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PRESENTATION

Operator

Greetings, and welcome to the Industrial Alliance Fourth Quarter Earnings Results Conference call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, February 11, 2021.

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

Marie-Annick Bonneau - *iA Financial Corporation Inc. - Head of IR*

Thank you. Good afternoon, and welcome to our Fourth Quarter Conference Call. All our Q4 documents, including press release, slides for this conference call, MD&A, and supplementary information package are posted in the Investor Relations section of our website at ia.ca. 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 1 week starting this evening, the archived webcast will be available for 90 days, and a transcript will be available on our website in the next week.

I draw your attention to the forward-looking statements at the end of the slide package. A detailed discussion of the company's risk is provided in our 2020 MD&A available on SEDAR and on our website.

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

Denis Ricard - iA Financial Corporation Inc. - President and CEO

Good afternoon, everyone, and thank you for joining us on the call today. I would first introduce everyone attending the call on behalf of iA. Jacques Potvin, Chief Actuary and CFO; Mike Stickney, Chief Growth Officer and responsible, among other things, for our U.S. operations; Alain Bergeron, Chief Investment Officer; Renée Laflamme, in charge of Individual Insurance and Annuities; Sean O'Brien, responsible of our mutual fund business and wealth management distribution affiliates; François Blais, in charge of our dealer services, special markets and iA Auto and Home; and Eric Jobin, responsible of our group businesses.

For the third consecutive quarter since the beginning of the pandemic, our Q4 results released this morning are solid, thus demonstrating our resiliency, our agility and the great commitment of our employees and distributors.

I will start with a few comments about sales growth. Indeed, sales were remarkable during the fourth quarter as well as during the year in general. Almost all business units had very strong sales results, leading to a 28% year-over-year increase in premium and deposits. Individual insurance sales were up 40%, 4-0, year-over-year, clearly demonstrating that with our strategy focused on the client and distributor experience the Canadian insurance market is not mature for us. Wealth management sales were also noteworthy with net fund inflows for seg funds and mutual funds, totaling nearly \$800 million in Q4 alone.

As a result of these much stronger-than-expected sales, we had to pay higher-than-expected commission and sales bonuses during the fourth quarter. Taking into account these high sales and related expense of commissions and bonuses, profitability was good, which reported in core EPS of \$1.60. Jacques will comment more on the earning drivers in a few moments.

We also took a provision for the benefit of our employees during the fourth quarter. Indeed, as the pandemic and the ensuing lockdown efforts continue, we have decided to offer our employees additional temporary support measures.

Another highlight of our Q4 results is our capital position. Our solvency ratio increased by 5 percentage points during the quarter and is very strong at 130%. In addition, our distinctive market protection is now the equivalent of an additional 10 percentage points, as mentioned on Slide 5.

Moreover, as part of our annual review of our actuarial assumptions, we have proactively strengthened reserves in addition to establishing additional specific protection to counter some of the potential impact of the pandemic.

With these solid foundations, we enter 2021 with confidence in our strategy and continued capacity to create value for our shareholders. Indeed, looking back at 2020, we've been able to appreciate the robustness of our business model and our continued earning power. Sales momentum has accelerated and is now very strong. 2020 core earnings were in line with our initial expectations. Finally, we entered the end of the year with a solid capital position and several layers of protection in our reserves. We are therefore very well positioned to pursue our growth in 2021.

For these reasons, based on what we know today of the pandemic and of the effectiveness of government measures, we have decided to reinstate guidance. In the past, we have always given precise guidance to the market and have often met or even beaten it.

So we are pleased to be providing you with our outlook for 2021. Along with this new guidance, we updated our core earnings definition to better reflect our recurring performance, in line with the evolution of our business and changes in the macroeconomic environment. Indeed, certain items have become more important in recent years and should now be adjusted so that our core earnings are truly representative of our earning power and better aligned with other financial institutions' definitions.

More particularly, as a result of our numerous acquisition in recent years, including IAS in 2020, the amortization of acquisition-related intangibles is a growing charge that is non representative of our recurring performance. Also, in the current low interest environment, the gap between the rate prescribed by accounting standards for defined benefit pension plan and the expected return on our pension plan assets has widened. An adjustment for this item will better reflect our underlying performance. Jacques will further explain the revised core definition and present our guidance for 2021.

