FINAL TRANSCRIPT

Industrial Alliance Insurance and Financial Services Inc.

2024 Third Quarter Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Industrial Alliance Insurance and Financial Services Incorporated 2024 Third Quarter Results.

At this time, all lines are in listen-only mode. Following the presentation, we will 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, November 6, 2024.

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

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

Good morning, and welcome to our 2024 third quarter conference call.

All our Q3 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 archive webcast will be available for 90 days and a transcript will be available on our website in the next week.

I draw your attention to the forward looking statements information on Slide 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 Q3 2024 MD&A release 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; Stéphan 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 Group Benefits and Retirement Solutions.

I am very pleased with our solid results for the third quarter, both in terms of profitability and business growth. This strong performance, consistent with our year-to-date results, reflects the disciplined execution of our growth-oriented strategy and underscores the strength of all our distribution networks.

Starting with Slide 8 for an overview of Q3 2024 key results. Core EPS increased by 17 percent year-over-year to a record $2.93 per share, while EPS was higher at $2.99. Trailing 12 month core ROE of 15.3 percent supported by a Q3 annualized core ROE of 16.6 percent, exceeded the threshold of our midterm target. Robust sales growth and capital deployment initiatives were instrumental in achieving this strong result.

In the third quarter, nearly all business units delivered robust sales growth with continued momentum on both sides of the border. This translated into year-over-year increases of 25 percent in premiums and deposits and 22 percent in assets under management and administration. Our solvency ratio of 140 percent illustrates the robustness of our capital position, supported in Q3 by organic capital generation of $180 million. Our book value per share, which stood at $71.63 at September 30, increased by 10 percent over 12 months, or more than 12 percent, excluding the impact of share buybacks.

Now turning to Slide 9 to look at Q3 business growth for Insurance Canada. Once again, this segment recorded a solid performance with all business units posting strong sales results. In individual insurance, we further strengthened our leading position in the number of policies sold in Canada with strong sales of $103 million during the quarter, up 7 percent over last year. This growth was driven by the high performance of our distribution networks, our distinctive digital tools, and our comprehensive range of products.

In Group Insurance, the 21 percent increase in sales year-over-year, combined with good retention, resulted in premiums and deposits of $508 million, which is 10 percent higher than a year ago. In Dealer Services, third quarter sales of $197 million were up 2 percent year-over-year. This is a good result given the challenging macroeconomic environment that continues to impact vehicle affordability in Canada.

Finally, iA Auto and Home also recorded very strong sales, with direct written premiums in the third quarter reaching $164 million, a robust increase of 15 percent over the same period last year. This is attributable to our success in generating new sales and to the impact of recent premium increases.

Turning to Slide 10, to comment on sales results for Wealth Management, which were again very solid, notably with net fund inflows of more than $600 million. iA continued to rank first in gross and net seg fund sales. During the third quarter, gross sales of seg funds amounted to more than $1.3 billion, a significant increase of 51 percent year-over-year, and net inflows of $781 million were generated during the same period. This robust performance once again demonstrated the strength of our distribution networks.

Mutual fund sales of $385 million were up 33 percent year-over-year, although inflows were lower than outflows. As for sales of insured annuities and other savings products, they remained high, reaching $483 million during the quarter. This is a very good result, especially considering investors' increased optimism toward financial markets and the appeal of riskier asset classes offering potential higher returns.

Finally, in Group Savings and Retirement, both insured annuities and accumulation products performed well, resulting in solid sales of $900 million, up 62 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$68 million. This strong 55 percent year-over-year increase reflects a solid overall performance, as well as the addition of sales from Vericity. The continued strong business growth of this business unit, along with the recent acquisition of Vericity and of two blocks of business from Prosperity Life Group, demonstrate our ability to grow in the U.S. life insurance market, both organically and through acquisitions.

In Dealer Services, third quarter sales amounted to US$286 million, up 15 percent over the same quarter last year. Dealers continue to place greater emphasis on F&I product sales in the context of improved consumer profitability resulting from lower interest rates and reduced vehicle prices.

