FINAL TRANSCRIPT

Industrial Alliance Insurance and Financial Services Inc.

2023 Second Quarter Results Conference Call

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PRESENTATION

Operator

Greetings and welcome to the Industrial Alliance Second Quarter Earnings Results 2023 Conference Call. During the presentation, all participants will be in a listen-only mode. Afterwards, we will conduct a question-and-answer session. At that time, if you have a question, please press the one followed by the four on your telephone. If at any time during the conference you need to reach an operator, please press star zero. As a reminder, this conference is being recorded on Friday, August 4, 2023.

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

Marie-Annick Bonneau — Head, Investor Relations, iA Financial Group

Good morning and welcome to our 2023 Second Quarter Conference Call. All our Q2 documents, including the 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.

The conference call is open to the financial community, the media, and the public. I remind you that the question period is reserved for financial analysts. A recording of this call will be available for one week starting this evening. The archived webcast will be available for 90 days and a transcript will be available on our website in the next week.

I draw your attention to the forward-looking statements information on slide two as well as the non-IFRS and additional financial measures information and the note regarding 2022 restated results under IFRS 17 and IFRS 9 on slide three.

Also, please note that a detailed discussion of the Company's risk is provided in our 2022 MD&A available on SEDAR and on our website, with an update in our Q2 2023 MD&A released yesterday.

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

Denis Ricard — President & Chief Executive Officer, iA Financial Group

Good morning, everyone, and thank you for joining us on the call today. As usual, I will start by introducing everyone attending on behalf of iA. First, Mike Stickney, Chief Growth Officer and responsible, among other things for our US operations; Alain Bergeron, Chief Investment Officer; Stephan Bourbonnais, Executive VP responsible for our mutual fund business and wealth management distribution affiliates; Renée Laflamme, in charge of individual insurance and annuities; Pierre Miron, responsible for Dealer Services Canada and iA Auto and Home; Sean O'Brien, in charge of our group businesses. And also attending his last earnings call today is Jacques Potvin, our Chief Actuary and CFO.

As you know, Jacques will be retiring at the end of this year after 33 years of dedicated service, for which I thank him on behalf of the board and the management team. Over the years, in addition to leading several strategic projects, including, most recently, the transition to IFRS 17 and our flexible work-from-anywhere working model, Jacques developed strong and genuine connections with his teams and had a positive lasting effect on their professional development. Our incoming Chief Actuary and

CFO, Éric Jobin, has been with iA for more than 29 years. Éric has occupied roles of increasing responsibility over the years, including in corporate actuarial services, group benefits and retirement solutions, and most recently operational efficiency. I wish them both all the best for the years to come.

Now for the results. Yesterday we reported our results for the second quarter. I refer you to slide eight while I comment on the main KPIs. Core EPS is $2.39, which is 3% higher than a year earlier, a quarter in which our results were particularly strong, and 15% higher than in the first quarter of 2023. Core ROE of 14.5% is close to our medium-term target. Our capital position continues to be very robust, with a solvency ratio of 154% as at June 30th. Our strong organic capital generation contributes to this solid result. In Q2 it amounted to $150 million, keeping us in line to meet our 2023 organic capital generation target of at least $600 million. Business growth also remained strong with very good sales in almost all business units. This performance led to a solid 12% year-over-year growth in premium and deposits and a 10% year-over-year growth in AUA/AUM. Finally, following a smooth transition to the new accounting standard without any impact on our book value, the latter continued to grow during the quarter, reaching 4% growth year to date. Overall, our second quarter results confirm a very robust capital position along with continued sales momentum from almost all business units and increased profitability year over year.

Moving to slide nine to look at our year-to-date results, I will comment briefly on the first six months of the year. Since the beginning of the year, our core profit has grown by 7% compared with last year IFRS 4 core EPS. This is a good result given the slower recovery in our US dealer services division and the economic context; however, following recent developments in the environment, such as higher mortality and P&C claims, as well as the worsening of the yield curve inversion, unless positive changes occur during the second half of the year, it now seems less likely that core EPS will grow by at least 13% over the 2022 IFRS 4 results in 2023. Building on the robust Company’s fundamentals, business model, growth potential, and strategy, we continue to be fully committed to creating value for our shareholders and delivering average core EPS growth of 10% plus per annum, in line with our midterm market guidance. Looking at the other metrics, our solvency ratio is well above target, core ROE is near midterm target, and our dividend payout ratio is well within target. As for organic capital generation, we expect to reach our $600 million target in 2023.

