CISION

FINAL TRANSCRIPT

Industrial Alliance Insurance and Financial Services Inc.

Industrial Alliance 2023 Fourth Quarter Results

Event Date/Time: February 21, 2024 — 11:00 a.m. E.T.

Length: 75 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommage ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Speaker
Marie-Annick Bonneau – Head of Investor Relations

Speaker
Denis Ricard – President and Chief Executive Officer

Speaker
Eric Jobin – Executive Vice President, Chief Financial Officer and Chief Actuary

Speaker
Sean O'Brien – Executive Vice President, Group Benefits and Retirement Solutions

Speaker
Michael L. Stickney – Executive Vice President, Chief Growth Officer U.S. Operations, Co-head of Acquisitions

Speaker
Renéee Laflamme – Executive Vice President, Individual Insurance, Savings and Retirement

PRESENTATION

Operator:

Good morning, ladies and gentlemen, and welcome to the Industrial Alliance 2023 Fourth Quarter Results Conference Call. (Operator instructions)

This call is being recorded on Wednesday, February 21, 2024.

I would now like turn the conference over to Marie-Annick Bonneau. Please go ahead.

Marie-Annick Bonneau:

Good morning and welcome to our 2023 fourth quarter conference call.

All our Q4 documents, including press release, slides for this conference call, supplementary information package and annual MD&A, 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 statement information on Slide 2, as well as the non-IFRS and additional financial measures information and the notes regarding 2022 restated results under IFRS 17 and IFRS 9 on Slide 3. Also, please note that the detailed discussion of the Company's risks is provided in our 2023 MD&A, available on SEDAR and on our website.

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

Denis Ricard:

Good morning, everyone, and thank you for being with us on the call today.

As usual, I will start by introducing everyone attending on behalf of iA. First, Eric Jobin, Chief Financial Officer and Chief Actuary; Alain Bergeron, Chief Investment Officer; Stephan Bourbonnais, responsible for our Wealth Management operations; Renée Laflamme, in charge of Individual Insurance and Annuities; Pierre Miron, Chief Growth Officer of our Canadian Operations and responsible for Dealer Services Canada and iA Auto and Home; Sean O'Brien, in charge of the Group businesses; and Mike Stickney, Chief Growth Officer of our U.S. Operations and Co-Head of Acquisitions.

We're here today to present our Q4 results, a quarter which we ended with a robust capital position, and in which almost all business units performed very well in terms of both sales and earnings.

Starting with Slide 8 for an overview of our fourth quarter results. Core EPS of $2.34 reflects this good performance, which was however negatively affected by the immediate impact of new business in Group Insurance. Looking ahead, these Group Insurance contracts are expected to contribute positively to future earnings and overall growth.

Core ROE on a trailing 12-month basis was 14.4% for 2023, which is aligned with our medium-term target. With a solvency ratio of 145%, our capital position continues to be very solid, as it is supported by our good risk management practices and strong organic capital generation. Indeed in 2023 we generated $600 million of organic capital, reaching our annual target.

Business growth was also strong in almost all our business units, and we concluded 2023 with assets under management and administration up by 11% year-over-year. Premiums and deposits increased by 8% year-over-year. Another measure to which we attach great importance, because of its unbiased assessment of the value created for investors, is book value. We were therefore very pleased at

the start of the year that our book value was not affected by the transition to IFRS 9 and 17. We're equally pleased to see how it grew over the course of 2023. Indeed, our book value per share of $66.90 at year end recorded a substantial increase of more than 6%, or 8% if we exclude the impact of share buybacks.

Now to Slide 9 to look at Q4 business growth for the Insurance Canada segment. Individual insurance in Canada delivered another very good performance, with sales of $95 million during the fourth quarter, rounding off a strong year in sales and confirming our leading position in number of policies sold. This result reflects notably the strength and diversification of our distribution networks as well as the high performance of our digital tools, providing our advisers and clients with simplicity and proximity.

In group insurance, premiums and deposits increased by 4% to $487 million, with several renewals of large groups. In the dealer services division, sales continued to be strong, reaching $160 million, up 8% over the previous year. This result brought sales for the full year to $686 million, to achieve a solid 12% increase over 2022.

Our leading position in Canada, our comprehensive product range, and our extensive distribution networks contributed to this very solid result, regardless of the rather challenging macroeconomic environment for car-buying consumers.

Finally, iA auto and home generated solid growth in direct written premiums in the fourth quarter, reaching $115 million, an increase of 15% over the same period last year. This result was supported by the strong retention of in-force business.

Turning to Slide 10 to comment on Wealth Management sales results, where we did quite well despite the difficult environment, particularly in the fund sales industry. Indeed, the Company continued to rank first in 2023, in both gross and net seg fund sales. Gross sales of seg fund reached $837 million, up 19% year over year, while net outflows were registered during the fourth quarter, although positive

for the full year 2023. Mutual fund sales of $393 million were up 12% in the fourth quarter, with outflows in line with the industry. However, positive combined net sales of $83 million for 2023 were recorded, a very good result in this environment.

Meanwhile, clients continued to favor cash-equivalent products and sales of insured annuities and other savings products increased significantly to reach $711 million, propelling 2023 sales to nearly double last year's level.

Finally, in Group Savings and Retirement, good sales of $534 million in the fourth quarter, compared to those of a very strong quarter in 2022 when sales had totaled more than $1 billion following the signing of several large groups.

Now, looking at Slide 11, regarding our business growth results in the U.S. In our Individual Insurance division, sales continued to be strong, totaling US$44 million. This is solid 19% increase from a year earlier, bringing sales for the full year to a record high. This performance is driven, among other things, by our strong distribution channels, and it confirms the growth potential of this market as we continue to strengthen our presence in the U.S.

