Industrial Alliance Insurance and Financial Services Inc.

2024 First Quarter Results Conference Call

Event Date/Time: May 9, 2024 — 11:30 a.m. E.T.

Length: 54 minutes

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Gabriel Dechaine
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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Industrial Alliance Insurance and Financial Services Inc. 2024 First Quarter Results Conference Call.

At this time, all lines are in a listen-only mode.

Following the presentation, we'll conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press *, 0 for the Operator. This call is being recorded on Thursday, May 9, 2024.

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

Marie-Annick Bonneau — VP Investor Relations, Industrial Alliance Insurance and Financial Services Inc.

Good morning and welcome to our 2024 First Quarter Conference Call.

All our Q1 documents, including press release, slides for this conference call, supplementary information package, and quarterly 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 on Slide 3. Also, please note that a detailed discussion of the Company’s risk is provided in our 2023 MD&A available on SEDAR and on our website, with an update in our Q1 MD&A released this morning.

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

Denis Ricard — President and CEO, Industrial Alliance Insurance and Financial Services Inc.

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 of all, Éric 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 our Group businesses; and Mike Stickney, Chief Growth Officer of our US Operation and Co-Head of Acquisitions.

This morning, we announced that Mike Stickney will retire in the coming months. Over the years, Mike took on various responsibilities at iA, including as Chief Growth Officer. Most recently, he’s been Chief Growth Officer for the US Operations and Co-Head of Acquisitions since August 2023. This is Mike’s last earnings call and I want to congratulate him on his career and thank him for his contribution to iA’s growth over the past 25 years.

With Mike’s departure, we announced the three changes to the Exec Committee, which highlight the depth of our management team.

First, Sean O’Brien will succeed Mike as Executive VP and Chief Growth Officer of our US Operations. And Sean is currently Executive VP of Group Benefits and Retirement Solutions. He’s a seasoned executive, well-prepared to take on this new role after leading, among other things, our Dealer Services, Canadian Operations for a number of years, as well as our Wealth Management business.

Denis Berthiaume, who was Co-Head of Acquisitions with Mike since August 2023, will be the sole Head of Acquisitions as Executive VP, Strategy, Performance, Merger, and Acquisitions.

Finally, Louis-Philippe Pouliot will join the Executive Committee as he will be succeeding Sean as Executive VP of Group Benefits and Retirement Solutions.

Now to the results.

2024 got off to a strong start in terms of profitability and business growth, demonstrating the dynamism of our business units. Core EPS recorded a strong increase, sales were generally high, and our capital position continues to be robust.

Starting with Slide 8 for an overview of Q1 results.

All our three operating business segments, Insurance Canada, Wealth Management, and US Operations had double-digit core earnings growth, leading to a core EPS of $2.44, up by 17 percent year over year.

Core ROE of 14.6 percent is close to our midterm target of 15 percent plus.

Our business growth also showed strong momentum in Q1, with significant sales growth in almost all business units. As a result, we concluded the quarter with assets under management and administration up 11 percent year over year and premiums and deposits up 8 percent.

Our book value per share of $68.93 on March 31st recorded a healthy increase of more than 8 percent when we exclude the impact of share buybacks.

And our capital position is robust, with a solvency ratio of 142 percent, supported by continued strong organic capital generation and good risk management practices.

Now to Slide 9 to look at Q1 business growth for the Insurance Canada segment.

This segment started the year strongly, with all business units posting good sales results. For individual Insurance, we continue to be in a leading position in number of policies sold, with sales of $89 million during the first quarter.

The strength and diversification of our distribution networks, our close relationship with distributors, as well as the high performance and simplicity of our digital tools, among other things, remain key to our growth strategy.

In Group Insurance, sales increased by 21 percent year over year, leading premiums and deposits, along with good retention, to $506 million, which is 8 percent higher than a year ago.

In the Dealer Services division, first quarter sales of $148 million were up 3 percent year over year, a good result given the challenging environment that continues to impact vehicle affordability.

Finally, iA Auto and Home direct written premiums in the first quarter reached $114 million, a robust increase of 16 percent over the same period last year. This result was supported by strong sales and higher premiums.

