FINAL TRANSCRIPT

Industrial Alliance Insurance and Financial Services Inc.

2024 Second Quarter Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Industrial Alliance 2024 Second 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 star, zero for the Operator.

This call is being recorded on Wednesday, August 7, 2024.

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

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

Good morning everyone and welcome to our 2024 Second Quarter Conference Call.

All our Q2 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.

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 statement information on Slide 2, as well as the non-IFRS and additional financial measures information on Slide 3. Also, please note that the detailed discussion of the Company's risks is provided in our 2023 MD&A, available on SEDAR, and on our website, with an update in our Q2 '24 MD&A released yesterday.

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

Denis Ricard — President and Chief Executive Officer, 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, 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 Savings and Retirement; Pierre Miron, Chief Growth Officer of our Canadian Operations, and responsible for Dealer Services Canada and iA Auto and Home; Sean O'Brien, Chief Growth Officer of our U.S. Operations; and finally, Louis-Philippe Pouliot, in charge of our Group Businesses.

We're pleased to report solid second quarter results on all fronts. Our Q2 performance is a tangible demonstration of the value we are creating by implementing our growth strategy with discipline and care. By leveraging our distinctive strengths, such as our extensive distribution network and diversified portfolio activities, and by deploying capital, we achieved strong sales momentum, record core EPS, substantial organic capital generation, and core ROE expansion.

Now to the results, starting with Slide 8 for an overview of main financial KPIs. Core EPS of $2.75, up by 15 percent year-over-year, reached a record level. Trailing 12 months core ROE of 15 percent is already meeting our midterm target, thanks to strong earnings growth and capital deployment initiatives. Business growth continues to be very strong in Canada and in the U.S., with virtually all units recording good sales growth. As a result, we concluded the quarter with premiums and deposits up 15 percent year-over-year, and assets under management and administration up 12 percent over 12 months.

Our capital position remained robust with a solvency ratio of 141 percent, supported by continued strong organic capital generation and good risk management practices. Our book value per share, which stood at $69.92 at June 30, increased by over 9 percent when we exclude the impact of share buybacks.

Now, to Slide 9 to look at second quarter business growth for Insurance Canada, which recorded another solid quarter with all business units posting strong sales results. In Individual insurance, we continue to lead the Canadian mass midmarket in number of policies sold, with strong sales of $98 million during the second quarter, up 10 percent over last year. This result is attributable to the performance of our distribution network, our advanced digital tools, and our comprehensive range of products. In Group Insurance, sales increased by 26 percent year-over-year, along with good retention, leading to premiums and deposits at $510 million, which is 10 percent higher than a year ago.

In the Dealer Services division, second quarter sales of $194 million were up 2 percent year-over-year. This is a good result as growth was tempered by the macroeconomic environment that continues to impact vehicle affordability, and by the temporary outage at CDK Global, a dealership software provider, which occurred from June 19 to July 4.

Finally, iA Auto and Home also recorded very strong sales, with direct written premium in the second quarter reaching $188 million, a solid increase of 15 percent over the same period last year. This result was supported by good retention of in-force business, strong new sales, and the impact of premium increases implemented in 2023.

Turning to Slide 10 to comment on sales results for Wealth Management, which posted again very solid results, notably with net fund inflows of more than $400 million; gross sales of seg funds reached nearly $1.3 billion, up 53 percent year-over-year, and net inflows of $608 million that were generated during the second quarter. With this solid performance, which demonstrates the strength of our distribution networks, iA continues to rank first in both growth and net seg fund sales.

Mutual fund sales of $468 million were up 26 percent year-over-year, though inflows were lower than outflows as the mutual fund industry continues to be challenged. In addition, although investor optimism about financial markets and asset classes offering higher return potential than guaranteed investments favouring seg fund sale, sales of insured annuities and other savings products remain elevated, reaching $541 million. This is good performance that compares to a very strong quarter year-on-year.

Finally, Group Savings and Retirement posted solid sales of $858 million in the second quarter, up 6 percent year-over-year.

Now looking at Slide 11, regarding our sales results in the U.S.; in Individual Insurance, we achieved record sales of US$49 million, an increase of 14 percent year-over-year, reflecting good performance in all our markets. The continued high activity in this business unit, along with the recent acquisitions of Vericity and two existing blocks of insurance business from Prosperity Life Group, illustrate our ability to achieve strong growth in the U.S. life insurance market.

In Dealer Services, second quarter sales amounted to US$279 million, up 13 percent over the same quarter the previous year. Dealers continue to place greater emphasis on F&I product sales, while vehicle inventories are increasing, and profit margin on vehicle sales tend to decrease. Meanwhile, as in Canada, sales were tempered by the macroeconomic environment, which continued to impact vehicle affordability, and by the temporary outage at CDK Global.