In conclusion, our strategy is and has always been based on the long-term vision for sustainable growth. On the strength of our solid capital position, we continue to invest organically in our future growth, particularly in our digital transformation, while looking for acquisition opportunities that meet our criteria. With this in mind, and in keeping with our purpose of making our clients feel confident and secure about their future, we’ll be able to continue to deliver average annual core EPS growth of 10%-plus and to reach our core ROE target of 15% plus.

This concludes my remarks. I will now turn it over to Mike, who will comment on business growth. And following Mike, Jacques will provide more information about Q2 results and our capital strength, and we will then take questions. Mike?

Michael Stickney — Executive Vice-President & Chief Growth Officer, iA Financial Group

Thank you, Denis, and good morning, everyone.

In Q2, our business growth momentum continued in almost all our business units. Sales were particularly good in Canada in individual insurance, dealer services, iA Auto and Home, for insured annuities, and for our group businesses, as well in US individual insurance. We are also pleased with wealth management's sales results given the volatility of market conditions. As for US dealer services, the environment continued to be challenging.

Now please refer to slide 11, as I will comment more specifically for each business unit. Starting with Insurance Canada, individual insurance continues to lead the Canadian market in terms of the number of policies issued. During the second quarter, individual insurance sales totalled $89 million, a solid result that compares to a strong quarter of $98 million a year earlier and which is 22% higher than the $73 million in sales recorded in the second quarter of 2021. In addition to the strength of our extensive distribution networks and the performance of our digital tools, this good result is attributable to our comprehensive range of products. Incidentally, we are constantly striving to offer new products to better meet our clients' needs. With this in mind, the Company launched a new universal life product for the high-end market in the second quarter, which was well received. For group insurance results, strong growth of sales drove net premiums up 6% year over year to reach $404 million. Sales in the employee plans divisions were up 8% compared to a year earlier and amounted to $13 million. Sales for special markets totalled $86 million, up 25% year over year. In the dealer services division, sales amounted to $190 million, up 10% to a year earlier. This performance is a continuation of past quarters with very good growth in the sale of P&C products, which include extended warranties and replacement insurance up 21% from the same period in 2022. As for our P&C affiliate, iA Auto and Home, direct written premiums registered a strong result with a 12% increase when compared to the same period last year.

Now turning to slide 12, which focuses on the wealth management business segment, iA's segregated funds sales continue to do well as the Company still ranks first in Canada for gross and net segregated fund sales, strengthening our leading position in the industry. More specifically, segregated funds sales totalled $829 million and net sales resulted in inflows of $188 million. Mutual funds gross sales totalled $370 million, a result similar to last year, with net outflows of $139 million. Together, total net fund entries amounted to $49 million for the second quarter. For insured annuities and other savings products, second quarter sales reached $646 million, almost tripling last year's result. We continue to believe that many clients of these products will transfer their funds to our segregated fund and mutual funds when markets become less volatile. Finally, sales in group savings and retirement totalled $747 million in the second quarter. This represents a 7% increase year over year, mainly driven by a large transaction in the insured annuity products during the quarter.

Going to slide 13 for our US operations business segment, sales in individual insurance division amounted to US$43 million and are up 13% for the same period in 2022. This good growth was driven by strong performance from the middle and family and final expense markets. In the dealer services division, second quarter sales amounted to US$246 million compared to US$266 million a year earlier. This result is mainly attributable to reduced affordability resulting from higher financing costs for consumers and persisting inventory constraints. On a positive note, we are pleased with the eight awards received by US dealer services at the 2023 Dealers' Choice Awards. For the second year in a row, we received the highest number of awards, confirming how well we are perceived by dealers. Moreover, during the last quarter we increased our dealer count for our products by 6%.

Overall sales results for the quarter, but also for the first half of 2023, are quite strong for most business units. This shows that, with long-term vision and discipline, we continue to successfully generate solid business growth.

Now I'll turn it over to Jacques to comment on Q2 earnings and capital strength.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Thank you, Mike, and good morning, everyone. I will start with slide 15, which presents an overview of our profitability and financial strength for Q2 2023.

Core EPS increased by 2% year over year and core ROE for the last 12 months is 14.5%. The increase in earnings is mainly due to a 14% year-over-year rise in the core net investment results and an 11% increase in expected insurance earnings. In addition, overall core insurance experience was positive, mainly as a result of favourable disability experience. In terms of capital, we ended the first half of the year in a very robust capital position, highlighted by our solvency ratio of 154%. Ongoing good organic capital generation and sound capital and risk management practices contribute to this capital strength. Book value now. Thanks to our prudent and long-term management approach, it was not affected by the transition to the new accounting regime. During the first six months of 2023, iA book value increased by 4% despite the volatility expected from IFRS 9 and 17.