Moving to Slide 12, where year-to-date key financial KPIs compare favorably with all our midterm targets. Among these, in addition to core ROE exceeding 15 percent, I want to highlight core EPS, which is 16.5 percent higher year-over-year after nine months, well above the targeted 10 percent annual average growth. This good profitability contributed to the generation of $485 million in organic capital since the start of the year, which is on track to reach our 2024 target of over $600 million.

Turning to Slide 13 to discuss our capital deployment priorities and recent initiatives. At September 30, 2024, we had $1 billion in capital available for deployment following another active quarter of capital deployment initiatives, which included acquisitions, dividends, share buybacks, and IT investments. In September 2024, the AMF published a draft revised capital formula, the CARLI guideline, which would become effective January 1, 2025.

If the guideline is adopted as published, we expect our capital available for deployment to increase by around $700 million on January 1, 2025. This positive impact on our financial flexibility will increase our ability to deploy capital, a top priority in delivering our growth strategy. Indeed, capital deployment is a key catalyst for increasing our ROE and creating long-term value for our shareholders.

To this end, we continue to prioritize investing in our growth, both organically through sales with ROE above our 15 percent target and through acquisitions. Our acquisition strategy focuses on accretive acquisitions that fit well with our culture and business model and rapidly contribute to ROE expansion. In Q3 alone, we strengthened our footprint in the U.S. live market with the integration of Vericity acquired at the end of June 2024, and the acquisition of two blocks of business from Prosperity Live Group. We also completed the acquisition of assets from Laurentian Bank Securities in the Wealth Management sector in Canada.

To conclude, I want to highlight that we renewed our NCIB program to buy back up to 5 percent of outstanding shares and announced a 10 percent increase in our dividend to common shareholders. These decisions reflect the high priority we place on returning value to our shareholders through dividends and share buyback while actively investing in organic growth and pursuing acquisition opportunities.

I will now hand it over to Éric, who will comment on the third quarter profitability and capital strength. Following Éric's comment, we will take questions.

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, which highlights our solid performance in the third quarter with favorable results across all key financial indicators of profitability and financial strength. The strong profitability recorded in the first half of 2024 continued into the third quarter. Our strong earnings combined with our capital deployment initiatives contributed to the expansion in ROE. In fact, Q3 annualized ROE of 16.9 percent and core quarter annualized ROE of 16.6 percent, well exceeded our mid-term guidance of 15 percent plus, resulting in a trailing 12-month core ROE of 15.3 percent.

Core EPS for the quarter was up 17 percent year-over-year, reaching $2.93, while the reported EPS was even higher at $2.99. This solid growth is mainly due to the strong increase in the insurance service results driven by a substantial increase in premiums and deposits, and in assets achieved both organically and through recent acquisitions.

Our capital position is robust with a solvency ratio well above our operating target and strong ongoing organic capital generation. Thanks to our favorable financial situation and sustained profitability, as announced yesterday, we are raising our dividend by 10 percent and renewing our share buyback program for the coming year.

Finally, we remain a leader in the growth of book value per share with an increase of 10 percent over the last 12 months, reflecting our ability to create value. Without the impact of the share buybacks, the increase in our book value per share would have exceeded 12 percent.

Now moving to Slide 16 to take a closer look at our Q3 results by segment. First, Insurance Canada reported a solid 16 percent year-over-year increase in core earnings to reach $106 million in the third quarter. Most of this increase was attributable to higher expected insurance earnings, reflecting the strong sales in recent quarters and the favorable impact of pricing adjustments over the last 12 months. Other positive items included the lower impact of new insurance business from employee plans compared to a year ago, the favorable impact of higher distribution results on core non-insurance activities, and lower core other expenses.

As for core insurance experience, apart from the August weather event at iA Auto and Home the net result was positive mainly due to favorable morbidity and mortality experience. In the Wealth Management sector, core earnings of also $106 million were 29 percent higher than a year earlier. This solid increase is the result of good financial market performance, as well as an increase in the expected insurance earnings for seg fund from strong net sales over the last 12 months. Mortality experience was also favorable, leading to an insurance experience gain.

Finally, the increase in core non-insurance activities reflects a solid performance once again from the distribution affiliates, arising mainly from higher net commissions and better margins. In the U.S., core earnings were $31 million, close to the $32 million recorded for the same period last year. The increase in expected insurance earnings is mainly due to the addition of Vericity and Prosperity blocks of business. It is worth noting that the overall results of these two acquisitions were slightly more favorable on core earnings than expected.