In the Dealer Services division, fourth quarter sales amounted to US$227 million, compared to US$241 million a year earlier, as higher financing costs for consumers continued to have a negative impact on sales of F&I products. While we wait for the environment to become more favorable, we're taking action to improve sales and profitability and to be well positioned for the recovery, such as expanding our distribution channels.

Turning to Slide 12 for a comparison between 2023 results and our mid-term guidance. Save for the core EPS, which is 4% higher than 2022 restated results, all metrics compare favorably with their respective targets. Core ROE of 14.4% is well aligned with our mid-term target of 15% and above. By

deploying our available capital, we will accelerate the achievement of our mid-term profitability targets, including ROE expansion.

Our solvency ratio is well above our operating target. Both the dividend payout ratio and organic capital generation are on target. Noteworthy, we expect organic capital generation to remain strong, and our target for this metric in 2024 will again be $600 million or more.

Now, looking at Slide 13 for an overview of the year. We can see that 2023 was a very good year on most fronts. Sales and profitability were very good in almost all business units. Our capital position is robust and supported by strong and ongoing capital generation. Our book value, a metric for which iA has a strong track record, continues to grow very nicely. We are progressing well in our digital transformation.

We returned value to our shareholders through a 14% dividend increase and a buyback of nearly $0.5 billion worth of shares. We still have $1.6 billion in capital available for deployment.

That brings me to our outlook for 2024 on Slide 14. In Insurance Canada, we expect our sales momentum and profitable growth to continue at a good pace, driven by our high-performing distribution networks, leading-edge digital tools, and well-positioned assumptions and pricing.

In Wealth Management, we expect our sales momentum and overall strong performance to continue, particularly in seg funds and in our distribution subsidiaries.

In our U.S. Insurance division, we intend to build on 2023 record sales and the Vericity acquisition, while in our dealers division we're taking action to gradually grow sales and earnings. As for our investments, we will continue to focus on asset liability management while maintaining a very high-quality investment portfolio.

Finally, we will continue to invest with discipline in organic growth and digital transformation while growing earnings using the same level of corporate expenses as in 2023, a solid target, given inflation. All

things considered, we enter 2024 with optimism and confidence in our ability to create value and successfully pursue growth.

I will now turn it over to Éric, who will comment on Q4 profitability and capital strength, and we will then take questions. Éric.

Éric Jobin:

Thank you, Denis, and good morning, everyone.

Starting with Slide 16 for an overview of Q4 profitability and financial strength. Core EPS of $2.34 includes the immediate additional negative impact of around $0.11 EPS arising from new business in Group Insurance, which should, however, be positive for future profitability. I will comment further in a moment about this.

Q4 earnings were supported, among other things, by the expected insurance earnings growth combined with favorable core insurance experience gain of an 18% year-over-year increase in core net investment results. The net income to common shareholders of $248 million in Q4 is higher than the quarterly core earnings result, mainly due to favorable impact of macroeconomic variations. Note that these two metrics are already converging to some extent as Q4 is the second quarter of 2023 for which our reported earnings exceeded core earnings.

Our financial position continues to be very robust, supported by organic capital generation. As for the book value per share, excluding the impact of share buyback in 2023, it increased by 8% during the year.

Now, turning to Slide 17 for results by operating business segments.

In Insurance Canada, core earnings of $78 million compares to an abnormally high IFRS restated result for Q4 2022, that includes $22 million of mostly unusual gains in the context of the accounting transition. In addition, the Q4 2023 results include an important impact of new business of $26 million pre-tax from our Employee Plan Group Insurance business, due to the renewal of some large groups in Q4. This negative impact had to be recorded in Q4, but the expected positive impact on future profitability is much greater. Insurance experience was also in line with expectations, and for the second consecutive quarter, mortality experience was close to expectations.

In the Wealth Management segment, fourth quarter core earnings of $91 million were 30% higher than during the same period a year earlier, as a result of good business growth and lower expenses. Notably, earnings from seg funds and annuities were strong, with a 20% year-over-year increase in expected earnings and favorable insurance experience. In addition, core non-insurance activities grew by 33%, due to another solid performance from distribution affiliates.

With respect to U.S. operations, core earnings amounted to $26 million in the last quarter of 2023, compared with $27 million during the same period of 2022. The Individual Insurance division continued to deliver strong results, with favorable mortality experience leading to a 15% increase in the core insurance service result. In the Dealer Services division, core non-insurance activities were lower than planned last year, due to reduced affordability for clients from higher financing costs and vehicle prices.

Continuing on Slide 18 with the Investment segment. Q4 core net investment result was 18% higher than a year ago, leading to strong core earnings of $95 million for the quarter. This performance is the result of the investment portfolio optimization and the favorable impact of higher interest rate as at September 30.

Finally, our Corporate segment recorded after-tax expenses of $54 million. These expenses represent only a fraction of our expenses and relate, among other things, to the investments for our digital transformation and our M&A prospecting activities.

The Q4 result was near our expectation. Please note that we target the same level of corporate expenses in 2024 as in 2023, which is good target given the current inflationary environment.

Now looking at the non-core adjustments, which are presented on the right side of the slide. Q4 reported earnings were higher than core earnings, as the favorable market-related impacts, differing from management long-term expectations, were only partially offset by the impact of assumption changes, management actions, and other usual smaller adjustments.

Moving to Slide 19 to look at the Company robust capital position. Our solvency ratio is unchanged at 145% at the end of the year and is well above our operating target of 120%. During the quarter, the favorable impact of organic capital generation and favorable macroeconomic variations were offset by capital deployment activities, mainly share buybacks of $171 million.