On Slide 6. We will also have the opportunity to discuss it during our investor event to be held on March 10 starting at 9:00 a.m. We look forward to welcoming you virtually to this event.

I will now let Mike comment on business growth. Following Mike's remarks, Jacques will provide more information on our Q4 earnings and financial strength. On that note, I'll pass it over to Mike.

Michael Stickney - iA Financial Corporation Inc. - Executive VP & Chief Growth Officer

Thank you, Denis, and good afternoon, everyone. Business growth during Q4 was robust in almost all business units, and we concluded with a very strong year for sales. Throughout 2020, by leveraging our strengths, that is, the diversification and power of distribution networks, our high-performance digital tools and our competitive and comprehensive product offering, we have achieved very strong sales results quarter-after-quarter despite the pandemic. Please refer to Slide 8 as I comment on Q4 sales results by line of business.

In Individual Insurance, sales totaled nearly \$72 million for the fourth quarter, which constitutes an impressive 40% year-over-year increase. Several factors supported this growth, including the success of our new PAR product and YRT universal Life policy.

Now looking at Group Insurance. With the addition of a large number of new groups, the Employee Plans division also recorded sales significantly higher than the same period last year. In the Dealer Services division, despite shutdowns in some provinces, sales totaled more than \$248 million, up 3% from 2019. Sales in the Special Markets divisions were lower than last year mainly due to the decline in travel insurance.

In our U.S. operations, sales momentum remained good in Individual Insurance, with a 6% increase year-over-year. In the Dealer Services division of our U.S. operations, sales totaled USD 246 million. This is due to both organic growth and the addition of IAS sales. Speaking of IAS, the integration is progressing well, and we are confident that the benefits of synergies between IAS, DAC and iA's corporate services will materialize in 2021.

Now turning to Slide 9 for Individual Wealth Management. Guaranteed product sales continued to be excellent, totaling more than \$247 million. Again, segregated fund sales were very strong, with gross sales of \$883 million, up 39% year-over-year. We are still second in the Canadian industry for gross seg fund sales. In addition, we remain #1 for net sales with more than \$547 million for the quarter, more than double year-over-year.

Moving to mutual funds. Gross sales were up 34% year-over-year to \$760 million. Net sales recorded inflows of more than \$245 million, the strongest result since Q1 2013. This performance was supported by the contribution of our affiliate networks. As a result, the net inflow from seg funds and mutual funds combined was superior to \$2 billion for the year.

Now turning to Group Savings and Retirement sector, where sales were significantly higher than a year earlier due to the signing of new groups with substantial assets.

Finally, direct written premiums in our P&C affiliate, iA Auto and Home, continued their steady growth and increased 13% year-over-year.

Overall, these sales results pushed premiums and deposits up to nearly \$4 billion for the fourth quarter, an increase of 28% year-over-year. As for assets under management and administration, they were favorably driven by net cash inflows and growth of financial markets to increase over the last 12 months by 4%.

To conclude my remarks, I would like to draw your attention to Slide 10, where you can see the full extent of our current sales momentum. Prior to the pandemic, sales results ranged from good to very strong. With the exception of a few sectors more directly affected by shutdowns and despite social distancing and lockdown measures, business growth continued to be strong and even accelerated in almost all our business units. We therefore start 2021 confident that, by continuing to execute our growth strategy and focusing on our strength, sales momentum will continue.

I will now turn it over to Jacques to comment on Q4 earnings and capital strength.

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Thank you, Mike, and good afternoon, everyone. Our good profitability in the fourth quarter ends the year well and demonstrates once again our financial strength and the resilience of our business model.

Starting on Slide 12. Both reported and core EPS were \$1.60 in Q4, which is a solid result, in line with our growth objective.

I would like to draw your attention to the most important items on Slide 13, where you will find the key information regarding profitability for the quarter.