Moving to Slide 12, where year-to-date results compare favourably with all our midterm targets. More specifically, core EPS has increased by 16 percent compared with the same period in 2023, and is well above the targeted 10 percent plus annual average growth. Core ROE met our midterm target of 15 percent plus. Our solvency ratio of 141 percent is significantly higher than our operating target. Our good profitability contributed to the generation of $305 million in organic capital, having so far generated more capital than in the same period last year. Lastly, our dividend payout ratio is well within target.

Turning to Slide 13 to discuss our capital deployment priorities and recent initiatives; at June 30, 2024, we had $1.1 billion in deployable capital following an active second quarter in terms of capital deployment, mainly through share buybacks and acquisitions. To create additional value for shareholders, our focus continues to be profitable organic growth with new sales, having a ROE above 15 percent, as well as disciplined acquisitions.

We recently announced the closing of the Vericity acquisition and the acquisition of two blocks of life insurance business from Prosperity Life Group in the U.S. life market. In Canada, we also completed the acquisition of the Laurentian Bank securities assets in the wealth management sector. Going forward, in addition to growth initiatives, we will continue to steadily increase our dividend and to buy back shares.

In conclusion, we enter the second half of the year confident in the resilience of our diversified business model and in our continued ability to create value and increase profitability.

I will now hand it over to Éric, who will comment on the second 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 15 for an overview of Q2 profitability and financial strength; after a solid first quarter result, second quarter was even stronger, with core EPS growth of 15 percent compared to last year. Key favourable drivers of this performance include 14 percent increase in core insurance service results and 19 percent increase in core non-insurance activities.

Insurance experience was positive for the third quarter in a row. As for expenses, they were lower than last year, in line with Management's expectations. This strong profitability, coupled with the benefits of capital deployment initiatives, is driving ROE expansion, with core ROE already meeting our midterm target of 15 percent plus. Indeed, at the end of Q2, trailing 12-month core ROE was 15 percent, and annualized core ROE was 15.9 percent.

Our financial strength remains robust, with a solvency ratio of 141 percent, well above our operating target. It continues to be supported by strong ongoing organic capital generation.

As you know, we consider the book value to be a very important metric that provides an unbiased assessment of a company's value. Over the past 12 months, our book value per share increased by more than 9 percent, excluding the impact of share buybacks. This solid performance reflects our sustained ability to create value.

Now moving to Slide 16 to take a closer look at Q2 results by segment; all three of our operating business segments posted good results, with particularly strong growth in the two Canadian segments.

In Insurance Canada, second quarter earnings reached $106 million, up by 16 percent compared with the same period in 2023. This performance was supported by insurance experience gains of $11 million, mainly attributable to continued favourable mortality experience in individual and group insurance, and to a solid result again at iA Auto and Home. Indeed, lower claims in auto and home insurance and the favourable impact of premium increase implemented in 2023 contributed to another good quarter in our P&C operations. Insurance Canada solid result was also supported by the 33 percent increase in non-insurance activities, mainly from Dealer Services.

In the Wealth Management segment, core earnings of $98 million were 29 percent higher than a year earlier. This robust performance is the result of 25 percent year-over-year increase in the core insurance service result for seg funds, and 29 percent increase in core non-insurance activities. Also, good financial market performance continued to have a positive impact on this segment's profitability. The higher seg fund result was driven by strong net sales over the past 12 months, and an increase in the CSM recognized for service provided. As for noninsurance activity, our distribution affiliates recorded, again, a solid performance, mainly due to higher commissions and better margins.

In the U.S., second quarter earnings, although higher than the first quarter, were lower than in the same period last year. Lower Q2 core other expenses contributed to profitability, but the impact of new business, due to higher sales and more onerous contracts, as well as insurance experience, were unfavourable. In the coming quarters, we expect increased profitability from good sales growth, combined with the re-pricing initiatives and other management actions.

Now turning to Slide 17 with the investment segment result first; expected investment earnings of $113 million were higher than in the previous quarter, mainly because of interest rate increase in the first quarter of 2024. Q2 credit experience was unfavourable, with an increase in the provision for credit loss at iA Auto Finance, and to a lesser extent, more downgrades than upgrades in the fixed income portfolio. In the Corporate segment, core other expenses before taxes amounted to $64 million during the second quarter, in line with the quarterly expectation of $65 million plus or minus $5 million. This result demonstrates our strong emphasis on operational efficiency, cost-conscious execution, and disciplined approach to project and workforce management.

Now looking at the right side of the slide for non-core adjustment; the net income to common shareholders was $206 million in Q2, and the difference with core earnings is mainly due to investment property value adjustments. Other noncore adjustments are mostly acquisition-related.

Please go to Slide 18 to look at the Company's capital position. Our solvency ratio of 141 percent at the end of the second quarter is well above our operating target of 120 percent. The favourable impact of strong organic capital generation and the $350 million LRCN were more than offset by a high level of capital deployment through share buybacks, and the acquisition of Vericity. As a result, the ratio declined by 1 percent during the three-month period.