During the fourth quarter, the Company organically generated $160 million in additional capital, for a total of $600 million for the full year. We therefore achieve our 2023 target of at least $600 million in organic capital generation, and we maintain the same target for 2024.

Finally, our balance sheet is flexible, with 14.6% leverage ratio and $1.6 billion in deployable capital for organic growth, digital transformation, and acquisition, as well as dividend and NCIB. We are pleased to announce a dividend increase of 7% today. Since the transition to IFRS 17, our dividend has therefore increased by 20%, demonstrating our commitment to returning value to shareholders.

Continuing on Slide 20, showing the result of our assumption review. Under the IFRS 17 accounting standard, the result of assumption changes and management actions can impact directly or indirectly the

CSM and the RA in addition to net income and solvency ratio. The result of the assumption changes and management actions at year end amounted to a slightly negative total impact of $14 million pre-tax profit for Q4. This is broken down into a negative impact on income and an almost equivalent positive impact on future profitability from the combined impact of the CSM and the risk adjustment.

By type of assumption, the result of the process was positive for mortality and morbidity combined and the policyholder behavior assumptions of seg funds, while the impacts of financial assumption, expenses, management actions and model refinements were unfavorable.

This concludes my remarks. Operator, we will now take questions.

Operator:

Thank you. (Operator instructions) Your first question comes from Tom MacKinnon from BMO Capital, please go ahead.

Tom MacKinnon:

Thanks very much, good morning. Just with respect to your onerous contracts hit in the quarter, it seemed to be larger than normal. I understand your peers use the PAA approach, with respect to their group business they won't have any kind of loss at issue. But your approach with GMM would entail some sort of strain at issue associated with these group contracts. What was it in the quarter that made this number more negative than normal? How should we be thinking about that line item going forward? Thanks.

Éric Jobin:

Okay. Thank you, Tom, for the question. On this I will answer first your question about what drove the higher number in Q4. You might know that in the group employee benefit, a lot of the business is renewing in the first quarter and is being implemented in Q1 of the year. What happened in Q4 is that we had to renew some groups, and it's normal process, for the first quarter of 2024. On that, we had some investment, it's normal business for this, but we had to renew a couple of larger groups that generated this additional strain. But that being said, those groups, we're happy to keep them, because we know the clients and they will generate future profit in the coming years.

That's one piece of the equation. The other one has to do with new business acquisition. We were able to win some accounts that also required a bit of investment or a bit of strain at issue. Those groups will generate profit as well in the coming quarters and years.

The way, as a CFO, as I look at this business is, those future profit will be visible in the CSM created by this segment and the risk adjustment as well. When I think about this as a CFO, as long as those two buckets are greater than the strain of the onerous contract and delivers on the target ROE of the Company, I'm comfortable with this and I want to see more. I wouldn't look for a run rate on this item. We look for something that makes sense for us and is profitable in the long term.

Tom MacKinnon:

Okay. Then, the follow-up question is with respect to corporate expenses, they were up significantly in 2023, and now you're guiding them to be flat in 2024. Does that mean a lot of your extra spends for digital enhancements is complete now? Is there any fear you're going to be underinvested in this regard going forward? What gives you confidence that you have done all the heavy lifting with respect

to these expenses in 2023, and that you can keep them flat in 2024 and still be able to—and without fear of being underinvested? Thanks.

Éric Jobin:

Thanks again, Tom, for the question. I would start first by saying that we're never done with the digital transformation. With the new reality today, this is an ongoing thing that we need to get used to. We had a ramp-up in 2023 compared to 2022, you're absolutely right. We are confident right now with our capacity and the way we prioritize internally those projects to be able to sustain the corporate expense at the same level as 2023 for 2024, which you know is kind of good target in the context of a high-inflation environment. When we look at what's coming in front of us, we're confident that we will be able to manage within that envelope for 2024.

Tom MacKinnon:

Okay, thanks.

Operator:

Your next question comes from Gabriel Dechaine from National Bank Financial, please go ahead.

Gabriel Dechaine:

I'm sorry if this is repetitive to the last question; I was distracted. But the new business strain on a group contract, I would assume that's CSM, the profit emerging from that is pretty short duration, two maybe three years? Will I be seeing this strain recouped in short order, or will people?

Éric Jobin:

Gabriel, on this one, the normal practice in group insurance is that group, when you acquire them and an employer goes with a carrier, the group will stay between five to seven years. When you incur a strain at issue, normally you expect to recover and make your target profit within that five to seven years. That's how I look at this business. You're right that we should recoup the strain in a couple of years, and the extra renewals between the five and seven years will deliver on the Company target profitability.

Gabriel Dechaine:

Okay, and just so I can understand this even a bit better, the reason that—was there any extenuating circumstances to explain why the strain number was so large this quarter? Was it a—just happened to be that you had two very large customers, and then a couple of other new sales that—and then the—what kind of investments are you talking about, when you say there were some additional investments required to bring on these customers that yielded this result?

Éric Jobin:

I will start, Gabriel, and then I will hand it to Sean, our leader on Group Insurance. I will say first that we had a couple of clients—remember, you might not have heard, but I said that in Group Insurance, a lot of business is renewing on January first. That's one key element to keep in mind. Second, we had a couple of big accounts that were falling into that bucket of renewing on January first. We knew those clients, they were with us for a long time, and it was normal due process for them to go at market. We decided to invest in retaining those clients. As the CFO, when I look at this, I love when we keep those big groups that we know the experience and that we're comfortable with the business. Because when you

think, it's way better to keep a client that you know than trying to acquire a new one, because you have a lot of acquisition costs and implementation costs to incur to acquire new business. When I look at those renewals, I see them favorably, as long as we're happy with the business. On this, I would hand it to Sean to see if he wants to add anything, Sean.