First, as already mentioned, sales for the quarter and for the year were very strong. Therefore, more commission and sales bonuses than expected had to be paid during the quarter. This represents a loss of \$0.08 EPS, and it explains part of the negative result for policyholder experience and strain in Q4. Policyholder experience was also affected by adverse mortality experience, mostly U.S. mortality resulting from the pandemic. On the other hand, morbidity Individual Insurance and long-term disability experience in Group Insurance were both favorable. Also, again this quarter, results were excellent at iA Auto and Home, our P&C subsidiary, with an experienced gain of \$0.11 EPS. Market-related impacts were favorable this quarter, resulting in a \$0.09 EPS gain. As for income on capital, it was slightly above expectations despite a provision for default for the corporate bond in the aerospace sector. On the tax side, an adjustment for prior years result in a gain of \$0.08 EPS.

Two other specific items are noteworthy. First, as explained by Denis, a noncore provision equivalent to \$0.08 EPS was taken to cover nonrecurring measures to support employee well-being. The second specific items relate to software write-downs, resulting in a loss of \$0.04.

Slide 14 presents the contribution of IAS with integration costs and amortization of acquisition-related intangibles. When adjusted for these 2 items, the IAS contribution was \$0.05 in Q4, resulting in a \$0.17 accretion in 2020. Q4 slightly lower results for IAS can be explained by our decision to accelerate the integration. They also take into account a delay in realizing synergies as well as a temporary difference related to certain expenses incurred in the third quarter.

Turning to Slide 15, where you can see that the overall result of our year-end actuarial review and additional risk management initiative was a gain of \$0.04 EPS. As expected, our regular annual review of assumptions resulted in a near-neutral impact. Indeed, favorable investment strategies and accrued investment gains allowed us to offset proactive reserve strengthening for mortality and policyholder behavior as well as a reduction of 15 basis points of the URR.

In addition, as mentioned last quarter, we took advantage of the favorable reinsurance environment to put new reinsurance agreements in place. At the same time, we established additional protections in the reserves to cover some of the potential negative impacts of the pandemic. Slide 16 describes these additional protections which will absorb excess mortality and adverse policyholder behavior during the next years, and as a result, will protect future earnings.

Let's now look at our financial strength on slide 17. Our solvency ratio stands strong at 130%. The 5 percentage point increases during Q4 results from the year-end review and risk management initiatives we just discussed, as well as from organic capital generation. Also, note that our market-related sensitivities have been updated and that the sensitivity of our ratio remains low. For more information, I refer you to Slide [39] (corrected by company after the call) in the appendix of this slide deck. In addition, our distinctive market protection presented on Slide 18 is currently worth more than the equivalent of 10 additional percentage points of solvency ratio. As for potential capital for deployment, it is now at \$425 million.

I will conclude my remarks with our outlook for 2021. As Denis already explained, based on our good performance in 2020 and our strong financial position, we decided to reinstate guidance for 2021. The new targets are based on an updated core earnings definition. Please refer to Slide 19. We will continue to adjust for market-related impacts, assumption changes, management actions and other unusual gain and losses.

In fact, there are 3 changes to our definition that will make our core earnings more representative of our recurring operating performance. First, gain and loss in excess of \$0.04 EPS for policyholder experience, strain, taxes and investment income on capital will no longer be adjusted. Second,

the amortization of acquisition-related intangible assets will be adjusted. The expected adjustment for 2021 detailed by acquisition is presented on Slide 26 in the appendix. Finally, an adjustment related to iA's pension plan will also be made, as explained on Slide 20.

Under the current accounting regime, reported earnings are underestimated as a large portion is recognized only through other comprehensive income. The adjustment will consist of the difference between management expectation of the long-term return and the interest rate prescribed by the accounting standards to our pension plan assets. Based on this updated definition and on what we know today about the pandemic, government measures and their impacts, our guidance for 2021 is the following. Please refer to Slide 21.

We expect to generate core EPS between \$7.60 and \$8.20, the midpoint of which represents an increase of 11% over the 2020 result. Core ROE should be between 12.5% and 14%. Our target for strain is slightly improved, and we expect organic capital generation to remain strong, which explains that we increased the midpoint target to \$300 million. Slide 22 presents a comparison of core earnings using both the old and revised definitions.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tom MacKinnon with BMO Capital Markets.