Core insurance experience for U.S. operations was also positive, mainly from favorable mortality experience. In core non-insurance activities, the unfavorable impact of last year's lower sales and a less favorable business mix were only partially offset by strong sales in 2024. Finally, core other expenses increased mainly from the addition of Vericity's expenses.

Now turning to Slide 17, starting with the results for the investment segment. The Q3 core investment result before tax was 3 percent higher than during the previous quarter. This result was supported by the good performance of our high-quality investment portfolio, bolstered by the favorable impact of interest rate variations. However, taxes were higher and iA Auto Finance result was lower due to credit losses and an increased allowance for credit losses.

In the Corporate segment, Q3 core other expenses of $60 million pre-tax were in line with the quarterly expectation of $65 million plus or minus $5 million. As we continue to focus on operational efficiency, cost-conscious execution, and disciplined project and workforce management.

Now looking at the right side of the slide for non-core adjustment. The net income to common shareholders exceeded core earnings by $6 million, reaching a quarterly record of $283 million in the third quarter. This was due to favorable market-related impacts, partly offset by adjustments mainly related to acquisitions. Since the transition to IFRS 17, this is the third quarter in seven in which our net income has exceeded our core earnings, confirming the credibility of core earnings as a reflection of our recurring operating performance.

Please go to Slide 18 to look at the Company's robust capital position. Our excellent organic capital generation in the quarter almost paid off for all capital deployment activities, including share buybacks and acquisition of blocks of business. In this respect, our very good profitability led to strong capital organic generation of $180 million for the quarter. With a total of $485 million generated since the start of the year, we are well positioned to exceed the minimum target of $600 million for 2024.

As for capital available for deployment, it amounted to $1 billion at September 30, 2024. In addition, as Denis mentioned, if the proposed changes to the AMF capital formula are adopted as published in September 2024 in the draft revision of the CARLI guideline, we expect the capital available for deployment to increase by around $700 million on January 1, 2025.

In summary, our third quarter results testify our ability and commitment to generate growth through quality earnings. With our increased ROE, our strong financial position, and the significant amount of capital available for deployment, we are well positioned for future growth.

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

Q & A

Operator

We will now begin the question-and-answer session. If you would like to ask a question, please press star followed by the number one on your telephone keypad.

Your first question comes from the line of Meny Grauman with Scotiabank. Please go ahead.

Meny Grauman — Analyst, Scotiabank

Hi, good morning. I wanted to ask about the sustainability of ROE, annualized core ROE, 16.6 percent, a very strong step up here. I'm curious, is there anything that you see when you look at the numbers that you would view as unusual that is basically making this result from an ROE perspective unsustainable?

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

I'm going to start, Meny. Thanks for the question. We are very proud of the results of this quarter. I have not used the word exceptional because exceptional would mean that it's not repeatable. We believe they are very strong. We've made so many initiatives over the last 10 years in our organization. For example, diversifying our product mix, business mix, investing in the discipline acquisition, returning some of the capital to our shareholders through NCIB. I think we've got a very balanced approach targeted towards improving the value to shareholders that, at the end of the day, leads to a better ROE going forward.

I'm very pleased with the trend it's going right now. Probably a bit too early to call for a higher target for ROE. It may come, but for the time being, we are very pleased and proud of the results that we've got so far. I don't see a cloud in the sky that would prevent us from being able to generate that kind of ROE going forward.

Meny Grauman — Analyst, Scotiabank

Okay. That's very clear. Maybe if I can ask you, on the capital available for deployment. You're signaling quite a meaningful increase. The question is, does that change the capital deployment priorities or the way you look at capital deployment, does going from $1 billion to $1.7 billion change that at all?

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

Thanks, Meny. It's Denis again. Last year, at about the same time, we had capital for deployment that was around $1.8 billion. Obviously, I get that question all the time. The answer last year is the same as this year, basically. We're looking at all the way that we can to increase value to shareholders. In terms of the priorities, organic growth is really the primary one. Investing in our current businesses with ROE over a 15 percent target. That's really our main focus. Investments in technology is included into that.