The Company organically generated a strong $175 million in capital during the second quarter. Year-to-date, $305 million has been generated, and we are on track to exceed the minimum annual target of $600 million for 2024. This strong capital generation supports our solid capital position and the continuity of our capital deployment initiatives. Lastly, at June 30, the capital available for deployment was $1.1 billion, and our leverage ratio was at the low and flexible level of 16.4 percent.

These very good results conclude the first half of 2024 on a positive note. Our strong profitability, combined with our capital deployment initiatives, has led to an increase in core ROE, which we expect to continue over the coming quarters.

These conclude my remarks. Operator, we will now take questions.

Q & A

Operator

Thank you.

Ladies and gentlemen, if you'd like to ask a question, please press star, one. To withdraw your question, press star, two. One moment, please, for your first question.

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

Meny Grauman — Analyst, Scotiabank

Hi, good morning. Thanks for taking my question.

I just wanted to ask about U.S. Dealer Services, sales there improved sequentially again, but I'm wondering what the impact of the CDK outage was? Was it material to that sales number?

Sean O'Brien — Executive Vice-President and Chief Growth Officer US Operations

Yes, this is Sean. It was a good quarter, driven by our non-affiliate channel primarily. The dealer channel is also doing well. But in the end of June, it did definitely have an impact. Thirty percent of our dealers are on that platform, but it's quickly bounced back and the sales are rolling into the next month. It wasn't a huge impact.

Meny Grauman — Analyst, Scotiabank

Then in terms of the impact going forward, is there anything that you expect, knock-on impacts, anything either positive or negative in terms of impacting that sales number going forward?

Sean O'Brien — Executive Vice-President and Chief Growth Officer US Operations

No, we took advantage of the opportunity to work closely with the dealers and highlight the technology we have to a lot of contract—outside of the (inaudible) needed, but I don't think there'll be any particular long-term impacts with all of that.

Meny Grauman — Analyst, Scotiabank

Then just as a follow-up, in terms of understanding the dynamics during that number, there was discussion about definitely growing the number of dealers on the platform. When we see this improvement here, are we seeing just success in terms of getting dealers on the platform, or are we seeing something more fundamental, in terms of dealer level growth, something changing in the market that's actually allowing that to improve, beyond just the overall growth in the number of dealers on the platform?

Sean O'Brien — Executive Vice-President and Chief Growth Officer US Operations

It's, I think, the combination of the market coming back on the F&I side, so the dealers are pushing in, so we're seeing our win rate is higher on products with existing stores. We're also adding some stores. It's a combination of the two, I think, that are impacting it, but it's pretty much just regular growth, I think, based on our plan.

Meny Grauman — Analyst, Scotiabank

Then just finally for me, just on the same subject, just in terms of the expectations going forward. We saw improvement in Q1 already. Denis, we're, I would say conservative in terms of your outlook, but did what you see in Q2… Was that better than what you expected? Have you changed your outlook here in terms of what to expect for the Dealer Services business in the U.S.?

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Maybe this question is for me. I would say I've not changed my position. I still want to be prudent at this point. We turned the corner—I still need a couple of additional quarters before I can say that.

Operator

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

Doug Young — Analyst, Desjardins Capital Markets

Hi, good morning. Several questions just on the U.S. as well, so maybe I'll just kind of hit them in order. You had negative lapse experience. I assume this is just for the Insurance business. I'm just trying to understand, because I understand the products that you're in; I don't think they're lapse-supported. But can you just flesh that out, what that's related to?

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

Yes. Hi, Doug, it's Éric. Those lapses are related to early duration lapses for our products. We have slightly more people lapsing the policies, in let's say the first year of the contract, than expected.

Doug Young — Analyst, Desjardins Capital Markets

Is this on the term products?

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

You know in the U.S., it's mostly final expense, so it has to do with mostly final expense.

Doug Young — Analyst, Desjardins Capital Markets

Oh, mostly on the final expense side, okay. Then, there's a negative claims experience at the dealer side, and you talked a bit about this in previous quarters. I wonder if you can provide some context as to what you're seeing in terms of… I don't know if it's a loss ratio today in that business versus pre-COVID, or the inflation pressures that you're seeing on that business. Are you seeing inflation of 8 percent, and price increases of 4 percent to 6 percent, so you're seeing some erosion there? I don't know if that's something you can give a little bit of context to.

Maybe I can lead this in and you can maybe set me straight, but I think the U.S. Dealer Services, you're split between what you reinsure and what you keep, 75 percent, 25 percent. That's evolved; I thought it was 90 percent, 10 percent before. I don't know if those numbers are right, but are you retaining more risk, and as a result you're seeing more claims pressures? Just trying to get a sense of all of that.

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

Yes, Doug, it's Éric again. The percentage that you have is still valid, in terms of split between risk-taking and administration. The 25 percent, 75 percent is still valid. That being said, what we see is a bit of pressure from inflation. As you may suspect, inflation is trending higher on the parts, and on the fix and repair costs. Also, something that is happening is, with the technology in vehicles, it's becoming more and more complex. I use the analogy of windshield at some point in meetings to say that, "We used to pay $1,000 to replace a windshield, and now it's costing $2,000 to $3,000." It's an easy example of what's happening there. We just need to adjust. The good thing with our product is that we are just processing the experience rating and we will re-price the product as we adjust with experience.