Now turning to slide 16 to look at results by operating business segment, in the Insurance Canada segment, core earnings of $91 million compared to a particularly strong result for the same period in 2022. During the second quarter of 2023, a solid 12% year-over-year growth in expected earnings was recorded, including a 27% increase in the CSM recognized for service provided. Insurance experience in this business segment was neutral as favourable long-term disability experience in employee plan and other smaller experienced gains were offset by unfavourable mortality in individual insurance and higher claims at iA Auto and Home, mainly for auto coverages due to inflation, but also as a result of weather events.

In the wealth management segment, core earnings of $76 million for the second quarter were 15% higher than a year earlier. This performance is a result of the 12% year-over-year growth in expected earnings for seg funds, lower expenses, and strong results from the distribution affiliates.

As for our US operations, Q2 core earnings were $26 million. Results in the individual insurance division were strong, supporting the core insurance service result, which is 15% higher than a year ago. The result for non-insurance activities was lower due to an unfavourable business mix and lower sales in the dealer services division. Also, we continue to invest in digital technology to improve efficiency and client experience and will be well positioned to benefit from opportunities when sales pick up again.

Continuing on slide 17, looking at the investment segment, Q2 core earnings were $106 million compared to $74 million a year earlier. This performance is in part attributable to the 14% core net investment result growth following the investment portfolio optimization that occurred mainly throughout 2022. Also, the second quarter result was supported by the impact of the rise in interest rate in 2022 as well as a lower income tax charge due to the tax filing adjustment as it occurs every year in June. Finally, our corporate segment recorded after-tax expenses of $52 million resulting from the accelerated digital transformation, the enhanced employee experience to support talent retention, and regulatory compliance projects.

Looking at non-core items on the right side of the slide, the impact of market variations in the second quarter was unfavourable by $72 million, mainly due to interest rate variations during the quarter. Please refer to slide 26 for more details on net investment results included in core earnings. Also this quarter, assumption changes led to a post-tax net reserve release of $43 million as model improvements and projection refinements were implemented following the transition to the new accounting standard. It is worth mentioning that, while non-core macroeconomic variation has had a neutral impact on the first half of 2023, the recent worsening of the interest rate yield curve inversion is an unfavourable factor for core earnings in the short term.

Now on to slide 18, which shows our very robust capital position. Standing at 154% at quarter end, our solvency ratio is well above our operating target of 120%. Organic capital generation of $150 million is strong and we are on track to reach our $600 million target. Our solvency ratio continues to have little sensitivity to macroeconomic variation and our financial leverage ratio at June 30th is low at 17.3%. As a result, the amount of capital available for deployment to support our growth strategy stands at $1.8 billion.

This concludes my last remarks as the CFO of iA and I want to take this opportunity to thank the financial community and tell you what a pleasure it has been to work with you and to exchange with you over the years. I also want to thank my team, my colleagues, the board members, and Denis for their continued support and trust and wish them success in their continued effort in performing for all our different stakeholders.

Operator, we will now take questions.

Q & A

Operator

Thank you. If you are an analyst and would like to register a question, please press the one followed by the four on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the one followed by the three. Once again, to register a question, please press the one four on your telephone. One moment please for the first question.

Your first question comes from Gabriel Dechaine with National Bank Financial. Please proceed.

Gabriel Dechaine — Analyst, National Bank Financial

Good morning. I would like to start off with the growth drivers and the targets for this year. You touched upon a few of the items that have affected the outlook there. One, the P&C business, it’s not as easy to see in your disclosures now how that one did. Can you quantify like the earnings year over year for P&C and the size of the cat losses perhaps? And then on the yield curve, you mentioned, I don’t know if it was misspoken or something, but it sounded more like a recent phenomenon, but we’ve had the yield curve inverted for quite a while now, I’m wondering if I’m just not looking at the right parts of the curve, you know, how much of an impact does the inverted yield curve have on the earnings profile of the business?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Hello, Gabriel. Jacques speaking. About the P&C earnings, for the weather event it was a $3.5 million hit in Q2. It's a post tax. Beginning of July there were also event in Quebec and my understanding at this point is it will be the same kind of magnitude, just a head's up guys, for Q3. About the yield curve, in fact—what? Okay, go ahead.

