date of our next disclosure. Indeed, our Q4 2021 results will be released on February 16, 2022, after market close, and the conference call will be held on the following day, February 17, 2022. So this now concludes the call. Thank you, all.

Operator

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