Doug Young — Analyst, Desjardins Capital Markets

This is just on the Insurance business, or what you're retaining, that's correct?

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

Yes.

Doug Young — Analyst, Desjardins Capital Markets

Yes. Then, how long does it take for the re-pricing to offset that claims cost pressure that you're seeing?

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

Yes, those guarantees run for four to seven years. When we determined the price initially, we cannot review it, so we can only re-price for the new business, which will take a couple of quarters and years to stabilize the pricing, in line with the current development. That would be my answer to your question.

Doug Young — Analyst, Desjardins Capital Markets

Okay. Then just lastly, and I apologize, Denis, if you've answered this already, but you put in something new in the slide deck that you now expect gradual profit improvement at the U.S. Dealer Services, and Sean or Denis might cover this. Is this the inflection point? Is this, you're comfortable with what you're seeing from a trend perspective, not just top line, but also from the re-pricing. Is this quarter the inflection point for the profitability of that business?

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Yes, I'll start and then Sean can add to it, but I'll repeat what I said. I think it's too early to say that we are at an inflection point. I see some positive, like increasing sales. We're focusing on organic growth. I mean, you can solve a lot of issues with growth, and this is what we're doing right now. We are focusing on profitable growth, organic growth. That's been the focus of the team.

Maybe, Sean, do you want to add on this?

Sean O'Brien — Executive Vice President, Executive Vice-President and Chief Growth Officer US Operations

Yes. In my 60 days in, I'm really taking a lot of time with that business, and I do see some opportunity. There is further pricing changes that we'll be making in a sequenced manner. I've also been looking at the team itself and I've made a few changes. There is a lot of opportunity in that business, but is it at the inflection point yet? I'd tend to agree with Denis. I'd wait another couple quarters to maybe see where it goes from there.

Doug Young — Analyst, Desjardins Capital Markets

Appreciate it. Thank you.

Operator

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

Gabriel Dechaine — Analyst, National Bank Financial

Hey, good morning. Just a question on the expected investment income line item; it's running around $115 million, just a basic, stupid question. I thought that'd be a fairly bigger sequential increase because of higher rates within the last quarter, but didn't get that. Last year, if I look, it was $130 million to $140 million. What conditions do we need to get back to last year's levels for that particular line item?

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

Yes, Gabriel, it's Éric. On this, I think it's better to look at this number on a quarter-to-quarter basis than comparing to last year, because when you look at the story year-over-year, lots of things happen on the macroeconomic side. Last year, we had lots of things would curve up, curve down, curve change, stock market tumbling. It's a little difficult to compare, and the story becomes very complex when you want to compare year-over-year. That's why…

Gabriel Dechaine — Analyst, National Bank Financial

Mm-hmm.

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

…I prefer to look at it quarter-to-quarter. When you look at it from quarter-to-quarter, remember that our previous approach of setting the rate for core investment earnings was to use the end-of-quarter rate. The rate went down in Q1, so that's one part of the explanation.

The other elements that also impact core investment results, our deployment, the capital deployment activities, that a lot of activity happened in Q1 with the acquisition, with the NCIB, and all those things. All in all, those are the items that impacted from quarter-to-quarter impacts.

Maybe two other quick ones that I'm just thinking of; when you think about Q4 to where we are today in Q2, remember that our NFI had some markdowns.

Gabriel Dechaine — Analyst, National Bank Financial

Mm-hmm.

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

Since we don't change the expected return on those, it necessarily means that core investment result is going down.

Gabriel Dechaine — Analyst, National Bank Financial

Okay.

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

Also, what we announced in Q1 in terms of interest rate risk, volatility management, we've changed the accounting methodology for some liabilities, to properly line up the change in market value of assets with change of value of liabilities. All of those together are positioning us to where we are right now, and we're really happy. You will notice also that we have further reduced the sensitivity with respect to interest rates in the quarter. When you will look at the core net investment result for Q3, if you use that sensitivity, it's the best approach to predict what will be the core investment results.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. Revisiting that last question on the U.S., I don't know if you can quantify that and if I should even care if it's a small number, but just conceptually, the final expense business is a lower-end consumer product. That’s where there's a lot of—and older, I suppose. That's where a lot of the financial stress is being felt in the U.S. We're seeing that in the Credit Cards business, for instance. I'm wondering if there's a parallel there that these lapse rate issues might not be a one quarter thing, they might actually stick around for a while, because that consumer is feeling the pain of higher rates and making choices like cutting out a product that they feel like they don't need.

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

Yes. That's one assumption, Gabriel. We'll see in the coming quarters, but right now what we see is not a big deviation from our assumption. We'll see.

Gabriel Dechaine — Analyst, National Bank Financial

Mm-hmm.

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

That business is short-term as well, and we're talking with the distributors and we are re-pricing the products accordingly. I don't expect this to be a reoccurring negative impact in the years to come.