Turning to Slide 10 to comment on Wealth Management sales results, where we reported very solid results, most notably with net fund inflows of more than $400 million.

iA continued to rank first in both gross and net seg fund sales. Gross sales of seg funds reached nearly $1.3 billion, up 24 percent year over year. And net inflows of $557 million were recorded during the first quarter.

Mutual Fund sales of $486 million were slightly higher than last year, but inflows were lower than outflows, as the mutual fund industry continued to be challenged.

In addition, while improved financial market performance prompted investors to shift away from guaranteed investments, sales of insured annuities and other savings products remained elevated, reaching $581 million, a very good result, even if lower than last year, which had been a record quarter.

Finally, in Group Savings and Retirement, solid sales of $918 million in the first quarter, up by 18 percent year over year, were driven by strong sales of accumulation products.

Now looking at Slide 11 regarding our business growth results in the US.

In Individual Insurance, sales of $42 million were up 2 percent from a year earlier.

Supported by our distribution networks and our product range, the activity remains strong in this business unit as we continue to strengthen our presence and grow organically. However, a temporary timing issue related to the recognition of new sales tempered slightly the growth pace in the first quarter.

In Dealer Services, first quarter sales amounted to $248 million, which is a good 8 percent increase compared to the same quarter a year earlier.

While this result reflects the positive impact of improved inventories and lower vehicle prices, we continue to take actions to ensure that we are well positioned for a full recovery, such as expanding our distribution channels.

Turning to Slide 12, where our key financial KPIs for the quarter compare favourably with our midterm targets.

Indeed, core EPS, which is 17 percent higher than Q1 2023, is well above the targeted 10 percent-plus annual average growth.

Core ROE of 14.6 percent is progressing toward our midterm target of 15 percent and above.

Our solvency ratio is well above our operating target while we continue to invest in growing all our business.

Continued organic capital generation of $130 million during the quarter is higher than during the same period last year and is in line with projections to exceed $600 million in 2024.

And lastly, the dividend payout ratio for Q1 is near the top end of our guidance, mainly due to the significant dividend increase that was announced in February.

As we continue to invest in growing all our businesses, our robust capital position and strong ongoing organic capital generation allow us to increase from 5 percent to 8 percent the maximum number of repurchases authorized under our share buyback program. This gives us the flexibility to create and return value to our shareholders while pursuing acquisition opportunities.

We continue to be very active but disciplined in seeking acquisitions to grow our current operating business segments. However, there are greater opportunities for certain business units such as our US Operations.

To conclude, I want to highlight that we have reduced the sensitivity of our core earnings to the interest rate variations. And therefore, in addition to being a better representation of underlying recurring earning power, core earnings should be less volatile going forward.

I will now hand it over to Éric who will comment on this initiative following his remarks on first quarter profitability and capital strength. Following Éric's comments, we will take questions. Éric.

Éric Jobin — Executive Vice-President, Chief Financial Officer and Chief Actuary, Industrial Alliance Insurance and Financial Services Inc.

Thank you, Denis, and good morning, everyone.

Starting with Slide 14 for an overview of Q1 profitability and financial strength.

Profitability, as mentioned by Denis, was really good in the first quarter with 17 percent core EPS increase year over year driven by solid management results, lower claims at iA Home and Auto, and favourable mortality experience in all operating business segments.

These favourable items are reflected in the year-over-year 21 percent increase in Insurance results and in the higher results from non-insurance activities. Lower core other expense also contributed to the strong core earnings growth.

Trailing 12-month ROE at 14.6 percent is near to our midterm ROE target of 15 percent plus.

Our solvency ratio continues to be robust and comfortably above our operating target with strong ongoing organic capital generation.

As for the book value, which is a key metric for measuring value creation, it has increased by more than 8 percent over the past 12 months, excluding the impact of share buybacks.

Now moving to Slide 15 to take a closer look at the results by segment.

All three of our operating business segments recorded year-over-year double-digit core earnings growth.

In Insurance Canada, core earnings increased significantly by 24 percent over 12 months to $92 million.

This strong result was mainly due to experience gains attributable to lower claims at iA Home and Auto and to favourable mortality experience in Individual and Group Insurance. iA Auto and Home positive experience was mainly the result of this year’s mild winter, together with the favourable impact of premium increases implemented in 2023. As for the main experience results, they were all near expectations.