Second is about acquisition, disciplined acquisition. We have a track record of having disciplined acquisition, and we continue doing that. We're very proud of the latest ones that are positively impacting our results, Prosperity and Vericity. Then the dividend. We've increased dividend by 10 percent. It's really a confidence call that we made on our results. Lastly, NCIB. We try to be opportunistic on the NCIB side in returning some of the excess capital to the shareholders. It's really a balanced approach that we had last year, and it's continuing going forward.

Meny Grauman — Analyst, Scotiabank

Got it. Thanks so much.

Operator

The next question comes from the line of Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine — Analyst, National Bank Financial

Hello. Yes, sorry. Good morning by the way. Just to understand the regulatory change. Essentially, you're holding company. There's a lower capital requirement, the core ratio probably. That threshold for regulatory intervention has been lowered or is proposed to be lowered, and that's what frees up some capital that you're holding back to meet that requirement. Is that the gist of it?

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

Hey, Gabriel, it's Éric. You're exactly right. That's the intention of our regulator. In Quebec right now, what we had in terms of game rules was to use the same targets for operating companies as for holdco companies. We understand from our regulator that they wanted to create some harmonization with the federal level, which has different constraints for holdco companies compared to operating companies. We need to understand that the regulator's focus is more to get the consumer protection at the opco level, so the quality or the structure of capital for holdco can be less stringent than it is for opcos. What is happening right now is just this harmonization with some companies at the federal level in terms of level playing field, and this will be resulting in additional capital available for deployment for us at this point.

Gabriel Dechaine — Analyst, National Bank Financial

Right. You're also stating that it harmonizes with OSFI than the AMF move does?

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

It harmonizes with some companies at OSFI level, not all.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. Sorry, Denis it wasn't quite clear on your answer to the last question. I'll go with the M&A route. This Company, I think you stated in your MD&A there or your press release, you've made 30-plus acquisitions over the years. The last few have not been by your own admission, and I appreciate the candor. They weren't well-timed like the IAS or whatever. Does that factor into your outlook for M&A is my question. Are you taking a different approach now? Because I do expect you're going to be an acquisitive company in the future. You have been in the past, but is your approach changing at all?

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

It's interesting you ask the question because I had a conversation with my Board recently, and I said that obviously the IAS results are disappointing. The timing was not really good, and we've got some challenges, and we're working on them. I think what is important is to make issues visible and work on them. Now, with that said, one of the risks that an organization has when one acquisition and again, it's one amongst many of them. If one acquisition doesn't go the right way as expected, the risk is that then from that point on, it's to be risk-adverse to a point where it makes the company not growing as much as it should.

As far as I'm concerned, I think in this organization, we have a culture of being conservative and prudent enough in our acquisition that we have to be careful. We have to be conscious. That we need to take some calculated risk going forward, but it's also a risk not to pursue acquisition when you think about it because growing is important. The risk of not growing sometimes it may be more important than the risk of growing. My view on this is really to have a balanced view, and the track record for our acquisition, generally speaking, is very positive. It's not because one of them doesn't go as expected that we should refrain from growing by acquisition in the future.

Gabriel Dechaine — Analyst, National Bank Financial

No, no, I wasn't suggesting you would refrain in the future. I'm just wondering if there was a lesson learned there that that one didn't go as well as planned. We learned from that experience and what that lesson might have been.

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

We have several lessons from that acquisition that we shared with the Board. When I look at the recent acquisitions, the Vericity and the Prosperity, I'm telling you we've learned and we've acted on what we have learned.

Gabriel Dechaine — Analyst, National Bank Financial

Looking ahead in terms of industry verticals, if I'd asked you this a few years ago, it would have been not a warranty, top of the list. Is it possible we see more deals like Prosperity blocks of business that seem to be a little bit scalable in your U.S. business given the work you've done over the past decade in individual insurance?