Gabriel Dechaine — Analyst, National Bank Financial

Okay, and it's short-term, but that's only… The warranty stuff, it's for new business, so any re-pricing wouldn't have an impact, correct?

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

Exactly, exactly.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. Then, last one, again, I think that it's… Just to put it in context, the credit losses under the PCLs and the non-prime auto business line, not a big number. But just wondering what the outlook is there, is for those provisions over the next year or so? Could it get larger than what we saw this quarter?

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

Yes, you are right that it's not a big number in the overall picture, a $4 million loss…

Gabriel Dechaine — Analyst, National Bank Financial

Mm-hmm.

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

…on the portfolio is quite small. The way we look at it is to look at the net impaired loans when you look at that number. This represents what we call the Stage 3 loans…

Gabriel Dechaine — Analyst, National Bank Financial

Mm-hmm.

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

…and this number is improving from Q1 to Q2. It gives you a clue to what are the quality of our portfolio, so that's how I would qualify what's coming. I'm very comfortable with the quality of our portfolio, and on the overall allowance for credit loss, with respect to our business.

Gabriel Dechaine — Analyst, National Bank Financial

Sorry, I'm just looking at this. In Q4 of last year, you would've taken a bigger Stage 2 provision? It looks like the allowance popped up quite a bit there, just to…

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

Yes. I don't have the numbers in front of me, but if you're referring to Q4, I know that in Q4, remember that the provisions and the allowances is determined using, macroeconomic parameters…

Gabriel Dechaine — Analyst, National Bank Financial

Mm-hmm.

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

…and then, at the end of last year, we aligned those macroeconomic factors with the update…

Gabriel Dechaine — Analyst, National Bank Financial

Okay.

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

…so that generated this increase in allowance for the quarter.

Gabriel Dechaine — Analyst, National Bank Financial

Okay, so you already pre-provisioned a little bit for troubled times ahead.

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

Yes.

Gabriel Dechaine — Analyst, National Bank Financial

Okay, great. Thanks.

Operator

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

Tom MacKinnon — Analyst, BMO Capital Markets

Yes, thanks very much.

A question about the U.S., and really just looking at the non-PAA business, so I guess that excludes the U.S. Dealer Services for the most part. How are these numbers going to be moving as a result of the Vericity and the Prosperity Life acquisitions? Particularly looking at a bump-up in risk adjustment release, bump-up in CSM recognized. Is there any increase in other expenses? The bottom line is, are the core earnings associated with the U.S., which are at 22, wouldn't those things increase to some extent as you're bringing on both the earnings from those two blocks at Prosperity as well as Vericity here? Vericity would then increase the PAA—or no, that would increase, basically, the life business as well. Hope you're able to make some sense of my question there, but any colour would be great. Thanks.

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

Yes, I think I know where you want to go, Tom. Just to clarify one point, when you refer to the dealer business, dealer business is showing up on two lines in the drivers of earnings. There is, like you said, on the PAA line, and also on the non-insurance revenue line as well, while the life business is showing up just at the top with the risk adjustment release and the CSM recognized for service provided. Keep those in mind when we talk about our businesses.

When you talk about what's going to be the impact of Vericity acquisition, it's a multiple line impact. You have to bear with me for a second. First, because you know that Vericity has life insurance company and a distributor; so, for the life insurance company, you will see, in the CSM reconciliation that we included, in the quarter, the impact of the CSM of that business, so that's one part. That CSM would be amortized under the CSM recognized for service provided starting next quarter. That's one item.

The other item will be the according risk adjustment that will follow as well. The insurance company will impact those two lines, plus the core net investment result line in the investment segment, because the investment earnings show up out there. That's another item of that acquisition.

I would say, finally, and I said about that, there is a distribution arm. The distribution arm will impact the core non-insurance activities in the U.S. segment. Those are the impacts for Vericity.

Now, we announced as well the acquisition of Prosperity, which is a life insurance block, two blocks, indeed. Those two blocks will impact our result the same way as I described for the life insurance company of the Vericity acquisition, which means risk adjustment, CSM recognized for service provided, and core net investment result as well. I hope this answer your question, Tom.

Tom MacKinnon — Analyst, BMO Capital Markets

Yes, that was great in terms of where, but maybe the better question is how much? What's the total impact on core earnings of all those things?

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

Yes. Yes, Tom. Keep in mind that, first, for Prosperity, we did not announce any impact; we just talked about the impact on solvency ratio. That's one piece.

The other piece for Vericity acquisition is that we said that it would be dilutive to core earnings in the first year, which is 12 months, right? It's not calendar year, it's 12 months. It would be accretive to core earnings in the following years.

I would stick with those guidance. The geography of this will be in the lines that I mentioned to you, so it will be spread on those four items for Vericity.

Tom MacKinnon — Analyst, BMO Capital Markets

Okay, thanks.