Gabriel Dechaine — Analyst, National Bank Financial

The P&C profit overall, because it's buried in the Canadian insurance, I'm just wondering what the absolute number is for profits there.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

I don't have it on the top of my head. I know that I have more compared to expected. Compared to expected, we have $5 million after tax lower than expected. We were expecting less than last year because we knew that, following the COVID situation, people were driving more. And so that's what I have off the top of my head at this point, Gabriel.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. That's good.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

And the yield curve, in fact, you're totally right. We are exposed at, I would say, duration on the yield curve, and every quarter there is some evolution of our liability portfolio, asset portfolio, and that is something that varies from quarter to quarter. However, at the end of the quarter, like we said, our core definition we use, we don't recognize movement of interest rate, movement of credit rate, so it means that at the end of the quarter we have the new yield curve that will be used to calculate core for the following quarter and we're providing those sensitivities in our slide deck. And what you will notice, what we have noticed with the current situation of our asset liability matching and the yield curve, it would be a drag. I would say between $0.05 and $0.10 over Q3. That's what we're expecting right now.

Denis Ricard — President & Chief Executive Officer, iA Financial Group

Maybe one thing I'd like to add—Gabriel, it Denis here. I just want to add on this, because the inverted yield curve may create some kind of noise when it happens, but at the end of the day, when you look on a long-term basis, obviously positive yield curve is, most of the time, what is happening. And keep in mind that, for iA, positive yield curve with, let's say, the level of long-term interest rates as they are right now, I mean they've increased significantly I guess, is very positive. So my conclusion is that, short term, there is some noise in this inverted yield curve, which brings some drag in the earnings, but long term it's very positive for value creation.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. And Jacques, good luck in retirement and enjoy spending more time on the tractor.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Thank you very much, Gabriel.

Operator

Our next question comes from Meny Grauman with Scotiabank. Please proceed.

Meny Grauman — Analyst, Scotiabank

Hi. Good morning. I'll start off with Gabe's best wishes, Jacques, for your retirement. I think I speak for everyone, all the analysts; you made our jobs easier, so thank you.

In terms of the question, Denis, you highlighted factors impacting the growth outlook for 2023 and in the previous answer you touched on one aspect of that. I'm curious, as you look to 2024, how you're viewing these factors in terms of how temporary they are and what sense do you have in terms of those factors not being so relevant as we look into next year?

Denis Ricard — President & Chief Executive Officer, iA Financial Group

Well, let me start with the P&C business, for example. This is short-term business and short-term business is cyclical. We've seen that through the years. I mean it's always been like that. And the idea right now is that the industry is re-pricing. So I can see that we're going through a cycle where the results are lower, and I mean we've seen this for the whole industry, but the good news is that this can be re-priced and so I see the light at the end of the tunnel here for that.

In terms of the mortality, I mean, and Jacques can comment on that, but it's more an unknown. I mean we've had two quarters in a row with mortality that has been negative. But we'll see going forward and, Jacques, you might comment after.

And the other point is the US and in the US we're taking actions. I mean to some extent it's under our control also, because we can take some actions. As Mike has mentioned, we are emphasizing big time our growth strategy, getting new dealers, increasing the pipeline, and so to some extent there's something we can do about it, even if the economic context or, let's say, the auto industry context might not be positive.

So at the end of the day, when I look at everything, I'm very confident about the fact that we can deliver over time, like a midterm target of, let's say, 10% in average of EPS growth. So our business model is very strong. I mean it's not because in the short term there's been some bumps that it has changed anything about our business model.

Jacques, you might comment on the mortality.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

In fact, for the mortality, when I saw the Q1 result, I really, at that time, it was purely a statistical fluctuation. The fact of having the same kind of result in Q2, we dug more into it, and there may be some part of it, a part of it that will be recurring, probably we associate that to the aftermath of COVID. In fact, during COVID, if you recall, when I spoke about three elements that I'm seeing affecting mortality, the first one is people that prematurely die during COVID, will not die, so again, so this is something that would have been positive for 2022 and over. Second element positive is the fact that there's been a lot of research in medicine, so improving mortality, but this may be more long term, midterm/long term, than short term. And the third which was a negative is the fact that during [inaudible] people were not able to attend and go to the physician as much as they were doing before. So that's probably the ripple effect that has a stronger impact at this time. So that's the way we see it. So we believe that two thirds actually of that mortality could be affected by that and the remaining is statistical fluctuations. So it can come back like we saw in previous year.