Sean O'Brien:

Thanks, Éric. I think you've covered it fairly well. Just a couple—in the quarter, it was about 80% renewals, 20% new confirmations. That's similar proportion to what we've seen. The strain relative to premium was also very stable, it's consistent. We're not seeing an added investment. It was just—we had, like Éric said, a couple of larger accounts that renewed, which is I think great news for us. I think we're seeing good results on the retention side, because the last 12 months our SLAs have been really strong for our plan members. Real focus on operations and delivering good service. I think we're standing up and being recognized for that in some of the renewals we're seeing. No, this is excellent news for me. This reflects long-term profit and healthy group business.

Gabriel Dechaine:

Okay. Switch to the U.S. and on your outlook or strategy slide there, I forget what it's called, but there's one line in there talking about taking some actions, I'm paraphrasing, but taking some actions to improve earnings and growth of the business. Can you expand on that, so we can better understand what you're doing? A lot of the business relies on auto sales volumes, right? We're talking about warranty business, in particular, outside of your control. What can you do to reverse the trend here of declining sales in that particular business?

Denis Ricard:

I'll leave it to Mike to answer, but just before, I would say that you're right to say that the industry car sales used to be a good proxy for, let's say, our sales. But very recently, we've seen a deviation from that trend. Mike is going to comment on it, and also about the actions that we're taking here.

Michael L. Stickney:

Sure. Thanks Denis, and Gabriel. Yes, for years, I've been involved in this kind of business in both countries, and there's always been a pretty good link between car sales and F&I sales. It seems to have decoupled here in the last year or so. It's obviously a tough environment, but we're not doing nothing. Our number one priority is to grow the business. I've said this before, but it still remains the case. Actually, we did a pretty good job of signing new accounts in 2023. It's more or less in line with our expectations. But obviously, lower penetration rates and the market's actually right now shifting to selling lower-priced products. It's kind of offsetting the effect of these new accounts coming on stream. It's good that we're doing that, and we're going to continue to do that, but at some point, we got to see the bottom of lower penetration rates, I think.

Another thing we're working on now is to increase prices on all of our products. With this environment, we're starting to see claim ratios trending up, just started to happen in the last two quarters. At a high level, the reason this is happening, I believe, is that the people are keeping their cars longer. There's just more risk, more exposure. Secondly, there's some amount of inflation on parts and labor, which obviously affects claims costs as well. That action has started up in the fall of this last year rather and will carry on right through 2024. Thirdly, we are looking at ways—Denis mentioned in his remarks, ways to kind of tighten up on expenses and just improve margins that way.

Then finally, the question that I think we all need to ask ourselves is, what does this market look like in the future, will it improve and so on? I believe it will. It's going to be a gradual improvement. I think we need lower interest rates, which may be slow to come. But I don't see any sort of major change or disruption in this market that would cause it to not go back to normal. I think it will go back to normal at some point in time. It obviously requires some patience, I guess, but in the meantime, we are taking action in a number of areas to improve results.

Gabriel Dechaine:

How big of an issue is the claims ratios trending up? My understanding of this business is largely fee for service kind of thing, and the dealers are reinsuring at the back end.

Michael L. Stickney:

Got it. Great question. It's important, but it's not our biggest issue for sure. There's two ways to think about it, or two blocks of business to think about. First is on what we call vehicle service contracts or the main warranty-type product. That is heavily reinsured, ninety-something percent. But we still—our job is to manage that business with and for the dealers. If we don't do a good job, some of these dealers will go negative, and it becomes a headache, it could cost us some money. It's something we need to stay on top of and we are staying on top of. We're basically pushing through price increases that the dealer basically has to fund into the reinsurance account.

Second block of business is what we call ancillary products, and we do take some risk on those products. Historically, they have been quite profitable and good margins, but the margins are eroding to some extent. We're taking price action there as well.

Gabriel Dechaine:

Okay. Then, you'd mentioned—my last question here. You mentioned tightening up on new expenses. That was an issue that popped up in Q1 of 2023. At the time, it wasn't you or it was Jacques, but saying that the spending phase is to update systems or whatever, that could last for two years, is that still going to be a headwind then, this expense growth in 2024?

Michael L. Stickney:

The system work, the bulk of it is done at this point.

Gabriel Dechaine:

Okay.

Michael L. Stickney:

I guess the way—we've invested as much as we can afford to at this point. Yes, there's room for improvement here.

Gabriel Dechaine:

Thank you.

Michael L. Stickney:

Okay.

Operator:

Your next question comes from Doug Young from Desjardins, please go ahead.

Doug Young:

Good morning. Just staying with the U.S. business, if I look at the pre-tax profit or the proxy for pre-tax profit on that vehicle warranty business, it looks like it was down by about a third or so. It wasn't an insignificant decline. I'm just wondering, how much of that relates to expenses? How much relates to that pressure as a result of the claims ratio, and you having to maybe cover costs on some of that business that does get reinsured? Just trying to get a sense of what's really the main issue on the profit side.

Éric Jobin:

When we look at the Q4 results compared to Q3, we see that this segment is down by the amount about equivalent as the corporate expense of the segment went up. What it means here, if you remember in Q3, we mentioned the fact that we had an unusual gain coming from the deferred compensation plan following the IAS acquisition. Q3 corporate expense were a little low because of that. When I look at the run rate excluding that fact, it's running fairly flat from Q3 to Q4. What we expect in 2024 is a gradual improvement from that point on. In terms of claim ratios and pricing, we expect the picture to improve gradually in 2024. Mike, I don't know if you want to add something.

Michael L. Stickney:

No, I've nothing to add, Éric, I think you covered it.