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

We're looking at both the U.S. life and the warranty business in the U.S. at this point. We don't look at the third leg. Yes, we would be open to other deals like that that are very accretive for the organization that are much higher than our target ROE. We are open to look at several opportunities. In fact, when I look at Vericity, it's a great example of competency that we acquired in a business that we already know in the U.S. Prosperity is really a tuck-in acquisition, and the integration is going very well right now. It's really to count on our strength in the businesses that we're in right now. If there are more deals, and we're looking at some deals, we'll do it.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. Just last one on the U.S. Did you have any lapse experience pop up again in that final benefits or benefits expense, funeral expense business? I know that arose last quarter. Then what was it about the sales mix? The U.S. warranty sales were up, whatever, 15 percent, so a good number, but you cited that the mix wasn't as profitable or something like that. Can you give a bit more detail on that?

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

Yes, I'll take this one. For the sales mix profitability, Gabriel, for the U.S. Dealer, in fact, what happened is that if you look at the U.S. Dealer sales, there's insured business and there's fee business. Of course, the fee business brings less dollar of profit than insured products, and we're feeling a little bit of pressure on margin on the later, so that all in, it resulted in a less profitable business mix in the quarter.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. The lapse, anything there, or was that just a one-off?

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

Oh, yes, on the lapse. Sorry, I forgot about that. On the lapse, the situation is improving on life insurance. It's still something that we're working on, but we're taking management action with distributors to improve the situation, but it's going in the right direction.

Gabriel Dechaine — Analyst, National Bank Financial

Okay, cool. Congrats on the quarter.

Operator

The next question comes from the line of Doug Young with Desjardins. Please go ahead.

Doug Young — Analyst, Desjardins Capital Markets

Hi, good morning. Éric, just back to the $700 million, and I don't want to dig into the weeds, but is this something where the core ratio, which I think is 70 percent, goes down to 60 percent? Or is this more, I think it was back in 2020 when the AMF came out and changed the capital treatment for your property and casualty subsidiary that's held by a life insurance company, and that negatively impacted your deployable capital. Is it more of a reversal of something that negatively is impacting your available capital, or is it actually the core? I'm just trying to understand how the moving pieces are going to get to that $700 million.

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

Yes, thanks, Doug, for the question. In fact, I will say that there are three important triggers. First, you are right that it has to do with the core ratio, because our capital available for deployment now is function of the core ratio. This is our most stringent constraint, that's the first piece. Secondly, in terms of target ratios, there are minimum ratios in the industry. Just to adjust your comment, it's not 60 percent, it's 55 percent in terms of minimum ratio. Then there is what we call an intervention target ratio, which is the level where the regulator would step in to see what's going on and maybe ask for an action plan from the company.

Then there’s on top of that, we don't want to obviously operate as companies at this level. That would be clearly uncomfortable. We set up, according to our risk profile, risk governance, and so on, we set up what we call an operating target on top of that. What just happened here is that our regulator, with the harmonization, removed that intervention target constraint, and this opens up the floor to us to operate like other Holdco’s in Canada on the basis of minimum ratio. But we would not go as low as a minimum ratio, because on top of that, we need to put some margin for our operations, for the risk profile of the Company. Clearly, what we will do and what we have done in providing the estimate of $700 million is to calculate what would be the available capital on a basis comparable to other companies in Canada that are subject to the same constraint as we are. Does that answer your question?

Doug Young — Analyst, Desjardins Capital Markets

It does. I think your core rate now is, correct me, at 85 percent. I'm just trying to mathematically think, does that go down to 70 percent? I'm trying to think mathematically what your core rate is. What is that minimum that you would use to get to that $700 million?

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

Of course, we still need to do the exercise and finalize exactly where our target would be over the minimum, but you're in the right path to think that the 80 percent would go down if we deploy all that additional excess capital and when.

Doug Young — Analyst, Desjardins Capital Markets

Okay. On the two acquisitions, the Vericity and the two Prosperity blocks, can you quantify what that contributed to core earnings? I think you talked a bit about more favorable to core than expected. Is that something that is expected to continue or is that just more favorable this quarter and you anticipated to go back to more level? I'm just hoping to get some context there.

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

Yes, I will draw your attention to the driver of earnings for the U.S. segment for a second, Doug on this. If you look at the first two lines of the driver of earnings, you will notice that the trend in risk adjustment recognition and on the CSM amortization has gone up. If you look at the trend, it's quite obvious that it went up by more than $10 million. That's one clue for you. The other one is to look at the core other expense on the same page that did go up. We said in the opening comments that we now factor in the core other expense of Vericity. That's the other part to consider.