In the Wealth Management segment, first quarter core earnings reached $95 million, well above the previous year result of $65 million.

Seg funds and annuities made a significant contribution to this solid result with a year-over-year growth of 32 percent in the core insurance service result. This increase is due to a higher CSM recognized for the services provided and the impact of strong net sales.

Core non-insurance activities also increased by 32 percent year over year with another very good performance from our distribution affiliates, mainly due to higher net commissions and better margins.

Lastly, core other expense in this segment were lower than a year ago.

US Operations also recorded a good result with a 12 percent year-over-year increase in core earnings, supported by lower core other expenses and taxes.

In Individual Insurance, the impact of good business growth and favourable mortality experience was partially offset by the impact of more onerous contracts.

In Dealer Services, the favourable impact of sales during Q1 2024 was offset by a slightly less profitable business mix and, to a lesser extent, by the impact of lower sales in 2023.

Now turning to Slide 16.

Looking first at the Investment segment, core earnings of $86 million for the first quarter compared to $95 million during the previous quarter.

Most of the decrease comes from core net investment results and is due to the decline in interest rate in Q4 and is in line with the sensitivities that we provided in February 2024. As a reminder, the core net investment result for a given quarter is dependent on the yield curve at the beginning of the quarter since we assume for core earnings purposes that interest rate remains constant throughout the quarter.

Looking forward, we expect core net investment results to be more stable following recent action that have reduced the sensitivity of our core earnings to interest rate variation by more than40 percent. We are very pleased with this reduction in future volatility of our core earnings, and I will provide you with more details shortly.

Returning now to the Investment results for the first quarter, credit experience was near expectation with a slight $1 million credit loss, mainly due to more downgrades than upgrades in the bond portfolio.

In the Corporate segment, core other expenses before taxes of $66 million are in line with our 2024 quarterly expectation of $65 million plus or minus $5 million. This good result is mainly due to our discipline and focus on operational efficiency initiatives.

Now looking at the right side of the slide for noncore adjustments.

Q1 core earnings exceeded reported earnings by only $10 million as variable market-related impacts and assumption changes were more than offset by other items mostly related to acquisitions.

Please go to Slide 17 to look at the Company's robust capital position.

Our solvency ratio of 142 percent at March 31st is well above our operating target of 120 percent. The slight decline of 3 percentage points during the quarter was mainly due to an unfavourable impact of macroeconomic variation and other non-organic items.

As for the positive contribution of organic capital generation, it was more than sufficient to cover Q1 capital deployment, which essentially consisted of share buybacks.

Organic capital generation continued to be strong, reaching $130 million in the first quarter.

This result is higher than last year for the same period. It is also in line with our projection to exceed the minimum target of $600 million in 2024 as, due to seasonality, organic generation is generally stronger from the second quarter onwards.

With such a solid capital position, we ended the quarter with approximately $1.5 billion in capital available for deployment for organic growth and acquisition, as well as dividends and share buybacks.

On this topic, we announced earlier today that we raised the maximum number of shares that can be repurchased under the current NCIB program from 5 percent to 8 percent.

Continuing on Slide 18 to discuss some recent operational efficiency initiatives.

iA has always been known as a cost-conscious company, investing wisely to support sustainable growth. In recent years, we have prioritized the deployment of capital in organic growth, most notably in our digital transformation. This has been done following rigorous process to prioritize and ensure that expected benefits will materialize.

As a number of these projects gradually come to an end, our disciplined approach is showing results. Indeed, total core other expenses in Q1 are lower than during the previous quarter and than a year ago.

Also, core other expenses for the Corporate segment were $66 million in Q1 2024, which is in line with the expected quarterly run rate of about $65 million.

Now going to Slide 19 to comment on the actions taken to reduce sensitivity of our core earnings to interest rate variations.

Optimizing the management of our asset and liabilities has always been a key focus. And it is even more important under IFRS 9/17, given the accounting treatment of asset and liabilities under these new standards.

After one year under these new standards, we wanted to further reduce the sensitivity of our results to interest rate variation, which we have succeeded in doing so. It has been reduced by more than 40 percent, thereby also minimizing the future volatility of our core earnings. This has been achieved through certain initiatives, such as making the accounting approach for certain liabilities more consistent with the approach used for assets.