Just as a follow-up, the marks you took on investments properties, this is really what ended up happening versus what you would've anticipated the increase should be in the quarter. It was $31 million in the second quarter and it was $23 million mark in the first quarter. It seems to go up quarter-over-quarter. Anything to read into this? I would've anticipated that the trend should start to certainly decline and not be as high as it was in 2023, but any thoughts there? Thanks.

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

Yes, Tom…

Alain Bergeron— Chief Investment Officer, Industrial Alliance Insurance and Financial Services Inc. Hi, Tom, it's Alain Bergeron. Oh.

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

Oh, Alain, just a second. I realized that I forgot to mention, Tom, on that. We've said that, for Prosperity that the transaction would be accretive in the first year, so just wanted to add on top of my comments regarding Vericity.

Alain, you can go.

Alain Bergeron— Chief Investment Officer, Industrial Alliance Insurance and Financial Services Inc.

Yes. Hi, Tom. Yes, first, I would say I would not put much meaning, or I would not read too much into plus or minus $8 million in a portfolio of that size within quarter-over-quarter. I'd say it's more noise than trend. If you just go back, then if you add 2023, actually Q2 2023, I think it was $33 million. I think just to give a bit more details on this quarter, it's several idiosyncratic situations, all linked to a specific tenant decision, or negotiations, or expectations of negotiation.

We had positive re-evaluation in the quarter; we also had negative re-evaluation, but we had more negative than positive. That's really what happened. I think it's important, it's in the context of a market that continues… Because our property, when I say market, it's Canadian office property, so it's in the context of a market that continues to be under pressure in Q2, and by that I mean the office leasing markets remain very competitive for tenants. But on the other hand, if you look at marker for… Because this work doesn't operate in a vacuum, there's the environment. Things that I watch for in the environment is for how this environment could turn for the better, if the interest rate moves. What's happened in the last few weeks or months have been constructive. The things I watch for is presence in the office trends, price discovery, are there software sellers in the economic growth.

Tom MacKinnon — Analyst, BMO Capital Markets

Okay, thanks.

Alain Bergeron— Chief Investment Officer, Industrial Alliance Insurance and Financial Services Inc.

You're welcome.

Operator

Your next question comes from Lemar Persaud from Cormark. Please go ahead.

Lemar Persaud — Analyst, Cormark Securities

Yes, thanks.

I want to start off on the auto loan portfolio. Is this something you could potentially sell off, or do you view this as a core capability for the domestic Dealer Services business?

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Great, it's Denis here. You were talking about the strategy behind that. When we bought the portfolio in 2015, there were several reasons. I would say that a very important one was about adding an asset class that would help us—specifically at the time was to match the GICs. Since IFRS-17, that portfolio has been incorporated into the total portfolio methodology to match all our liabilities into only one block. The way to look at it right now, it represents 3 percent of our assets, and it is a class that we are okay and we're glad to have it in our portfolio because it brings diversification, so it brings some positive into our asset liability strategy overall.

Lemar Persaud — Analyst, Cormark Securities

Okay, okay. What I'm reading between the lines there is that it's something that you still value and you would not necessarily sell, but it sounds like it's not critical to the Canadian Dealer Services business. Is that the right way to characterize it, or?

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

No, you're right. Strategically, yes, you're right. I think there is no, let's say, specific competitive advantage. It adds to the Dealer Services business. It's more an asset class at this point.

Lemar Persaud — Analyst, Cormark Securities

Okay, great. Then, just moving onto U.S. Dealer Services, could you give us an update on your thoughts on the outlook for this business in the context of broader market forces? On the one hand, potentially lower rates should be positive for affordability, but then the narrative, over the past week, shifting to increased chances for a recession, that would be more of a headwind, or does it feel like regardless of the broader market forces, initiatives undertaken by IAG should drive structural improvements in this business regardless of what goes on in the broader markets? Hopefully, you get where I'm going at on that one.

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

Sean, do you want to comment on that?

Sean O'Brien — Executive Vice-President and Chief Growth Officer US Operations

Yes. I think the structural improvements you're talking about, there are some nice opportunities to prove that over time. I also believe in the dealer as a distributor. I find that, when auto sales are down, they tend to push harder on their products that they're moving through the F&I department. Watching how they performed through that CDK outage was impressive to me, and they just retool and continue to find ways to sell cars to the client.

I think, no matter which way the economy goes, there's probably some opportunities, but the business will rise and flow with those dynamics. Beyond that, I don't know what to say about it.

Lemar Persaud — Analyst, Cormark Securities

Okay. Thank you. That's it for me.

Sean O'Brien — Executive Vice President, Group Benefits and Retirement Solutions, Industrial Alliance Insurance and Financial Services Inc.

Okay.

Operator

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

Paul Holden — Analyst, CIBC Capital Markets

Thank you, good morning.

First question's related to iA Home and Auto, second consecutive quarter of very strong results. First off, can you give us an approximation of how much it contributed to the positive experience in Canada? Then, two, based on rates that you've already taken, claim trends, any reason to think that the positive experience does not continue for at least the next couple quarters?