Doug Young:

Okay, and then just back to the Canadian group strain, just so I understand this, and maybe got a few kind of follow-on questions. Your renewed business; you take a five- to seven-year view on this. There's some expenses to set this up. Does that strain essentially go into CSM, or the risk adjustment, or is it an equal split? Then, obviously margins come through, as that gets released and whatnot. Now, my understanding always is group is yearly renewable. If you get into one year or two years and these accounts leave—or are these accounts signed up for a long period of time? Just trying to understand what is your assumption versus what's actually contractual within those group plans.

Éric Jobin:

I understand, Doug. In fact, the contract perimeter is rather short, okay? Generally, the rate guarantee, when we renew or issue a new contract, the rate guarantees are between let's say somewhere between 12 to 24 months. When we assess the contract under IFRS 17, we have to post the strain that will come from that starting point, and then, once we start renewing the group, we start building up CSM and risk adjustment. This is how the construction is done. Why we get comfortable with this practice is that a group doesn't go to market every 12 to 14 months, because the group would get toasted on the marketplace and no carrier would take it. There is an unwritten rule between the carriers in Canada that we don't bid on groups that has been with a carrier for a short period of time. On this, this is why we have this view of five to seven years of a life expectation of a contract. Sometimes it may get a little even longer. For example, government files or municipalities can be even a bit longer than that. But the reality is that the CSM and risk adjustment will start building upon the first renewal of the group.

Doug Young:

Okay, you build it up over 12 months, it sounds like, and then the expectation—the profitability of this is more tail end-weighted, is that how to think of it? When does this break even from the strain costs that you're incurring?

Éric Jobin:

I would say that it probably breaks even between three and four years, and we're making the profit target between the fourth and seventh year.

Doug Young:

Okay. Is this something that …

Éric Jobin:

Sorry, Doug. I just want to add on this that in the contract there is a renewal formula in there that shows how the pricing will be adjusted right from the start when we acquire the group. There's a mechanic based on experience and things that drives those renewals, and there's no surprise for the employer and the adviser of the client.

Doug Young:

Then just lastly on this, is this something that we should be thinking of more often? This is something I'm not used to seeing as much on the group side. But is this something that, next Q4, we shouldn't be surprised to see something similar? Or is this just an unusual quarter?

Éric Jobin:

In reality on this, group business can be lumpy and volatile when we acquire and renew those groups. We cannot expect to have a specific run rate on this one. It can be—in fact if Sean wants to get more business, as long as he brings more CSM and risk adjustment for the future to sustain us, I'm fine with it. The key here is really the aggressivity and the expected profitability upon the average lifetime that we expect the group to stay with us.

Doug Young:

Okay, and then just lastly, I just want to understand the corporate expenses. The negative $54 million that we saw in corporate in Q4, is it the indication that that is the new run rate on a quarterly basis going through 2024? Or is it that your corporate expenses stay level, that profitability of that division improves, as we move through the year? I'm just trying to make sure I have that right.

Éric Jobin:

I missed the beginning, Doug. Are you questioning the corporate expense, the business segment, or in a specific line of business? I just missed that, sorry.

Doug Young:

Sorry. In the corporate line, you, I think, lost $54 million in the quarter. I'm just trying to get a sense of is that the new run rate. Is that what you're seeing? Or is that the expenses stay flat, but the profitability of that division will improve as we move through 2024? That's really the gist of the question.

Éric Jobin:

Okay, thank you for the clarification. I just missed the beginning. On that line, no, you should not look at Q4 as the new run rate. Q4 has been slightly higher than Q3, a couple of—I think it's roughly $15 million. But the reality with this business segment is that it's normal that it gets a little volatile, because it's not like running a corporate line of business. There are lots of projects that goes in there. For example, in Q4, we had some prospecting acquisition fees that went in there. If I was you looking at this, I would be happy to see that, because it means that we're actively working at deploying our capital.

But the reality is that those files did not result in a closing for now. But this is the kind of thing that may create a bit of volatility, as well as other corporate initiatives that we decide within our prioritization process to conduct because we feel it's good for the Company long term. That's how I see Q4.

Now, talking about the run rate, what I said, when I said that the overall yearly amount of $260 million is our target for 2024, I would say that an appropriate run rate for me is $65 million plus or minus $5 million per quarter, and expect this to be a little bit volatile. Because depending on what we decide to look at or do, it may create a little bit of volatility, but keeping the $260 million in mind is the important element.

Maybe few things to add on that, in terms of what we're doing to make sure that we stay within that boundary in 2024. I talked about the prioritization process that we have internally to make sure that we meet our global expense target for the Company. We also established in last year an internal measure of operating leverage, which we want to be positive, that's another element. We understand that you probably need a bit more information to see more clearly through the water on this one. We are thinking about improving the disclosure, so that you can see what we're doing actively to manage our overall

expenses within our target. Those are the three things I would say that I see to help us meet the target and help you be confident about our guidance for 2024.

Denis Ricard:

Doug, to your last point, the intention was to create an operational leverage, as Éric has explained, by limiting the corporate expense in 2024 to the 2023 level. It's intentional. As the business grow the revenue are going to grow faster than the expense.

Doug Young:

Appreciate the color. Thank you.

Operator:

Your next question comes from Mario Mendonca from TD Securities, please go ahead.

Mario Mendonca:

Good morning. For Industrial Alliance over the years, I've never questioned Industrial Alliance's position in the individual insurance market and the scale and certainly being a capable player there. But the same is not true in Group Insurance. I think there's an argument could be made that, in a business like Group Insurance where investing in systems is become one of the competitive advantages, it really does make me ask the question: Does Industrial Alliance have the scale to compete in Canadian Group Insurance against some of these very large players that are constantly investing in their systems? Are we

looking at a scenario here where Industrial Alliance perhaps doesn't really belong in Group Insurance? Or can you compete against these larger players?