Meny Grauman — Analyst, Scotiabank

Thanks for that. And I just wanted to add on the corporate segment, we've seen an increase in expenses there and you highlight a number of factors for that. And a similar question in terms of how much does that persist going forward? Like when I look at some of the drivers that you highlight, like related to talent retention and regulatory projects, I think the labour market is changing, so maybe some of these factors are likely to moderate relatively soon. So I'm just curious on, you know, negative $52 million in corporate this quarter, how should we think about this number going forward? Can it kind of go back to what we saw sort of in early 2022?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Jacques speaking, Meny. It won't come back to 2022 level sure. For the remaining of the year we expect to be in the same ballpark as what you've seen so far in 2023. In 2024 we will see, there's a big, I would say, compliance project we're working on right now, and this project, the level of capitalization is low compared to most of the, not most, but all other digital transformation project we are doing. So overall, we managed expenses overall. The fact with IFRS 17 is that some, and even without IFRS 17, there are some expenses when you transform yourself that you can capitalize, some other that you cannot capitalize. And this part it's when we work on the project sometimes that we are able to have the real value, so when we do forecasts we don't have exactly all the IT solutions, so sometimes we may be off a little bit, and this is costing a little bit this year on the P&L, but that's not a big amount. And the other element also is the geography of expenses of what part affects the P&L versus what part affects the CSM. So there will be some refinement in our model for next year, but for this year overall expenses were okay, it's just that the P&L is slightly negatively affected so far this year.

Meny Grauman — Analyst, Scotiabank

Thanks for that.

Operator

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

Doug Young — Analyst, Desjardins Capital Markets

Hi. Good morning. Maybe we can start with just the assumption change, Jacques. Can you talk about what that was? You talked loosely about model refinements and stuff like that, but I mean it's not an insignificant number, so I'm curious what it was. And can you talk about the mechanics of how this works? Like why does it positively impact earnings, negatively impact like LICAT and CSM? Can you talk about the moving parts?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Hello, Doug. In fact, you know, IFRS 17, it's a brand-new big standard and we have to change valuation of all insurance product of the organization. So it's normal that we have unmature processes and there are some places we will find refinement. We were still finding refinement in IFRS 4 and it has been there for quite a long time, so this is normal.

What is happening this quarter, we've made a few, I would say, improvements. I will go with the mechanics first. When you do basis change related to actuarial decrement, like mortality lapse, morbidity, expenses, this will flow through the CSM. But it is calculated with the locked-in rate and you have to do a second calculation with the current rate and the difference between both calculations will go through the P&L. So, even for those actual decrement, the big part would be in CSM, but there's a ripple effect in the P&L. And if you move your economic assumption, your valuation assumption for liability, it goes directly to the P&L.

So, to answer specifically for the refinement we brought this year, there's been some refinement on the CSM was more about our product, the way we modelize our product. And on the P&L it has to do with refinement about the different instruments we are using to support our long-term liability. I will speak here more about the different options. So we improved our modelization. And there was a second element that is really to reflect market expectation for the expected credit loss greater than our own expectations. So that was the big elements that we refined this quarter.

Doug Young — Analyst, Desjardins Capital Markets

Okay. You and I may have to sit down and talk more about this, but I'll leave it at that for the call. Thinking of the second question, CSM, like the impact of new insurance business declined 13% quarter over quarter. Denis, you talked about how sales were strong and if I look at Canadian individual insurance quarter over quarter was flat and I assume that's one of the bigger drivers of that particular line. Was there a mix impact? What else drove the decline in that line item in the CSM?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Okay. Jacques again. And Doug, on the previous question I should mention that we're working with a total liability of more than $30 billion. So when you said earlier that it was a big number, it's not a big number when you work with that $30 billion liability.

Doug Young — Analyst, Desjardins Capital Markets

Sure. Yeah.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Okay. About the CSM for new sales, so if we look at quarter over quarter, there are a few elements there. The sales were lower, like you said. Also, there's been a basis change that we made at the end of Q4, so in the CSM we reflect those new assumptions and it has an effect. Also the business mix, like you said, is different. And keep it in mind, it's very important, reduction of CSM doesn't mean that profitability of that business will be worse, because it depends on the product you sell. A long-term guaranteed product will have a higher CSM even if it's less profitable than the term product. So keep that in mind. It's very important. So that's why we prefer organic generation of capital that captures the cost of capital or the capital required to support the business. It's very important.

Other element also, there's been some reallocation in our supplementary information package. In fact, there were elements that last year were considered as new sales and we had the impact in the gain and loss. So we reclassified that and it has a negative impact on the value of new sales as well. So this is what explains those numbers.

Doug Young — Analyst, Desjardins Capital Markets

Okay. And then if I can sneak just one last one in, Alain, there's been a $28 million mark on your investment property this quarter, $48 million year to date, a little higher than we would have expected. Can you talk about details on this? Was this all office in Canada? Is there other regions? I don't think you really have a big exposure outside of Canada. And then just a bit on the outlook for that investment property portfolio.