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

Yes, it's Éric. I will comment on this one. When you look at the insurance Canada gain this quarter, I would say that close to two-thirds of the insurance gain came from iA Home and Auto. On that gain, it came, I would say, for two reasons. First, the weather was good, as you may suspect. The second one is the auto theft that went down. We see that government and police efforts to fix the issue are yielding the results, so it's improving our result as well on this item.

Paul Holden — Analyst, CIBC Capital Markets

Okay. Then, in terms of when you reset sort of your base case expectations for this business, that would be at the end of the year, correct? Is that correct, and so we might see a different sort of baseline from you on iA Auto and Home, for '25, with the Q4 results?

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

Yes, the actuary are updating their loss ratio on a yearly basis, you're right.

Paul Holden — Analyst, CIBC Capital Markets

Okay, okay. That's good. Second question is related to Insurance Canada results, specifically on the Individual Insurance sales up 10 percent in the quarter, but up 4 percent year-to-date. I remember with Q1, you had mentioned some sort of timing impacts. My question is, what number should we be thinking about in terms of what may be a more sustainable growth rate? Is it more the low single-digits, is it more something in the high single-digits, low double-digits like Q2?

Renée Laflamme — Executive Vice President, Individual Insurance, Savings, and Retirement, Industrial Alliance Insurance and Financial Services Inc.

Good morning, this is Renée speaking. I'd refer you back to what we've said in the past, that we're aiming at growing around 8 percent on the long-term, so growing faster than our competitors, and faster than the market. There will be differences; it would not be a smooth ride, but we're pleased with our distribution network, the diversity of our distribution network, the technology, our wide range of products, so we think that over the long run, we can sustain that growth.

Paul Holden — Analyst, CIBC Capital Markets

Okay, and nothing in the current economic situation, or anything Company-specific that would steer you away from any percent number as looking achievable in the near-term?

Renée Laflamme — Executive Vice President, Individual Insurance, Savings, and Retirement, Industrial Alliance Insurance and Financial Services Inc.

Well, when you look at the past and you look at the past market difficulties, when you look at the COVID period, the Individual Insurance business has been very resilient. At this point, there's nothing for me to comment on.

Paul Holden — Analyst, CIBC Capital Markets

Okay, perfect. Last one from me is on the Wealth business, obviously very strong seg fund, net sales. Just curious on the mutual fund trajectories; also see very good gross sales, but the net sales a little bit worse quarter-over-quarter and year-over-year. Maybe if you can talk a little bit about the dynamics that's driving the higher gross redemptions, and if there's any reasons to believe that can improve, or really what I'm getting at, is there a path, do you think, to getting at least back to breakeven and maybe even to positive net sales in mutual funds, just given the strong gross sales results? Thank you.

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Stephan, you might want to comment on that.

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

Yes, it's Stephan Bourbonnais. When we look at it, the performance seems to be consistent with what we've seen in the sector. We've been focusing on generating gross sales, and obviously looking at adding new supporters of the Clarington. In terms of the overall net, obviously what we're seeing is we're doing much better with the affiliate than non-affiliate. Part of the initiatives that we are looking at is really much doubling down on our own distribution over the next quarter, and coming up with a focus also on key accounts to help us generate new sales and improve our own numbers.

Paul Holden — Analyst, CIBC Capital Markets

Okay, that's good. That's it for me. Thank you.

Operator

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

Mario Mendonca— Analyst, TD Securities

Good morning, Éric. Can we go first to you? Your opening comments, at the very end you suggested that you'd expect ROE to improve from current levels, and this may be too fine a point on it, but are you referring to improving from the trailing 12 months' 15 percent, or the quarter's 15.9 percent? Because there's a pretty big difference between those two things.

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

Yes. I would say, Mario, that I'm referring to the trailing 12 months, because this one, you know the quarter annualized is giving you a clue of our current ROE capacity. If ever we deploy more capital, this could go north of that, but as with the current level of deployed capital that we have, it's going to trend upward from the trailing 12 month point of view.

Mario Mendonca— Analyst, TD Securities

That makes a lot of sense. A different type of question; Industrial Alliance has really dominated the segregated fund market for some time now, and from my perspective, it almost appears that Industrial had the market to itself. Now, we hear a large peer, very capable in product manufacturing, capable in distribution, has decided they want their fair share back. What I'm getting at here is, is the segregated fund market one of those markets where flows can swing around pretty aggressively as players re-enter the market with a new product, new pricing structure, a more aggressive distribution strategy? What I'm getting at is, are the good times over for Industrial? Are you going to lose share in this business now that another large player has declared they want back in?

Renée Laflamme — Executive Vice President, Individual Insurance, Savings, and Retirement, Industrial Alliance Insurance and Financial Services Inc.

This is Renée speaking. I don't think we will lose our leading position. The relationship with distribution is critical, it is key. We have the right platform with the diversified product that is needed, as well as technology. I can appreciate that competitors want to come back and look at this very interesting product for our clients, but in terms of will the fund or the money go from one carrier to another, just based on the fact that the new—someone wants to come back? The competition is there, but the advisors will not swing just for the sake of doing this. We'll continue to be competitive.