Tom MacKinnon - BMO Capital Markets Equity Research - MD & Analyst

Just with respect to your 2021 guidance. On Slide 14, you've laid out some good stuff with respect to the IAS acquisition. And I'm wondering if you might be able to share with us what would be the outlook for 2 items on that slide. Really, the expected profit on in-force, excluding integration costs, what you called core basis was \$15.4 million in the quarter. And what the integration costs after tax are in that 2021 guidance as well because they were \$5.7 million in the fourth quarter of 2020. So any color you can shed on that? And then I have a follow-up.

Jacques Potvin - iA Financial Corporation Inc. - EVP, CFO & Chief Actuary

Tom, Jacques speaking. I have 1 number of the 2 handy. The integration expenses will be \$0.10, an impact of \$0.10 EPS that will be noncore. But for the rest, actually, we're showing on that slide that we expect \$0.39 \$0.40 -- between \$0.39, \$0.44. I don't have the specific number for each item there. So you will see, actually, in Q1, when we will provide the rolling 9 and the guidance, those information.

Tom MacKinnon - BMO Capital Markets Equity Research - MD & Analyst

So we just have to kind of work backwards from the \$0.39 to \$0.44 to come up with really what would be the expected profit on the in-force. Is that what we should do there?

Jacques Potvin - iA Financial Corporation Inc. - EVP, CFO & Chief Actuary

I think, yes, that's the best way to approximate it.

Tom MacKinnon - BMO Capital Markets Equity Research - MD & Analyst

I mean, if we had to say, what's the implied growth in 2021 over 2020 for the expected profit in-force, excluding integration costs for IAS?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

One thing that complicated a little bit that, Tom, is the fact that we will have a full year of IAS. This year, we had 7 months and 1 week. So this complicate everything for the whole year. So that's why I prefer not to give too much number here because I don't have them with me. I don't want to tell things that won't be right. But that's certainly, a thing, you have to factor in.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Are you expecting...

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

There will also be seasonality between quarter as well.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Yes. Are you expecting -- I assume there's some seasonality, second and third quarter are better.

Are you expecting -- if we were to look at the fourth quarter of 2021 versus the fourth quarter of 2020, how much would you think the expected profit on in-force be increased, excluding integration costs, embedded in your guidance? Maybe I can just frame it that way.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Well, it's Denis here. Sorry. I think, Tom, I mean, what we've got right now in terms of information is the Slide 14. I think you should work on those numbers to try to, as you said, go back and I mean, go the reverse way to get some of the other numbers. I mean, we don't -- we have not actually the numbers quarter by quarter. And I would suggest that you work backward here.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Okay.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

And maybe the other thing I would say is that when you look at the 11% increase of the guidance, the mid guidance from 1 year to the other, certainly, when we look at it per geography, the U. S. is significantly larger than in Canada.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Okay. And then the second question is, why do you exclude pension costs from your new definition of core? I mean, other companies have defined benefit plans, and they include the cost of those in their definition, of course. So why do you exclude them?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes. Well, okay, it's Denis here. Interestingly, there are not that many in financial institutions that still have a defined benefit pension plan. In fact, I mean, the big banks, and I would say most of the other, I mean the other LifeCos, they used to have some years ago. They basically are in a run-off

mode right now. So they have the offer, DC plan. So it's not something material. My take on this, for those organizations. You've got Intact, that still has one. And if you look at their MD&A, Page 86, you'll find exactly the same adjustment here.

And by the way, I mean, if you look at historically, on Page 20 of the deck, it's pretty clear that a few years ago, I mean, if we had shown the previous years previous to 2019, the difference between the return on the pension plan, the expected return and the accounting return, was probably not that material. But as you can see, it has increased significantly over the last few years. And the 2.7% discount rate that is forced on us by the accounting standards, I mean, does absolutely not represents the expected return that we have in our portfolio of assets backing those type of liabilities.