Looking forward, the core net investment results should be more stable and core earnings will better reflect the Company's robust underlying and recurring earning power. With this sensitivity reduction and our recent operational efficiency initiatives, we are well positioned for the quarters ahead.

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

Q&A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press *, 1. To withdraw your question, press *, 2. One moment, please, for your first question.

Your first question comes from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman — Scotiabank

Hi. Good morning. First off, happy retirement, Mike.

I wanted to just start off by asking about the interest rate sensitivity reduction. First off, were you able to reduce this sensitivity costlessly? Or is there some cost associated with that? I wanted to clarify that first.

Éric Jobin

Yeah. Perfect. A good question. In fact, it's costlessly. Okay? And the reason is that we have just—it's costless. Sorry. And the reason is that the thing that we've made is applying hedge accounting on our liabilities so that the liabilities move more in sync with the assets backing them. And we have made no economic hedging or any other thing that changed the economic underwriting.

Meny Grauman

And so just to understand why you decided to do this now and not with the introduction of IFRS 17. Is there something that changed? Or how do we understand the timing of this right now?

Éric Jobin

Yeah. It's another good question. In fact, when we started IFRS 17, we made all the good choices that we thought were the right things to do. And as 2023 realized and happened, lots of things happened in 2023. And the volatility of our core earnings was exceeding what we were expecting. So we constantly, throughout 2023, looked at ways to optimize and improve the situation. And this item is just the result of further analysis of the sources of this volatility that was just creating distortions in accounting earnings.

Meny Grauman

Okay. Got it. And then just a final question on the topic. You've reduced the sensitivity by 40 percent. Is there room to go further? Is that something realistic? Or we shouldn't expect that?

Éric Jobin

The answer is yes, we continue to work on this. And realistically, it's not possible to think that this will be zero. But we continue to work toward improving the core sensitivity.

Meny Grauman

Great. I'll re-queue. Thank you.

Operator

Your next question comes from Doug Young from Desjardins Capital Markets. Please go ahead.

Doug Young — Desjardins Capital Markets

Hi. Good morning.

Just going to Slide 17, just I wanted to clarify a few things. There's a 1-point impact from other non-organic variations. And I'm just hoping to understand what that related to. And it looked like the capital required for organic growth doubled versus last year and Canadian Individual insurance sales are flat. Group and wealth, I don't think that's fairly capital-intensive. So just trying to understand the capital required for organic growth, the 1.5-point impact as well.

Éric Jobin

Yeah. Sure, Doug.

First, I'll start with the non-organic variation. This is related to asset rebalancing and optimization of our portfolio. So really, it's the investment team taking proactive action on our portfolio. So that's the first answer to your question.

And for the other one on the capital required for organic growth, you might notice that we have added a line for the risk adjustment release. This line last year was bundled with the capital required for organic growth. So that's one of the reasons why you have the impression that it's higher. So that's one reason.

And the other one, why, on a quarterly basis, the number is higher, is that we have some seasonality that happens, especially for the Group businesses and the employee plan. So that business profile is tilted more toward the first half of the year. So it's normal to have more required capital in the first quarter for this reason.

Doug Young

Okay. So the second response, just as Canadian Group, this is in the employee benefit side and this is just related to the additional sales. Is that …

Éric Jobin

Yeah. No. It's related to the in-force and new business. It's all inclusive.

Doug Young

Okay. And then just going back to proactive on the portfolio. So basically, is this has anything to do with the actions you took to reduce your sensitivity or your core earning sensitivity to the movements in interest rates? Or is this something in an effort to pick up yield? Can you maybe dig into that?

Éric Jobin

No. As I mentioned earlier, Doug, the action we've taken to reduce the sensitivity are purely accounting actions. So we did not take any actions that would result in a decrease of value of assets or anything. It's purely unrelated.

Doug Young

Okay. I might have to come back to that after.

And then, just maybe related to the US division, just a few questions. One, you talked about onerous contract or a strain increasing related to more onerous contract sales. If you can kind of dig into that.

And then on the US Dealer Service or extended vehicle warranty side, it looks like you're cutting employees, you're taking rate actions, results are expected to improve. And do we start seeing this improvement next quarter? Can you talk a bit about the cost saves that comes from this employee reduction?