When you net those two out, it's positive. Whether this will continue, there is a part of it that will continue, but we're just one quarter in. We need to remain humble and see how this develops. For now, we're quite happy with the results of this acquisition and its contribution.

Doug Young — Analyst, Desjardins Capital Markets

Was there any impact on the experience from those two businesses? When I look at that experience line, does that factor in some of the better-than-expected results of those deals, or is it just simply in those three lines?

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

Not yet. I referred you to the expected insurance earnings, Doug. It's too early in terms of experience. We're just one quarter in, so nothing to mention out there that differs from our expectations.

Doug Young — Analyst, Desjardins Capital Markets

Then just lastly, the U.S. extended vehicle warranty business and sales were good, obviously, and have shown some improvement. You talked about the mix, but it looks like the profitability is still down year-over-year. You didn't mention any negative claims experience. I'm just wondering how things are going from a claims perspective. Is there anything to flush out there?

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

On the claims side, we are still facing challenges from inflation of the auto parts. That's one challenge, but we're doing the repricing on the products. You know that those products when we sell them, they are in the books for a single premium. They are in the books for let’s say between three to seven years, so it takes a while to develop. That's one piece. You see the claims and the price has been fixed. For the repricing to go through, it will take a while, but we're dealing with it. That's the important on this.

The other thing that you have to remember also is that there is some seasonality. When you look at profitability from one quarter to the other, Q4 is generally the lowest quarter in terms of profitability because it just follows the consumer behavior that tends to buy more cars. The biggest quarter normally is the second quarter because people buy cars in May and when spring happens. That's the best quarter. The next best one is probably the third, the lowest being the fourth and the first quarter. The profit is recognized mostly at the point of sale, so the profit on a quarter-to-quarter basis follows this pattern of seasonality.

Doug Young — Analyst, Desjardins Capital Markets

Perfect. I appreciate the color. Thank you.

Operator

The next question comes from the line of Paul Holden with CIBC. Please go ahead.

Paul Holden — Analyst, CIBC Capital Markets

Thank you. Good morning. Maybe to continue that conversation, you continue to reiterate that you expect gradual profit improvement in U.S. Dealer Services. I don't expect it will take three to seven years to realize that gradual profit improvement, but what would be the key drivers or factors we should look to to drive that improved profitability?

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

I would say maybe 12 to 24 months. We said this year that it would gradually improve in 2024, so it's following the right path. You're right, it will not take three to seven years. We expect the situation to improve gradually in the coming quarters. Sean is really working hard with his team to take management action and strengthen the situation through repricing and management action, so it's a question of quarters.

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

It's Denis here. I would add that you would get much more color at the investor event because we want to spend a large portion of that meeting to explain the driver of earnings for that business. You're going to get a bit more color about our strategy, where's our focus, what actions and initiatives we've made to improve the situation. It's something that you guys would be quite interested to hear.

Paul Holden — Analyst, CIBC Capital Markets

For sure. I'm assuming, Denis, based on your earlier comments that you are once again interested in doing U.S. Dealer Services acquisitions that you're generally happy with the way the business is trending.

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

Yes, there's no reason for me to say that we will not pursue growth in that business, whether it's organic or by acquisition.

Paul Holden — Analyst, CIBC Capital Markets

Okay, that's great. Then speaking of timing of prior acquisitions, Vericity and Prosperity actually look like they're very well-timed given what's happening today. My question on them is, how much interest rate sensitivity is in those businesses, i.e., is the nice tick-up in bond yields a material benefit or not?

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

I would comment on this, Paul, that very little because the business profile of Vericity and Fidelity Life is term business, and as you know, those are short-term businesses, so the interest rate sensitivity coming with those is very limited.

Paul Holden — Analyst, CIBC Capital Markets

Okay, got it. Then last one for me is on the topic of capital deployment. Share buybacks, you're clearly generating a lot of organic capital every quarter, have a lot of excess deployable capital, but the share price is up significantly over the last four or five months. How do you balance those factors in terms of the thinking towards ongoing share repurchases?