And the difference between in this example in 2021, for example, 5.3% minus 2.7%, is not recognized at all in the earnings of the organization. So there is an extra cost embedded in our earnings that is only recognized through the OCI. So now it's getting material. So that's why we want to be comparable to what other organizations that do have pension plan. I mean, they do adjust and we just want to be comparable. And Intact is the best example.

Operator

Our next question comes from Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

A few quick ones here. The dividend, I assume your payout ratio, you're basing that against the new definition of core earnings. And if so, in a theoretical world where you were allowed to increase your dividend, would you be doing so today? Or would your preference to do that?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Okay. Well actually yes. Obviously, if the restriction is being lifted, we would be in a position to increase dividend.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

And you're basing your payout ratio target range against this new definition of core earnings?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

It's about the profit, Gabriel, so it's between 25% and 35% of the profit we are making. It's not necessarily related to the core earnings. So for the moment, that's what we intend to do.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

So based on reported?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Yes.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes. Right now, it's still on reported at this point, yes.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Okay. All right. Great. P&C, I think the segment had a phenomenal year, \$80 million almost of pretax, quadrupling what you guided to. I'm thinking it's hard to replicate that performance, but maybe you see otherwise. Let me know.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes. Well, you know what? I mean, results are also good. I think I will let François comment on his incredible results.

François Blais - *iA Financial Corporation Inc. - EVP of Dealer Services & Special Risks*

Yes, for sure. So indeed, the results were quite impressive in 2020, resulting for 2 things. For sure, COVID-impacted behaviors and downward kilometers driven in general. So that has been quite positive. We also took measures about underwriting, probably a few years before the market because these are the market conditions. So I guess is it has put us, in 2020, in the very good position. And we do expect that with the actual lockdowns that we still see, that the results should continue to be pretty good, but probably not to the extent of what happened in the past year.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

So would they be down or flat or what?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Listen, Gabriel. The result that we had was quite exceptional in 2020. And so our guidance is based on a lower return on the iA Auto and Home.

Gabriel Dechaine - *National Bank Financial, Inc., Research Division - Analyst*

Perfect. And then my last question, for the \$33 million of protection against the mortality swings next year, how did you get that? How did you come up with that number? I'm just trying to -- the thought process intrigued me.

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Yes. Actually, Jacques speaking. We look at the loss we had during the year. We also -- when we shopped for reinsurance, we also asked reinsurer to quote and to isolate what they expect for the COVID impact as well. So it provide us also information to make up our mind. We also look at the current trend, okay, there's a couple of strain, the U.K. strain, the South African strain, the spike in cases.

So we did our best to try to come up with what we think will be the additional expected costs coming from the COVID. The good thing though is that provision as well as the one for lapses, those temporary provision, we will provide you full disclosure every quarter. So you will be able to monitor the usage at each quarter and what will remain into them. And we will see at next year-end, and we will reevaluate the situation in regards of the situation.

Operator

Our next question comes from Meny Grauman with Scotiabank.

Meny Grauman - Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst

Just a few questions on the '21 guidance. One, just in terms of the outlook for capital generation. What's driving the increased outlook there in terms of the ability to generate capital up to \$325 million?

Jacques Potvin - iA Financial Corporation Inc. - EVP, CFO & Chief Actuary

Meny, Jacques speaking. Actually, 2 things. The main thing, IAS, we've always mentioned, it's capital-light business compared to the average of our businesses. And also in Individual Insurance, we're selling more PAR product that is less capital-intensive as well. So those are the things, and we have additional profit, growing the profit. So that's why we're really confident to achieve a higher number.

Meny Grauman - Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst

Okay. And then on a similar plane. The new core range of \$7.60 to \$8.20, what kind of assumptions or what needs to happen to get to the higher end of that range? What's driving that? Or what would the difference be to get to that higher end?

Jacques Potvin - iA Financial Corporation Inc. - EVP, CFO & Chief Actuary

I would say quite simply -- Jacques speaking again. Better experience than expected. We know for sure one thing, okay? We will miss the boat on some of them. Some will be better, some would be worse. Some, we will be right on them. But at the end of the day, it will be experience better than expected. That's what will drive the profit.