Éric Jobin

Yes, Doug. First on the strain for the US Life division, what we see there is slightly higher, not taking policies that have increased the strain. We're taking management action to improve the pricing and make sure that we get the desired profitability.

But Q1 was, as a quarter, where we had a bit more of those untaken policies. And by the IFRS 17 definition, the acquisition cost that comes with a policy that the client does not proceed forward with needs to be recognized. So that's why it's showing up in the loss component.

And as for the Dealer business' profitability, the cost savings will—and we said last year that the situation would gradually improve in terms of profitability in 2024. And this is one action that will help us improve the situation on top of growth of the business.

Denis Ricard

Doug, it's Denis here.

I mean, you might ask, I mean, have we turned the corner here? I think we need a couple of more quarters. There are some early signs, positive early signs, in terms of increase in sales and the fact that we have eliminated some positions, also some repricing for some businesses.

So I believe that we are improving, as we said, gradually the situation, but we still need a couple of quarters to show it, I guess.

Doug Young

Just to follow up, in terms of the cost saves, have you quantified what that is?

Éric Jobin

Yeah. We are not ready to disclose that information at this point, Doug. But yes. We have quantified it.

Doug Young

Okay. Thank you.

Denis Ricard

And, Doug, it's Denis here. I would add that not only have we eliminated some positions, but we are very, very rigorous in terms of adding new people in this organization. So it's not only the positions that have been eliminated; it's also the way that we manage the expenses overall that is important in that business.

So I think what you should keep in mind is that we are working towards improving profitability overall for that business.

Doug Young

Perfect. I appreciate the colour. And, Mike, all the best in retirement.

Operator

Your next question comes from Gabriel Dechaine from National Bank. Please go ahead.

Gabriel Dechaine — National Bank

Hi. Good morning—or afternoon, 12:01. I have to ask you a few straightforward questions, I think.

Firstly, the experience gains in Canada, pretty high number. Can you give me the split between P&C and mortality?

Éric Jobin

Yes. Good afternoon, Gabriel.

It's about two-thirds iA Home and Auto and one-third for mortality.

Gabriel Dechaine

Got it. Thanks.

Then a little curveball maybe for Alain. I'd like to hear if you have any thoughts on how the higher capital gains inclusion rate might be affecting your job. Not your job, but you know what I mean.

Denis Ricard

Well, I mean—Gabriel, it's Denis. So you want to know what is the impact on earnings. Right? Of the increase in capital gains?

Gabriel Dechaine

Yeah. On earnings or how you manage the portfolio, really.

Denis Ricard

I mean, it would impact capital gains for, let's say, business—not business, but investments like real estate, whenever we decide to dispose of those. But we made a calculation in terms of recurring impact of that change. It's immaterial. Okay? Immaterial.

Gabriel Dechaine

Immaterial. Okay. So it doesn't sound like any change to how you're running the portfolio then.

Denis Ricard

It's not going to change the way we're going to manage our portfolio.

Gabriel Dechaine

Got it. Great. I was hoping for something juicier, but that's fine. It's better.

Lastly, on the US. So this is a stupid question because there's a lot of changes taking place. You're adjusting the cost base. You're increasing your pricing. You're expanding your distribution network and all that stuff.

I just want to know where to look for that business and how to track its performance. So there's expected earnings on PAA insurance and this is the drivers of earnings in your US Operations. So expected earnings on PAA insurance business, probably some experience gains, but I don't know if I model those. And then core non-insurance activities. What's the best place to look for?

Éric Jobin

Short answer, Gabriel, is both. Because the PAA line represents the business that we're taking some underwriting risk, so it's the P&C. And the other one, the non-insurance operation, represents the admin business that we have.

Gabriel Dechaine

The fees.

Éric Jobin

Yeah.

Gabriel Dechaine

Got it. And then I suppose other expenses would be in there as well. Right? So it's a bit of a mishmash. But I guessed that. Okay.

All right. That's it for me. Thanks.

Operator

Your next question comes from Tom MacKinnon from BMO Capital. Please go ahead.

Tom MacKinnon — BMO Capital

Yeah. Thanks very much and good afternoon. And, Mike, congratulations on a long, successful, and rewarding career.