Denis Ricard:

Mario, it's Denis here. That question comes back every, I don't know, 10 years in our organization. We did tackle that question a couple of years ago, and the conclusion was that there was a space in which we could play as an alternative to other players in the industry, where we can be successful. We have a plan that we follow right now. The plan is pretty much on schedule. The target market is being defined. The profitability target is being defined. We believe that we can be successful at the end of the day. That question has been resolved for the last two years, and it might be that in eight years that we're going to revisit, I don't know. But that's the reality as we stand.

Mario Mendonca:

What makes you different in Group Insurance? What space are you in, that's different from the other large players?

Denis Ricard:

I will leave it to Sean to give a bit more insight in terms of our target market and maybe other things here.

Sean O'Brien:

Thanks Denis. Yes, the area we really identify an opportunity is in what we call the mid-market, between 50 and 1000 lives. The large carriers are really going after the bigger accounts and focus on that. There's not as much opportunity for us in that area, but in the mid-market there's a really nice, sweet spot for us, where it's combination of our personal touch, how close we can get to the plan sponsor in that business, the amount of focus we're putting onto it and then we're also investing, as you mentioned, in the technology to help serve the plan members and push on that. But yes, the mid-market is where we've always been, but we definitely see an opportunity to lean heavier into that market, and we're getting good results in that, as you're seeing on some of the strain this quarter.

Mario Mendonca:

Let's go to the U.S. Dealer Services for a moment. For some time now, myself and others, have speculated that Industrial Alliance would use the excess capital to grow in that business. Does there come a time when you reflect back on that business and conclude that it wasn't a great transaction, that Industrial Alliance perhaps doesn't have the competitive advantages necessary to succeed in that business? Would you, at some point, consider exiting U.S. Dealer Services as an experiment that didn't work out?

Denis Ricard:

Okay, it's Denis here. First of all, it's not an experiment. I think, when we decided to go there, it was a well-thought strategy. We are a leader in Canada. We're in the top two, if not the first one. We know that business very well.

When you say the transaction might not have been good, the timing was not good, and we all know that. It's been announced in the midst of the pandemic. To me, at this point, it's a question of patience. The macroeconomic environment is not good. If you look at the experience of other F&I providers, you'll see that they're in front of the same challenges. At the end of the day, we believe that the market will come back. In the meantime, we're doing everything we could to offset some of those negative impact or negative trend in the market. We still believe in our strategy. It's just that the timing was not good. We are positioning ourselves where, when the tailwind will come back in terms of the macroeconomic environment, that we'll be well positioned.

Mario Mendonca:

Thank you.

Operator:

Your next question comes from Meny Grauman from Scotiabank, please go ahead.

Meny Grauman:

Hi, just wanted to go back to the strain in the group business. I think we're all trying to understand really what's underlying that. I guess maybe one way to approach it, just, if you could talk about the competitive dynamics in the group space, and are we seeing any change in competitiveness or change in competition? Is competition just becoming a lot tougher? Is that partly what we're seeing in these Q4 results?

Denis Ricard:

I leave it to Sean to answer that question.

Sean O'Brien:

Yes, the answer's—it's a competitive business for sure, but there was no change in the quarter. Like I mentioned before, the strain relative to the amount of premium renewed or sold was stable compared to previous quarters. It's a similar type of investment. We just had a nice—we had a few large accounts that renewed in the quarter, looking for a January first contract date. Yes, I think that's what you're seeing.

No, it is competitive for sure, but there's no change in that mix. If anything, what we're seeing is we're doing well as other companies are renewing, because of our SLAs and service levels compared to some of our peers or the other companies. I think there's actually a market opportunity for us going ahead, as opposed to a pressure.

Meny Grauman:

Got it. Then just wanted to focus on the 2024 outlook, Slide 14. How do I translate that into core EPS growth expectations and core ROE expectations specifically? You gave some guidance on corporate expense growth, but in terms of overall EPS growth for ’24 and ROE, what should we be expecting given the outlook that you laid out on Slide 14?

Denis Ricard:

Meny, I'm so glad that you asked the question, because one might question the 10% guidance that we do believe, we strongly believe, that we can deliver on that 10% EPS growth going forward. Obviously, this is not an annual growth, let's say, rate, it's a mid-term growth rate. But the reality is that there are, I believe, the environment in which we operate is favorable to that goal. When I look at the fact that we have $1.6 billion of excess capital, or capital to deploy, when I look at the fact that some of the negative points of 2023 are getting better, like mortality in 2023 and Individual Insurance first half of the year was not that good, now it seems to be on the right track. The auto and home claims were not that good in 2023 (inaudible) seem to be on the right track. Strain in Group Insurance is something that the profit will come back. I would say that the interest rate environment, like the fact that interest rates are higher than they used to be in the past, that is positive. I see a lot of tailwind going forward. Now, we need to work on the U.S. dealer business to improve it, obviously, it's been a headwind recently. But I see a lot of good positive points that makes us very confident that we can hit the 10% CAGR or EPS growth going forward.

Meny Grauman:

Just to clarify, your comments are focused on ’24 specifically, that 10% is realistic for ’24 in your view?

Denis Ricard:

Last year we decided not to provide, let's say, a guidance for the next year. We said, okay, we have this 10%-plus EPS growth, which is what we call a mid-term guidance. Still then, it's like we are in the long-term business. From one year to the other sometimes you might have some volatility.

Twenty twenty-four we have a plan. We believe in our plan. But I mean when I say 10%, it's a mid-term—I'm not saying that it could not be 10% in 2024; it could, provided that the tailwind that I'm talking about are going to continue. But the reality is that we don't provide a specific guidance anymore for the next year.