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Yes, I would only add, Mario, that building a relationship takes time. We've done it through the years, and we will continue doing it, and we know the recipe, so good luck for the competitor.

Mario Mendonca— Analyst, TD Securities

Okay. One final question relates to the tax gain, or let's say contribution from taxes in the Investment segments of the business. That's a pretty big swing from taxes to gains in one quarter, and I appreciate that it relates to the quantum of tax and tax-free income, investment income. Help me understand how that swings so much from one quarter to another. Was there a change in the asset mix towards tax-advantaged products, or was this a reaction to the idea that insurance companies will not be captured under that rule about Canadian dividends? What happened in one quarter? I'm trying to piece it together. Is it an asset mix change, is it a tax change? What drove that?

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

It's a couple of items, Mario. We mention in the reports that, you're right about the non-taxable investment income, so that's one piece, and probably the bigger. There is some, also, capital gains that did flow in there that all is taxable. To some other extent, in Q2, we also had what we often refer as the true-up. When we file the final report on our income taxes with the government authorities, we always have a little difference between the provisions forecasted and the reality, so that did flow in there as well.

Mario Mendonca— Analyst, TD Securities

The tax rate should just return to normal next quarter then, is that fair?

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

Exactly. Yes, yes, exactly. The guidance is still the same on the tax rate.

Mario Mendonca— Analyst, TD Securities

All right. Thank you. That's all for me.

Operator

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

Darko Mihelic — Analyst, RBC Capital Markets

Hi, thank you for squeezing me in here.

Just a couple of questions; first, I did want to touch also on the seg funds business a little bit. What I wanted to touch on was, potentially, any changes from a regulatory perspective on seg funds? I understand OSFI's doing some work on that, but I'm not sure if the AMF will differ. Denis, is there anything that I should be thinking about with respect to capital changes in the seg fund file?

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Yes, there are some work being done in the Canadian landscape right now. I know that OSFI is supposed to bring some new changes; AMF is looking at it as well. But I have no indication right now that it might have an impact on our businesses at all. That would be my guideline.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, thank you for that.

My second question, just going back to the discussion on Vericity and its impact on results, and thank you for the roadmap; I understand, conceptually, that it will be accretive, but it was losing money not too long ago. Is this something that could sort of just come in, in the first quarter, and actually have a negative impact and then progressively get positive throughout the year, to the point where it gets accretive? Is that how I should think about it, or should I think about it as really very neutral at the beginning and turning accretive later?

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

Yes, it's Éric again. It will improve over the coming years. We have a number of Management actions that we can complete. Of course, if we agreed to pay that price, it's because we had a plan behind the acquisition. We've mentioned that we would look at reinsurance for the new business, reinsurance for the in-force. They were heavily using that. That's the first thing that we would be looking at in the coming quarter.

Also, we are looking at "repatriating" the investment activity with us, so that will create other positive Management action as well. Lots of things going on to make this profitable. We'll just be executing our plan to get accretive in year two.

Darko Mihelic — Analyst, RBC Capital Markets

Okay.

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Yes, to be clear, in the first year, it's dilutive to earnings. Like Éric said, there are several initiatives, both on the increased revenue side and decreased expenses that will change the situation to a positive.

Keep also in mind that Prosperity is going to be positive in the first year, so accretive to EPS. All in all, it should be—my view is that it should be quite neutral.

Darko Mihelic — Analyst, RBC Capital Markets

Okay, great. That's very helpful. Thank you very much.

Operator

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

Tom MacKinnon — Analyst, BMO Capital Markets

Yes, just to follow-up on the tax, can you just remind us what is your guide for your core tax rate going forward?

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Yes, between 22 percent—and 22 percent is in the appropriate range.

Tom MacKinnon — Analyst, BMO Capital Markets

Between 22 percent and 23 percent?

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Twenty-one percent, 22 percent. Yes, it's in that range.

Tom MacKinnon — Analyst, BMO Capital Markets

Twenty-one percent to 22 percent. Okay. Thanks so much.

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Yes.

Operator

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

Denis Ricard — President and Chief Executive Officer, Industrial Alliance Insurance and Financial Services Inc.

Okay, thank you. Thank you for all your questions.

I'd like to remind everyone that we have had very good results for the quarter, notwithstanding all the questions. Maybe my comment would be around the fact that you can see that the allocation of capital, the way that we do it, efficiently, is improving. There's an expansion of ROE. We are delivering on our 10 percent plus EPS growth; that's pretty, pretty significant. We've got some very significant growth of our business in the quarter, and the sensitivity of our results have also decreased.

We are in a very, very good position, and I would say I think, at the end, that our stock deserve, I would say a favourable price-to-book ratio compared to where it is right now. You might see that, with the current price, that we will still be active in the NCIB. That would be my closing remark.

Thank you all.

Operator

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