Meny Grauman - Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst

When you talk about experience, I mean, specifically, the impact of COVID? Or is that sort of a key factor for 2021 in your mind?

Jacques Potvin - iA Financial Corporation Inc. - EVP, CFO & Chief Actuary

Probably. The negative impact with the additional protection we put in place, I'm very comfortable that we will be able to face them. But when we look at the total impact for the year 2020, there has been some other, I would say, positive impacts, some negative impact. As an example, I will use lapses in Individual Insurance, both in Canada and in the U. S., they've been positive overall for the portfolio. And I didn't recognize that in the guidance.

So there are chances that there will be a positive experience on some of them. It could be on economic, it could be on anything. But at the same time, behavior of clients, behavior of distributor may change as well, so it's tough to call. So we are giving you our best shot, and we will see what will happen.

Operator

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

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Maybe, Jacques, I can start with just following up on the comment you just made. And on Page 15, what I wanted to kind of look at was the \$236 million that you boosted related to lapse. And we noticed -- I've noticed it across a lot of the different companies, that lapse experience has been negative and there's been some unusual activity, I guess, during the pandemic.

Can you talk a little bit about why you had to boost lapse experience? I know you've had and the entire group set had take lapse charges over the last 10 years. What is it now? And then can you kind of square that away with your comments that you just made that lapse experience has been positive?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Yes, that's a good question, good observation, Doug. Actually, we conduct our study, and we noticed 2 trends -- 2 tiny trends that we're stocking, but they will just grow over time. So the T20 renewable rate as well as the lapse reported product, ultimate lapse rate. So for the T20, we decided to put that to bed and say, "Okay, let's take the bullet right away and change the assumption."

And about the lapse reported overall for the entire portfolio, what we saw in 2020 is really lower lapse almost everywhere. It's good, okay, for the portfolio. It is good because we have had positive experience almost every quarter last year. But for lapse reported, ultimate rate it's not good. So we decided to recognize all that and adjust the assumption. That's really the mindset behind those strengthening of reserve.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And so you've dealt with both issues, essentially. Is that correct?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Exactly.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And so, we should see, like to your other comment, like going forward, and this isn't recognized in your guidance, is that we should see, as a result of these adjustments for both these products, nil lapse experience or potentially favorable if you've actually padded it extra.

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Yes. Actually, that's what I tried to convey as a message, is that if behavior of clients and distributor is the same during the pandemic continue as it were in 2020, we should expect lapse experience gain. That's really where I'm sitting right now. But on those one, I didn't want to recognize that because I'm not certain if those trend will last. So we will see.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. So you took the pain, but you didn't take the benefit of it.

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Exactly. I'm conservative.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. So that makes a little more sense to me.

Then the second is the reinsurance transaction. Can you talk a bit about what you're giving up on this transaction in terms of earnings going forward? And was there any regulatory capital impact?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Okay. I will answer the last part first. Regulatory capital, it's 4% impact. So close to \$300 million. For the earnings, for sure, I mentioned in Q4, when you do such a deal, you front-end margins, you front-end expected profit, you release capital because you no longer bear the risk. So by itself, if we look on there, the transaction, that's exactly what happened.

However, I tend to look at that with the overall picture of everything, all basis change, management action that's been done by the investment team during 2020, the additional provision we put in place for COVID. And overall, I'm very pleased, there's not that much change in regard of where the margin will flow in the near future or in later years. So that's really the way we look, I look at it overall.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

So there was an earnings that you gave up, but because of all the other adjustments, that kind of offsets that.

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Yes. So the reinsurance, like I said, by itself, okay, it's a very positive, ROE-accretive transaction, because we release 4% of capital, we front-end profit. We won't have that profit that will flow through in future years, but we had a profit. And you saw that on the slide, that \$93 million. So by itself, it's ROE-accretive.