Meny Grauman:

Understood. Thank you.

Operator:

Your next question comes from Paul Holden from CIBC, please go ahead.

Paul Holden:

Thank you. Good morning. A few questions, and hopefully they're quick. Starting with the seg fund net sales, would notice the gross sales are actually quite strong in the quarter, and so that implies abnormally high gross redemptions. Maybe quickly talk to the drivers of that, and any expectations on whether that's a temporary phenomenon or if it's something that's an ongoing headwind for the business.

Renée Laflamme:

Thank you for the question. This is Renée speaking. What we see, obviously, you see a strong growth in the seg fund in the last quarter, but all through the year as well and still for the last quarter, a lot of money went into the GIC and the HISA. If that money would have gone to the seg fund in the same pattern as in the past, you would not see negative outflow for the net sales.

Having said this, we're still number one in gross sales and net sales. We see growth in the seg funds. We don't see this as a new pattern, not at all. We see money coming back to the seg funds.

Now the good news is that the money is with us. Our clients have deposited the money to us in seg funds, but even more into GICs and HISA. The challenge or what needs to be done is making sure that this money stays with us and our clients are loyal through our distribution network to iA.

Paul Holden:

Got it. The message is basically, once rates start coming down, which is probably later this year, then seg fund sales should recover. Okay. Then maybe a similar-type question on Canadian Individual Insurance sales. You had very strong sales numbers during the pandemic and coming out of the pandemic, and then softened a bit this past year. But again, I think that's just because of, let's call it, the high base effect. What's your outlook for 2024? Why should we think that growth in Individual Insurance sales should resume to more in line with historical norms?

Renée Laflamme:

You’ve said it, right? Twenty twenty-two was exceptional in terms of growth, the high base to compare with. The reason why I am, and we are confident in the growth for 2024, relies really on the strength of our distribution and the quality of the tools that we provide to advisers and clients, as well as the broad range of products.

When you look at the growth over a period of three years, we've been outperforming the market. We are also focusing on the family market, where at this point there may be a little less money available,

but we're still maintaining a very high level of sales and activity, even compared to the pandemic days. Again, we keep our objective of growth beyond the market.

Denis Ricard:

Paul, it's Denis. I'm very pleased with the fact that we've been able to maintain the 2022 results in 2023 in the current context. As Renée mentioned, we've grown over three years on a CAGR of 10% in the Individual Insurance sales. It's quite an achievement. It's really a testimony of the fact that it is a distribution play at the end of the day in our target market.

Paul Holden:

Okay. That's helpful. Then, last one for me. We've become accustomed to growth in organic capital generation, year in year out. Not that a $600 million target is a bad one, but it's not any higher than 2023. But your ROE target is not changing, so you should still be generating a fair amount of capital. Just curious where that extra capital consumption is expected to go to. My guess would be Individual Insurance sales in the U.S., but you tell me why it's not growing in 2024, please. Thank you.

Denis Ricard:

I think one of the answer on this is that, when we look at the profitability of our business, we're quite confident that we're going to increase it over the years. As you say, you might believe, at the end of the day, that the organic generation of capital will increase. I think we've been prudent in the way that we are providing our guidance for 2024. Also, we are continuing investing in technology, continuing investing

in our digital transformation internally. At the end of the day, we came up with this estimate, and hopefully we can beat that estimate.

Paul Holden:

Okay. Okay. I might have to follow up on that one but thank you for your answers.

Operator:

Your next question comes from Lemar Persaud from Cormark, please go ahead.

Lemar Persaud:

Thanks for taking my questions. I want to start off with corporate expenses. You suggested higher M&A prospecting activity, so it begs the question, what should we assume for the M&A market in U.S. Individual Insurance? Is it picking up there? Is there more files coming across your desk? Should we really be thinking about more deals in the U.S., more tuck-ins there, and more aggressive deployment of that excess capital? Thanks.

Denis Ricard:

Lemar, thank you for the question. We are looking at files all over the place. Obviously, in the U.S., when I say all over the place, both in Canada and the U.S. We've said in the past that there were more opportunities maybe in the U.S. We are thoroughly looking into the U.S. life business in certain areas. That is why we came up with the Vericity acquisition that is going to close very soon. But the reality is that we are open to deals in all business we're in, because we're able to generate at least 15% ROE business in

all our businesses. If there is an opportunity in some sectors, we'll obviously be there. But the reality is that there are probably more opportunities in the U.S. space, in particular in the U.S. life space, as we speak.

Lemar Persaud:

Thanks. Then, I don't know if you guys can share a number on this, but I'm going to try it anyways. On expenses more generally, I appreciate the outlook for the corporate level, where you're suggesting it's going to be at the same level as 2023, but what if we broaden that out to the consolidated view? How should we think about other expense growth at the consolidated level? Do you have any thoughts or numbers that you could share on that? It just seems like there's a more intense focus on expenses across all lines, I thought I'd throw it out there.

Éric Jobin:

Thank you, I'm glad that you raised that point, really, because this is where we look at the expenses roughly at the organization level, because the Corporate business segment, you're right, it's only one part of the equation. Sometimes we make decisions among running the businesses and corporate expense. The corporate expense, I will not throw a total expense number, but corporate expense, for you to know, represent maybe 12% or so of our total expense structure. The important thing that we look for, of course, year-over-year, we are facing inflation and salary pressure, but we look up, starting this year, for positive operating leverage between the growth of expenses and the growth of activities. Meaning that we look for a positive spread between the growth of businesses and the growth of expenses overall, because when

you acquire and you grow, it's a good thing too, because you need to service the clients and you need to add on. But the important is that we grow more effectively year after year.