Question on Canada, impact of new business. I remember in the fourth quarter, this number was much more negative than everybody thought. And it would seem to be related to some of the Group business. Then if I look at this number now, it's less than half of the figure that it was in the fourth quarter, yet your Group business, both in premiums and deposits, is kind of flat quarter over quarter. Your sales are better.

Help us think about how to look at that impact of new business in Canada going forward, just given the fact that it jumped a lot in the fourth quarter, came back down to a more reasonable level in the first quarter. Thanks.

Éric Jobin

Yes, Tom. On this one, we always mention that for the group, it comes from the Employee Benefit sector, Group Insurance in particular. And we always mention that this is a lumpy business. And so sometimes you get those big sales that flow in and that you need to recognize the investment at point of sale. And there are renewals also happening to some other extent on the in-force business. And depending on the combination of the two, it may create a bit of volatility on that line.

But for me, as I mentioned in Q4, we're being very disciplined at pricing and renewing those groups to make sure that we get to our target profitability. But this volatility is normal.

And maybe another clue I can give you is that when I look at the business model for Group Employee plan, it's tilted more toward the first half of the year than toward the second half. Employers tend to put their group in-force more toward the beginning of the year and January 1st and then the first quarter than later in the year. So that's why you see a bit more volatility on that line.

Tom MacKinnon

I mean, it was the largest negative in the fourth quarter of last year, which seems to be inconsistent with your comments about when—I thought the people would be moving the cases more, exceptionally in the first quarter, but also in the fourth quarter, but.

Éric Jobin

Yeah. That's a very good question, Tom. And what you need to realize is that when we get an agreement with an employer, we sign the group. Sometimes it goes up to 12 months before that group is put into our books because the implementation is a quite cumbersome and lengthy process.

So what happened last quarter is that we had sales confirmation. And accountingly speaking, we need to recognize the agreement that we booked. And those premiums will come into our books in the quarters to come. So that's why there is a bit of lagging effect between the loss component and the increase in premium because of that implementation process that takes a while.

Tom MacKinnon

Okay. Thanks.

And in the Wealth Management, the non-insurance activities, I guess that seems to be some of your share of earnings from some of the affiliates. Up nicely year over year, continues to climb, and I think you mentioned commission increases. Is that a trend? Should we expect the run rate just to continue from the 50 that you booked for that line in Q1 '24?

Éric Jobin

Well, in fact, for this, if Stephan keeps growing the business, yes. We can expect this to continue to grow. And the reality for that is you mentioned one good explanation about the reason why it's going up. The other one also is improved margins. That is good.

So this sector tends to be correlated with macroeconomic environment. And I would say that as long as macroeconomic stands where it is right now, stock market, interest rate, we could expect this sector to perform.

Tom MacKinnon

Okay. Thanks very much.

Denis Ricard

Tom, Denis here. Recruiting is very important in that sector. And I would invite maybe Stephan to comment on the recruiting activities, the trend that he's seeing in the market right now.

Stephan Bourbonnais — Executive Vice-President, Wealth Management, Industrial Alliance Insurance and Financial Services Inc.

I think what we've seen, obviously, the focus has been on retaining our advisors. I think we've done a great job there because a lot of the growth is coming from organic growth. The recruiting has picked up since last year in a really strong Q4, carried over the Q1. Momentum is there as well. So we do see an appetite in the industry for that independent model. And that's been driving our assets as well with the market.

And as you saw, we're also looking for acquisition opportunity in tuck-ins. And this is where also the Laurentian deal came into play. So we are very much focusing on growing that distribution part of our business.

Tom MacKinnon

Great. Appreciate the colour. Thanks.

Operator

Your next question comes from Paul Holden from CIBC. Please go ahead.

Paul Holden — CIBC

Thank you. Afternoon.

Going back to the discussion on the interest rate volatility. I think it's easy to agree that lower volatility with no cost is a good outcome. I guess what I'm curious about is also the level of net investment income. Obviously, it was down quite a bit in Q1.

Now with the change in accounting, how quickly or not might that recover to prior levels?

Éric Jobin

Yes. Hi Paul. It's Éric again.