But I want to make sure that the conclusion that is drawn from the people is not to look on there, the transaction, but look at the overall picture of what's been done. Actually, the expected profit, the growth of the EPIF for life insurance won't be jeopardized by all those stuff. It will be good growth for next year.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. So you're not disclosing what the earnings you're giving up?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

No. It's competitive information.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

Okay. I won't tell anybody, but that's fine. I'm just joking. And then just lastly, the \$100 million -- or the \$96 million of additional protection you put aside. Is this a PFAD? Or like how do I think of where to slot that in, and the earnings emergence of this?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

The way I see them, okay, it's really expected additional losses that we expect for the next few years coming from COVID. They're a small part of margin, but it's mainly expected, additional costs we expect to have in the future coming from COVID.

Doug Young - *Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst*

And there's no sense of how this gets released, it's really subjected to how, your annual review of it, then?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

No. Actually, like I said earlier, I really intend there would be a slide every quarter. You will see those provisions evolve quarter-by-quarter. So you will see the use at each quarter. Let's say that mortality, if we go on slide, I believe, it's Slide 16, we put \$0.09 for Q1 of mortality. Let's say that we use only \$0.05, I intend to carry forward what is not used. So it means that in Q2, we will have \$0.11 to face mortality. If we have, let's say, \$0.15 of mortality in Q2. I would deplete completely that margin and there will be a \$0.04 loss. That's really the way it will work.

And if ever there is still a reserve at the end of the year, I will look at the situation about the world, the vaccines, what the situation and the time, and we'll decide if we keep that provision, if we have to add to it or if we have to remove it.

Operator

Our next question comes from Mario Mendonca with TD Securities.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

If we could go to Page 45 of your presentation, where you referred to the strong growth in Individual Life sales in Canada. The 40% growth obviously stands out. And the skeptic in me says be careful when you see insurance sales of that magnitude in a mature industry like life insurance. So let me understand, of the \$71.7 million, how much of that is the new YRT and whole life product?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

I think Mario, it's Denis here. We'll leave Renée to answer the question. But it's a fair question. And I've said that in the past myself, that if sales are too important sometimes, and I have seen companies being very, very aggressive and getting big sales. That is not our case here. And Renée will explain to you why is it that we were able to generate such a loss without jeopardizing our profit margin.

Renée Laflamme - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

Yes. Thanks, Denis. It's a great question. We've experienced great success. Of course, the 2 new products are part of that success. We have made some projection of our anticipation of how much of those new projects we would sell. But the biggest success is really the performance of our different networks. So our different distribution networks have performed differently during the year. And in the third -- in the fourth quarter, all distribution networks really carried through and made significant growth.

On top of this, I have to say that our EVO tool and all our digital tool have been a high competitive advantage. And once you get advisors starting to use a tool and being acquainted to it and liking it more and more, then there is a stickiness to the advisors using iA. And we do have a growth of number of advisors having first year, new commission this year. So really a combination of all things, not necessarily only the 2 new products.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

So Mario, to conclude, we don't need to be #1 in price to generate such a growth.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Can you talk about how much of the \$71.7 million relates to the YRT and the whole life product? Sorry, the -- yes, the whole life product.

Renée Laflamme - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

Yes. We don't necessarily give the details of the product mix in detail. But as you may imagine, it's been more popular than the longer-term guaranteed product.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Okay. And is there something different about your YRT or your participating product from what's already in the marketplace? Is there any distinctive features to it?

Renée Laflamme - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

Well, those products are fairly complex, to say one thing. So each and every one of the advisors and MGAs and distribution network do their analysis, and they would favor or prefer different features. In our specific case, our product is really tailored to our target market, which is the mass and the mid-market and getting up in the mid-market. So I believe that in the market that we're looking for, looking at and that we're aiming at, we certainly have some competitive advantage.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Okay. And maybe going back to Jacques for a moment. Going forward, when you have -- let's say you have excess mortality related to COVID or what have you, that experience loss, of course, will now be part of your core earnings, as you expressed to us. But that will then be offset by the release of the reserve. So on a net basis, negative mortality experience that you would connect with COVID then wouldn't have an effect on your core earnings. Is that correct?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

That's correct, Mario. Yes, that's correct. But the thing is that we expect to have that extra mortality. So that's a starting point. But you're totally correct.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes. And I would add, Mario, in 2021, up to \$0.24. So I mean, it's like if the balance sheet can absorb up to \$0.24 COVID claims. If it's above that, there's an experience loss. If it's below that, then Jacques will need to decide what to do, what he does with the extra provision.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Now there was a reference in your presentation to having reserves for up to 5 years. Maybe I misunderstood that. What was that referenced to 5 years then, of protection against [excess]?