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

I think you should expect that we will continue doing some buybacks unless we have a, let's say, a sizable acquisition in the pipeline. But it's really, for us, one way to return some of the value to the shareholders. My expectation is that this is going to continue.

Paul Holden — Analyst, CIBC Capital Markets

Got it. Okay, thank you. That's it for me.

Operator

The next question comes from the line of Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca— Analyst, TD Securities

Good morning, Éric. I want to go back to the $700 million. I think I understand the math behind it. I think I understand the concept, especially when you refer to another holdco in the country. I think many of us know who you're referring to there. From a practical perspective, though, if you wanted to replicate what that other company does with their hold co, it would involve raising debt at the holdco and then using that to buy back stock, which would, of course, take the leverage ratio higher, but would have the effect of—yes, increase the leverage ratio, and you could absorb a reduction in your core because the threshold's lower. What I'm asking from a practical perspective is that how you exploit this change by raising debt at the hold co and using it to buy back stock?

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

Yes, it's early to call Mario. Your strategy is right, though. This is something we could do. If we want to keep improving our ROE expansion, we need to have, I would say, a more comparable cost structure in terms of capital. We will need to get there at some point, but we don't want to do this suddenly at this point. But we'll just be opportunistic with the share buyback. We talked about it, and that's how we see it.

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

Yes, Mario, it’s Denis here. I think the ultimate destination is what you described, but it can take some time to get there.

Mario Mendonca— Analyst, TD Securities

Okay. We should expect, let's say, over a longer period of time, a couple of years, that Industrial Alliance will not be operating at 15 percent or 16 percent leverage ratio. It'll look a little bit like, again, like this other company that you've referred to, like a higher leverage ratio, clearly.

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

One word, absolutely.

Mario Mendonca— Analyst, TD Securities

Okay. Yes, it makes sense. Might as well take advantage of it. That's your point, then. That's how this company can have an ROE like everybody else's. Once you exploit that room in your leverage ratio, that's the long-term goal here. Might as well have the same ROE as anybody else. Is that the point?

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

I would say one word, absolutely.

Mario Mendonca— Analyst, TD Securities

All right. Let's move on to something else. There's strain in Q4 '23, very elevated. Éric, you talked about seasonality in U.S. Dealer Services. Should we see a similar type of seasonality in Q4 '24 associated with strain in group?

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

Yes, you are right, Mario. Remember that you and I talked about this earlier this year as a result of Q4. There is seasonality in group and patterns that result in normally higher strain at some point of the year. That being said, we don't expect the strain to be as high as last year for Q4 of this year.

Mario Mendonca— Analyst, TD Securities

Not as high as Q4.

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

No.

Mario Mendonca— Analyst, TD Securities

Thank you.

Operator

Your next question comes from the line of Lemar Persaud with Cormark. Please go ahead.

Lemar Persaud — Analyst, Cormark Securities

Yes, thanks. I want to come back to this capital for deployment and the $700 million you guys are getting. I want to look at it in terms of the payout ratio. Under what circumstance would Industrial Alliance consider increasing the target payout ratio? Does it feel like 25 to 35 is the right number over the longer term? You could say that IAG is becoming a more mature company. It's generating all this organic capital generation. It can fund organic growth and pursue M&A. Maybe we're at the point where it makes sense to bump up the payout ratio. How do you guys think through that?

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

Yes, it's Denis here. I don't consider our Company to be mature. We see a lot of opportunities. We believe that we're more on the growth side as opposed to the mature side. For us, it would be premature to aim for a higher payout ratio at this point. We prefer to deploy capital in other ways through growth, organic, and acquisition. Are the favorite one.

Lemar Persaud — Analyst, Cormark Securities

Okay. What should we be watching to suggest that maybe it's time to revisit this? Or is this something that is so far away that it's not even worth discussing at this point with the Board?

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

One way to look at it is that our market cap is now maybe at $10 billion plus right now. Our competitors, which are a bit more mature, are in the $40 billion plus. I would say that until we reach $20 billion, it's probably not in the option at this point. It tells you that it's several years down the road.