On this sensitivity, you see the level we are right now at with Q1, nearly 110. So that's a good starting point using our sensitivity and the interest rate move. Between the end of December and the end of March, you can use the sensitivity to guess where our next quarter core net investment results should be.

Paul Holden

Okay. I understand.

Second question is a bit of a bigger-picture one. I want to talk about core ROE. It was pretty good this quarter, 14.6 percent, closing in on the 15 percent-plus target, but not quite there.

Just wondering what gets you over the 15 percent target or really back to the 15 percent plus? Is it as simple as deployment of that excess capital you're holding, which is significant? Or are there other levers you're looking at pulling?

Denis Ricard

Paul, it's Denis here.

I would say two things. The first one is improving our current operations. And you have seen some improvements, obviously, in this quarter, and we're working to improve even more, in particular the US Dealer business. That's the first thing.

The second would be deploying capital, as you mentioned. You've seen, for example, that we've increased the NCIB because, I mean, at the end of the day, the 5 percent maximum we had, we would have hit it very quick. So we needed to improve it, to increase it. It's one way for us to deploy capital. It's not our, let's say, preferred choice, I would say. If we could find areas for growth with acquisitions would be our first choice. But now we have all the options available for us.

So to your point, yes. Deployment of capital would be a great tool. And we've made all the tests. We know how much DRO we could go up, depending on which kind of scenario we have. If we deploy capital, the 15 percent plus is reachable.

Paul Holden

Got it. Okay.

And last one for me, another big-picture one, is I've kind of observed the results through 2023 when interest rates are higher. I start thinking about maybe for iA, a lower interest rate environment might actually be better for sales, maybe even for earnings, and now particularly with the additional reduction in volatility on that investment income line.

Wondering how you're thinking about sort of—I don't know if you call it optimal interest rate environment. But is lower better? Is higher better? Is stable better? How should we be thinking about that?

Denis Ricard

All in all, higher is better. I mean, that's the short answer. Because when you think about most of our businesses, like the Individual Insurance business, the Wealth Management business, I mean, there are some ripple effect on macroeconomic factors. It's better. It might be a challenge on the Dealer business for affordability, especially if it's combined with higher prices, which we will see. And usually, that's not the case, but that's what we've seen. But it's pretty obvious to me that the higher, the better.

Paul Holden

Okay. Got it. Thanks for your time.

Operator

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

Mario Mendonca — TD Securities

Good afternoon.

Éric, first, going back to Tom's question about the strain in domestic or in the Canadian business. Sales in Employee Benefits were up 21 percent. And of course, as you've shown us, the strain is mostly flat year over year.

What I'm trying to understand was, was that a mix of business issue? Or did the Company do something different with these sales that led to the lower strain numbers?

Éric Jobin

No. Absolutely nothing, Mario. No change. It's purely the impact of new business and renewal combined.

Mario Mendonca

But, sorry. Sales were up 21 percent and strain didn’t really move much. Can you help me understand that?

Éric Jobin

Yeah. In fact, when you look at the sales up 21 percent, as I mentioned to Tom, those sales are confirmed, but they will be implemented, let’s say, for beginning of next year or maybe later this year. So that’s why you don’t see the premium increase yet because it takes a while to implement those groups into our books.

Mario Mendonca

So does that mean that—

Éric Jobin

So that’s why there is a lag effect between the strain and the growth.

Mario Mendonca

So does that mean that those sales that you’re referring to this quarter, the up 21 percent, will result in strain, say, 12 months from now? Is that the message?

Éric Jobin

No. No. The strain is really when we sign those groups. And the premium income will increase in the coming quarters.

Mario Mendonca

So is it fair then to say that the strain we saw last quarter was the reflection of the higher sales we’re seeing this quarter? I’m just trying to understand how this ties in.

Éric Jobin

Yeah. In fact, you cannot tie it to exactly the sales number. When we report the sales, those are the confirmed sales. Okay? And the strain is connected with those confirmed sales. And then, the premium income of that sector is really reflective of when those premiums start to flow into our balance sheet and income statement.

Mario Mendonca

Let me just try this one more time then. So the 21 percent increase in sales we saw this quarter, was there any quarter in the past or any quarter in the future that will reflect the higher strain from those sales? I think that's what I'm trying to understand.

Éric Jobin

Yeah. The answer is no.