Lemar Persaud:

Got you. Then, last one for me. I want to come back to the Dealer Services in the U.S., a lot of questions on this call. But is the real bottom line here that this business is just going to remain challenged until we see rate cuts play out? Or do you think there could be some recovery in this business if rate cuts don't play out, like for all the reasons I think Mike described earlier? Or is it just rate cuts?

Éric Jobin:

In fact, what I would say about the profitability, of course, the big differentiator will be with the rate cuts, because the way the business model is done, the day that the rate cuts happen, it will mean more affordability for the clients, which will generate more sale of the product. That's an important piece of the equation. The second one is all that we've been doing that Mike talked about with system integration and things, we're expecting that to start deliver benefits even if rate cuts does not happen. That's why I mention that the situation should gradually improve in 2024 for that. Yes. That's what I wanted to say on this.

Denis Ricard:

I don't know if Mike wants to add to this, but it might also be that, if the OEM comes back to the market with more incentives, it could help in terms of the price of their car and allow more affordability for the clients. There might be a dynamic there for OEM incentives as well.

Michael L. Stickney:

I guess I would agree with Denis that lower car prices or higher incentives would help. But I think you're right, that the biggest impact would be reduction in interest rates. It's really hanging over this market.

Lemar Persaud:

Appreciate the time.

Operator:

Your next question comes from Darko Mihelic from RBC, please go ahead.

Darko Mihelic:

Hi. Thank you for taking the time to answer my question. Real quick on the U.S. business with the Individual Insurance business. Denis, can you please just remind us, how if anything changes when Vericity comes on? Because if we're talking about big growth in sales, and it looks like you are having good sales there, and Vericity comes on, the next clear question for me is, it seems almost too obvious that you would want to deploy more capital into this business segment. Would you be interested in blocks, or is this something that is almost purely going to be an organic play?

Denis Ricard:

Mike, you might comment on the fact that we've been trying to acquire organization over the last 10 years. It's not that we don't want to acquire. The opportunities are not always there, right?

Michael L. Stickney:

Yes. But I guess the issue raised; would we look at blocks? We decided quite a while ago, 10 or more years ago, that we would not be looking at buying closed blocks. We wanted to build a business that would grow organically. That's been our focus, and it's why there's been less targets. There's lots of block transactions out there. Our focus has been, and I think will continue to be, we want organic growth. We want an operation that has some access to some kind of distribution that we're comfortable with. Vericity, it's a new distribution model, but it fits that criteria.

Darko Mihelic:

Does it necessarily—does it require maybe broadening out the product lineup?

Michael L. Stickney:

It could. Yes, adjacent products are a discussion we have from time to time. Yes. I mean, example I could give you is worksite marketing is an idea out there. We do a bit of worksite through the Waco operation. But there's a whole market out there that could be interesting to us.

Darko Mihelic:

Okay, thank you so much for that. Denis, just one last question for me. When I look at your slide deck and I look at the 2023 in a nutshell on Slide 13, and then I see the 2024 outlook, and I try and piece it together with your earlier answers on. You know, you're in a long-term business and you don't want to provide significantly granular kind of guidance into 2024, but under IFRS 4 you gave very granular guidance in the past. Frankly, it was quarterly. You're moving away from that, and maybe we can understand that.

Maybe what would be helpful for me is if we talk about 2023 and how you significantly missed the very early view on your EPS growth. You were talking, I think, double-digit with some additional growth. Maybe you can just, in your look-back conversation on 2023, discuss the significant area where there was—it did not enable you to hit your, call it, investor day presentation expectations for 2023, and tie that into why granular guidance is now missing from IAG. That would be helpful, I think. Thank you.

Denis Ricard:

Thank you Darko, it's really a great question. 2023 , when I look at, let's say, the increase in EPS versus the 2022 IFRS 4, it's pretty much 5% increase. You might recall a year ago the guidance that we provided was, and I'm rounding here, something around 15%. Obviously, am I happy with the 5%? The answer is no. But there's been a lot of, I would say, headwind that happened during the year. I already mentioned some of them, mortality in Individual Insurance for part of the year, the U.S. Dealer Services business, the iA Auto and Home claims, strain in group business, the inverted yield curve; there's been several elements that didn't help on that.

Historically, the organization, because of the diversification of all this business, historically, we've been able to generate a 10% EPS growth over the time, and combined with the deployment of capital in various businesses that we bought over the years, we've been able to generate that 10%-plus. Now 2023 has been a challenging year, for the reasons I mentioned. But when I look at 2024, with the fact that we have that extra capital, that we can deploy that capital, the fact that the mortality is back on track on Individual Insurance, our Wealth Management business has been great in 2023, it should continue going forward, I see a lot of positives in front of us. That makes us very positive in terms of our capability of growing the 10%-plus.

Over the last 20 years, we didn't have, I would say, the organic generation of capital like we have today. This is a huge positive for us. If we were able to generate that 10%-plus in the past, I see more reasons to achieve that going forward than in the past, to be honest with you. That's why we feel positive.

Darko Mihelic:

Okay. Thank you.

Operator:

There are no further questions at this time, I will turn the call back over to Denis Ricard for closing remarks.

Denis Ricard:

I don't have much to add because my last comment was about what I just said, the fact that we feel positive. But keep in mind, I would say a couple of things. The fact that our book value increased, even during this transition to IFRS 17, is a testimony of our business model, which is sound, very sound. Also, I would point out to you the fact that in 2023, two quarters out of four, we've had reported earnings that were higher than the core earnings, which I think makes iA stand out in the market. With that said, thank you very much, and have a great day.

Operator:

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining, and you may now disconnect your lines. Thank you.