Alain Bergeron — Executive Vice-President & Chief Investment Officer, iA Financial Group

Sure. Sure. First of all, you're right; it's 100% in Canada. And look, and as you see, we have an overweight in office space. And the office, it's a sector in the real estate right now that there is some uncertainty. I don't expect that the headwinds will stop tomorrow. On the other hand, if you look at the quality of our portfolio, even if there is a lot of uncertainty in the short term, this should help mitigate the impact. Think about our lease term. The weighted average lease term is nine years. We have a lot of government leases and the portfolio is unlevered.

Another thing I would mention is that the recent activity… The vacancy, if you look through the numbers, you'll notice that the vacancy went down very slightly. You'll also notice that, actually you won't notice, but what I liked in Q1 and in Q2, our net new leases has been greater than the termination. So that means that this is a leading indicator of things getting better.

And finally, one thing I would say is that we have some potential upside in the portfolio. We have a few value creation opportunities that we're pursuing. Of course this is not something for the next quarter, but this is something that, midterm, there is some upside in the portfolio.

Doug Young — Analyst, Desjardins Capital Markets

Great. Thank you. And Jacques, all the best in retirement. Thank you.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Thank you very much, Doug.

Operator

Our next question comes from Paul Holden with CIBC World Markets. Please proceed.

Paul Holden — Analyst, CIBC World Markets

Thank you. Good morning. I guess where I want to start is try and get a little bit more or I guess narrow the range of 2023 guidance. So, when you say you no longer expect it to be above 13% but you seem to be reiterating the 10% growth objective over the medium term, I kind of think of a range of something like 10% to 13%. Is that a correct interpretation of what you're trying to tell us or, because of the headwinds, it could be something less than your normal medium-term target?

Denis Ricard — President & Chief Executive Officer, iA Financial Group

It's Denis here. I think it would be fair to say that, and we've seen that over time, that there are some years where there's been more bumps and we've hit something lower than 10% in the past. After six months we're at 7%. So to get to what you're talking about here, 10% to 13%, there will have to be a significant turnover about the various factors that we mentioned. So, under that condition, it could happen, but so far, after six months, 7%. So it's your guess here. But we've seen the years where it has been lower than 10%. But I mean our 10% is an average, so some years it's higher, some years it's lower.

Paul Holden — Analyst, CIBC World Markets

Got it. Okay. I just want to drill down a little bit on the expected investment income. It was down quarter over quarter. Is that related to the yield curve inversion or is there something else going on there? And maybe as part of that question as well, give us a sense of sort of what we should expect in future quarters.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Jacques speaking. Yeah, it has to do with the yield curve movement that happened during Q1. So this is the main element. There are two other elements here. We bought back the pref share and, if you look at the geography of where it has an impact, it reduced the investment income because we no longer manage the asset. And the cost of the pref were on another line, so there's an amount there. And also we're slightly less invested in NFI during the quarter. But mainly it's interest.

Paul Holden — Analyst, CIBC World Markets

Okay. Understood. And then last question from me, I guess, is on the US dealer services business and the warranty in particular. So, when I look at the data points coming from the industry, it suggests higher light vehicle sales, it suggests some improvement in used car pricing, it suggests some improvement in dealer incentives, inventories are certainly building, so there's a number of factors that I would look to that would point to improving industry fundamentals, maybe not a big step function, I get it, but at least Q2 looked better than Q1. So I'm wondering if there is something I'm missing here that remains a challenge. It may be simply just financing costs are high and therefore sales are low, but is it not correct to think that things are, at least sequentially, getting better for that business?

Michael Stickney — Executive Vice-President & Chief Growth Officer, iA Financial Group

Hi, Paul. It's Mike Stickney. Yeah, I'm agreeing with what you're saying. Those are the positive things going on and things are improving. There continue to be some headwinds at the same time though and it's just how it all plays out and I guess you see it in the overall sales, whether it's cars or insurance. Some of the headwinds, as much as vehicle pricing is improving and there are some incentives, the data we've seen is that 45% of new car sales were still above MSRP in the second quarter, so obviously, you know, that kind of means prices are still high. We're definitely not back to pre-COVID levels.