Mario Mendonca

So sales have nothing—

Éric Jobin

The strain that we have this quarter is the agreements that we signed during the quarter.

Denis Ricard

And those sales will appear in our reports when, Éric?

Éric Jobin

In the coming quarter.

Denis Ricard

Coming quarter. So there's a disconnect between whenever we sign a deal and where you have to incur the strain and the moment that, in our report, we see the sales number.

Éric Jobin

Okay. Okay. I see.

Denis Ricard

That's what Mario is trying to get at.

Éric Jobin

Okay. Sorry.

Mario Mendonca

No. So these sales that were recorded this quarter, when would those contracts have been signed? Because that's when the strain goes through. Right? That's what, I think, what you just said.

Éric Jobin

During this quarter, Mario.

Mario Mendonca

Okay. Well, then I clearly don't understand this then. I'll take it offline.

Maybe another question for Denis.

When the acquisition of IAS was announced a while back, there was a lot of enthusiasm around that. And certainly that was the case in this year shortly after. Your response to an earlier question where you sound sort of guarded on how US Dealer Services could play out in the near term. Can you talk about what's changed for you? What's made you, let's say, less enthusiastic about this business?

Or is this very much just a near-term statement and you're still very optimistic about Dealer Services over the long run?

Denis Ricard

Mario, obviously I don't want to over-promise, under-deliver. I would say that would be my first comment. The pandemic has been quite detrimental to that business. I mean, it was closed. The acquisition was closed at the worst time, I would say. So the result's never been what we expected.

And so now we see some gradual improvement. But I would prefer personally to see a couple of quarters of good results before I start feeling enthusiastic about the business. Now there are good signs this quarter, which is good, but I don't want to say that we turned the corner yet.

Mario Mendonca

Okay. Thank you.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press *, 1.

Your next question comes from Darko Mihelic from RBC Capital Markets. Please go ahead.

Darko Mihelic — RBC Capital Markets

Hi. Thank you. Good afternoon.

I'm kind of in Mario's camp where I'm not quite sure that I understand why strain wasn't higher in the quarter. Is there a way you can maybe connect it? Like, for example, last quarter, strain per dollar of sale or something like that. Is that maybe the way we can make this connection to help me understand the situation of strain, please?

Éric Jobin

Yes. In fact, if you look at Slide 9, I'll bring you there. Okay? Just to try to clarify the situation. When we talk about premiums, those premiums reflect the ongoing premium for Group that have been on boarded with us. So after implementation.

So the strain that we have shown in Q4, depending on where the sales will be implemented, will start to increase those premium income when this happens, when they are being implemented.

Darko Mihelic

Okay. But, okay. Maybe I'll just take it offline. That might just be better.

Éric Jobin

Yeah.

Darko Mihelic

And then, just my final question is, I want to go back to, Denis, your earlier comments. So when I think about the significant amount of capital that you have, you've upped the NCIB; clearly there's an intention to use it in case there is no other outlet for capital.

So is it fair for us to assume that even after Vericity closes, you'll have a drop in the LICAT; if there's nothing else, is it fair to assume that you would simply exhaust the NCIB?

Denis Ricard

I guess, I wish I could say yes to your question, but it also depends on the price of the stock. The price of the stock was pretty depressed recently. I was not pleased with that. And we decided to be more aggressive on the buyback.

So if prices, stock price, was to stay as it was during the last three months, I would say definitely yes. But if the price of the stock moves up significantly, it might be that there's a slowing of buyback, so. But right now, I mean, we are on our way to use it all. But again, it depends on the stock price.

Darko Mihelic

Great. Thank you very much.

Operator

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

Denis Ricard

Okay. Well, thank you for all your questions. We're very pleased today because we've said several times that we aim for a 10 percent-plus EPS growth, and we've delivered a 17 percent. Obviously, the 10 percent is an average over time, but we're pleased of our 17 percent and pleased to the fact that all our three units have increased by more than 10 percent. And we have, I would say, broadened the options of capital deployment with the NCIB moving from 5 percent to 8 percent this quarter. So I'm so pleased with the fact that we have this option for the time being.

So with that said, thank you very much for attending this call.

Operator

Ladies and gentlemen, this concludes your conference call for today. You may now disconnect. Thank you.