Lemar Persaud — Analyst, Cormark Securities

Okay. That's helpful. Just another question here. I noticed you guys talked about the regulatory capital requirements for seg funds and that blurb. Can you help us understand what that's going to mean for the outlook for the seg fund business?

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

Yes. In fact, we don't expect any impactful changes to our seg funds because, as you may know, we already have the internal model used and we're using dynamic hedging to protect the downside risk of those products. Our capital will not change with those rule adjustments.

Lemar Persaud — Analyst, Cormark Securities

Thanks. That's it for me.

Operator

The next question comes from the line of Tom MacKinnon with BMO Capital Markets. Please go ahead.

Tom MacKinnon — Analyst, BMO Capital Markets

Yes, thanks. Good morning. Just a couple things. First, on the dividend increase, you guys typically increase your dividend every three quarters as opposed to annually, and this 10 percent dividend increase, if you analyzed it, would be more like a 13 above your 10 percent core earnings growth target. If you could just walk me through some of the thinking, there. I assume none of the $700 million that you additionally got works its way into that thinking, but that's the first question. I've got to follow up. Thanks.

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

I will comment on that and Éric if you want to add. No, I don't think it's related to the $700 million. Basically, as I mentioned before, we target around 30 percent payout ratio, and because our profitability is very strong with 10 percent increase in dividend, we're about in the middle of that range right now, so that's really the rationale behind it, nothing more.

Tom MacKinnon — Analyst, BMO Capital Markets

Okay. Thanks. Then into the U.S., you had three months in the quarter of Vericity, but you only had two months from the blocks from Prosperity. Is there any additional uptick that you would anticipate in either I'm sure there's lots of CSM, and you only got two-thirds of that CSM from Prosperity. Just help us think through that, and risk adjustment release too from Prosperity, because you only got two months of that. Then what is the impact on expenses of only having the Prosperity block in for two months? Just help me think some of that. Would we anticipate that, net you said it did better than you thought, but you only had two months of Prosperity in the quarter as opposed to three.

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

You're right. Tom, on this, what we have found is that you will see next quarter we'll have a full quarter in terms of risk adjustment release as well as CSM amortization. That will contribute to slightly more of those two items. In terms of the cost, we are fully integrating this business with the American

Amicable business, so costs will stay the same. The cost increase that we see in core corporate expense is solely due to Vericity acquisition, because it comes with people and operations, so those costs are just a reflection of Vericity.

Tom MacKinnon — Analyst, BMO Capital Markets

Perfect. Then the final one is really with respect to the other core expenses in Canada. They've been trending, they were 16 in the first quarter, 17 in the second quarter, and now it's just 11 in the third quarter. Is there anything unusual there? What should we be thinking about for that? Because it seems to be down at least significantly year-over-year, and then down significantly quarter-over-quarter.

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

You're absolutely right, Tom, on this. We had one-time items that were favorable for core other expense and insurance Canada, so what I expect at this point is this to come back to normal in the next quarter.

Tom MacKinnon — Analyst, BMO Capital Markets

Okay. Thanks so much. Normal meaning the run rate we had in the first half of the year?

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

Exactly.

Tom MacKinnon — Analyst, BMO Capital Markets

Okay. Appreciate that. Thanks so much.

Operator

I will now turn the call back over to Denis Ricard for closing remarks. Please go ahead.

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

Okay. Thank you. I think it would be understatement that we are pleased with the results this quarter. Very solid profitability with an ROE much above our target. What makes me confident about the future is really not only the current profitability and the discipline of our organization, but it's the growth that our businesses have brought. We haven't talked that much during the question period about the growth of our businesses, but I can tell you that our leaders are putting all their attention and focus on growing their businesses, and it's the best testimony for us for future growth of the Company. We've seen assets under management. We've seen the premiums and deposits increase by high double digit, 20 percent over the quarter, and that's the results of their hard work and all their teams. Thanks to all of us. Thanks to all of them.

One last comment is about the creation of value. We've been a leader, and we are a leader in creating value to our shareholders. We've made so many actions over the last decades, and you can see that our journey is not over, and we will continue performing going forward. Thanks a lot for everyone and see you next time.

Operator

Ladies and gentlemen, this concludes today's call. Thank you all for joining.