You had mentioned used car prices are coming down and that is true. That's what we're seeing as well. But strangely enough, used car sales are not showing any increase. New car sales had a pretty good increase, but used car, and it may be just the average consumer for a used car is somewhat constrained, higher interest rates, whatever, concerns about the economy. And I guess the other factor, and this I mentioned the last quarter, higher interest rates, I see it as a headwind just in terms of we're seeing lower penetrations in terms of insurance products with car, you know, penetration of insurance products per car kind of thing. And we're also seeing the dealers and the F&I people selling more value products as well as a way to squeeze in some insurance into the contract, which is better than no sale, but obviously it's a bit of a headwind overall. So at this point I'm feeling we're getting a gradual improvement. I'm feeling kind of optimistic in that we grew our sales quarter over quarter and we're increasing our dealer count, but yes, we're nowhere near pre-COVID levels. That's sort of where I see it.

Paul Holden — Analyst, CIBC World Markets

Okay. And sorry, just to follow up on that in terms of, like you expanded your dealer relationships 6% and I think sales were down roughly 7% year over year, so if I think, going forward, as those new dealer relationships roll on then maybe something like a net neutral impact on overall sales is a reasonable expectation. Is that a right way to think about it?

Michael Stickney — Executive Vice-President & Chief Growth Officer, iA Financial Group

I see it as a positive. If you can add dealers, you should be able to add sales.

Paul Holden — Analyst, CIBC World Markets

Okay. That's it for me. And again, Jacques, thanks for all the help over the years and congratulations and enjoy the retirement.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Thank you very much, Paul.

Operator

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

Tom MacKinnon — Analyst, BMO Capital Markets

Thanks and good morning. And just to start, Jacques, all the best, and I've enjoyed our discussions and all the best to you and thanks for all your support.

So the first question just on the core tax rate, kind of running in around 18%. I think you guys have been talking sort of like 21%, 22%. Just some colour as to what happened there and what the guide is. And I have a follow up. Thanks.

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

First, hi, Tom. Thank you very much for your good work. And about the core tax rate, yeah, we said 21% to 23%. So profit is, I would say you can use 22% as the run rate. Our profit is a little bit lower than expected, so reality it's a little bit lower than that. What happened is in fact the true-up and a few other elements that we have, the CIF stuff, so usual tax stuff that happens for an insurance company.

Tom MacKinnon — Analyst, BMO Capital Markets

Okay, thanks. And if we look at the organic capital that you generated, that went up quarter over quarter. And you talk about all the noise associated with the yield curve movements and things like that, it doesn't seem to have impacted capital generation. Can you talk about the outlook for capital generation still sitting on the $600 million guide this year? How much does that increase going forward? And what are the things that you would point to that would change the $600 million guide that you've got for 2023 for organic capital generation?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

We're still on for the $600 million. In fact, even if profit is slightly lower, I will say capital requirement to support business is slightly lower as well because of the business mix we are selling, so we are still fine with that. And you can see the different impact on the slide, macroeconomic environment impact. There has been a negative impact this year. Portfolio adjustment has been positive. So we're still very optimistic about our $600 million.

Tom MacKinnon — Analyst, BMO Capital Markets

And the launch with the new UL for high-end market, that has no impact on that as well? That's not going to… Is that going to add to this or be neutral to it?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

In fact, that product is priced according to our profitability standard, our other product as well, so we just hope it will increase sales. And that's exactly why we develop such products, so it will help by bringing more profit.

Tom MacKinnon — Analyst, BMO Capital Markets

Okay. That's good. Now then, as a final question I guess, given the optimistic outlook here for organic capital generation, which I believe is a key performance indicator for the company, and the $1.8 billion in excess you're currently sitting on, you're very comfortable from a capital generation standpoint and an excess capital standpoint. So you have been buying back a little stock. Why not pick up on that more, especially if there's any potential weakness in the stock price? I'm assuming you would believe it would be attractively priced. Or what are your other plans for it? I mean you talk about investments into digital spends in the company, but if you can take that question for us. Thanks.

Denis Ricard — President & Chief Executive Officer, iA Financial Group

Okay, Tom. Jacques can comment on that. It's Denis here. Great question. I get that question, obviously, several times. We are in a very good position. And in terms of allocation of capital, certainly the investment in technology is very important. And organic growth is key for us in all our products. We are generating more than 15% ROE. And second, obviously, we look at acquisition, and in terms of acquisition, we always have some files that we're looking at right now. I would say that at this point probably more on the life insurance side when we look at the US versus US dealer, where it's more like tuck-in acquisition at this point.

So we are on the lookout. And we are actively buying back shares, because we are generating so much excess capital as we go. So we are in a very great position to grow the organization. And just keep in mind also that we'll stay quite, obviously, prudent and disciplined in the way that we acquire organizations, if we do. That's something that is very important. I mean we've seen a lot of files where we just exited because it didn't meet either our strategic intent or financially didn't make sense. So we continue to be very disciplined in the way we allocate capital.

Tom MacKinnon — Analyst, BMO Capital Markets

Okay, thanks.

Operator

Our next question comes from Mario Mendonca with TD Securities. Please proceed.

Mario Mendonca — Analyst, TD Securities

Jacques, first for you: Thank you very much for the sort of free education you offered me and everyone else, especially as we got through IFRS 17, and all the best to you in your retirement.

Let me get started by first asking a question on insured annuities. I understand the dynamics and what's driving the growth in insured annuities. What's less clear for me under IFRS 17 is how it gets reflected in your results. Is this something that would, that growth in that asset base, would it be reflected in the CSM amortization in that segment, the wealth management segment, or would the spread income be captured in the net investment result?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Thank you very much for your kind words, Mario. It will be in the CSM. So you create CSM, profitable annuity, when you sell them, it creates CSM, so it will amortize into the division, to the wealth division. And of course there will be some investment revenue as well as you manage the spread there, which would be the difference between the expected and the actual will influence, I would say, the net core investment income.

Mario Mendonca — Analyst, TD Securities

Okay. So most of it goes through CSM but a portion of the spread or some of the spread will go through investment. Okay. The references you made to inverted yield curve and the effect that that could have on your results, where is that seen? Is that seen in the investment result? It would seem logical that it would go through the investment result. Or is there something else?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

You are totally right. It's there.

Mario Mendonca — Analyst, TD Securities

And were you implying in your response, when you said $0.05 to $0.10, I think is what you said, were you suggesting that it would be $0.05 to $0.10 worse than what we saw in Q2 2023? Was that the point you were making?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Yeah, it's comparable to Q2, what I said. And Mario, there are some ripple effects as well. Interest rate yield curve has some effect on the risk adjustment and CSM because you have to recalculate them, but it's minor compared to what will go to the net investment. So, most of the impact would be net investment.

Mario Mendonca — Analyst, TD Securities

Okay. Next question real quickly. The US dealer services, you were focused on, two quarters you referred to the mix being unfavourable to the sort of margins you generate there. Could you remind me what you mean by mix in US dealer services and talk about the dynamics that are impacting that mix?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

There's mix about product but also mix with the distribution affiliate, non-affiliate, that it's less profitable with the non-affiliate. So this is what we're referring to when we speak about the distribution mix.

Mario Mendonca — Analyst, TD Securities

But why would the non-affiliate be growing and the affiliate not be growing?

Denis Ricard — President & Chief Executive Officer, iA Financial Group

Maybe, Mike, you would like to get some details out of this?

Michael Stickney — Executive Vice-President & Chief Growth Officer, iA Financial Group

Yeah, no, Mario, it's just, you know, it's marketing stuff. Sometimes the market moves one way or the other. The non-affiliate clients we have are doing better and selling more. It's kind of a short-term fluctuation is the way I see it. And it's a very profitable business. Profits as a percentage of the sales of revenue are lower, but it's still quite profitable. We're happy to do that business.

Mario Mendonca — Analyst, TD Securities

But for some reason the affiliate channel just isn't keeping pace with the non-affiliates?

Michael Stickney — Executive Vice-President & Chief Growth Officer, iA Financial Group

Right now that's the case, yeah.

Mario Mendonca — Analyst, TD Securities

Okay. And then finally, mortality, if the company were to adjust the mortality assumption at some point down the road, would it more likely go through CSM or through P&L?

Jacques Potvin — Executive Vice-President, Chief Financial Officer & Chief Actuary, iA Financial Group

Mortality will go through CSM.

Mario Mendonca — Analyst, TD Securities

Thanks very much.

Operator

There are no further questions at this time.

Denis Ricard — President & Chief Executive Officer, iA Financial Group

Okay. Thank you. It's Denis here, I'll take the mic. Thanks, all, and just before I go with my conclusion, I'd like to again thank you Jacques. And also just to assure the market that Jacques is working very closely with Éric and the transition is going very well so, as you will realize over the next quarters, we have a lot of bench strength at this organization.

Well, just to conclude, the business model, as we've said today, has not changed at all. We have a lot of strength in this organization. Capital is very, very strong. At the end of the day, capital is king, so we have all the tools that is necessary for us to grow. It's now for us to execute.

So with that said, if you have not taken your vacation, I wish you a great vacation. Certainly we will take some vacation over the next couple of weeks and come back with a lot of energy. Thanks, all.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line. Have a great day, everyone.