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Okay. If you look, and mortality is a good example. We're saying \$0.24 in 2021. So it's fraction. The bulk of the total reserve we put for COVID are for 2021. But we expect for mortality and lapse that there will be effect for as long as for 5 years. So there would be a declining reserve for other years as well.

Operator

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

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Just want to ask for some help on expected profit growth in the Individual Insurance business. And asking for 2 reasons. One is, obviously, it's a major contributor of earnings; but two, just given all the moving pieces we've already talked about on this call, the strong sales in 2020, the reinsurance agreement, the extra reserving you've added. To me, it's still -- it looks like 2021 should probably be an above-average year for expected profit growth, but maybe you can give us a little help there.

Jacques Potvin - *iA Financial Corporation Inc. - EVP, CFO & Chief Actuary*

Okay. Jacques speaking. Paul, a really good question. Actually, I will expect it to be higher than 2020. If you recall, 2020 we had PPI, was a drag on the expected profit growth of Individual Insurance. We don't have that drag certainly for 2021, which is great. So it would be a good year. I don't have the number here, but it will be a good year. You will see that in Q1.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

That's helpful. And then my second question relates to IAS. And I guess it is something from some of the challenges we've had modeling that business and more as a new contributor to earnings. One of the metrics that I'm tracking is U. S. light vehicle sales, which have been down year-over-year in recent months, but not down a lot and actually coming in better than consensus expectations.

So I guess 2 questions related to that. One is do you set your expected profit assumptions around forecast for U.S. light vehicle sales? And two, is that a good benchmark for us to track to get a sense of where that business may be trending?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes. It's Denis here. Certainly, the car sales are an important indicator, new car sales. But you also need to look at used. I think I'm going to let Mike describe a bit his outlook of the car sales in North America.

Michael Stickney - *iA Financial Corporation Inc. - Executive VP & Chief Growth Officer*

Yes. Thanks, Denis. So I guess, to your first question, do we use the sales, car sales data to sort of help with our planning? The answer is yes. But the reality is it's just one component. There's other things we're going to look at in terms of our plans, marketing plans and all that kind of stuff.

And you're right that the car sales in the U. S., they finished the year down 10% -- finished 2020 down 10% for the year, but they've been trending up the last 2 quarters. The fourth quarter actually was plus 1%. So that is good, let's say, a bit of a recovery, I guess. And I'm optimistic that sort of trend is going to continue in 2021 as the vaccines are rolling out in the U. S.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Maybe the one thing that I would add, and it's Denis here. I mean, car dealers are entrepreneur. And we've seen in the past that when sales go down, they obviously, the F&I's office is also a source of profit for them. So I mean, it's not, I mean, obviously, the car sales are an indicator, but also the fact that the penetration rate of the products is also a very important one. And car dealers are trying to protect their profit margin by increasing penetration rate during, let's say, a time when car sales are down. That's another factor that seems to mitigate any, let's say, negative impact on sales.

Michael Stickney - *iA Financial Corporation Inc. - Executive VP & Chief Growth Officer*

Yes. That was a strong trend we saw in the 2007 to 2020 -- 2010 rather, recession. That the penetration rates went up during that period just for the reason Denis described. The dealers had to make a living.

Operator

(Operator Instructions) We have a question from Scott Chan with Canaccord Genuity.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

Maybe just going back to wealth management and just the solid net sales that we saw in seg funds and mutual funds. Like how much did that relate to kind of the industry, the improvement in the industry flows that we've been seeing? And how much of that, particularly with seg funds related to kind of the COVID environment?

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Yes. I think I'm going to ask Renée to go first and then Sean second.

Renée Laflamme - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

Yes. Thank you, Denis. As it relates to the seg funds, it's difficult to say what comes from pandemic, what comes from the market. We've been #1 in net sales for so many years, and we've gone from #3 to #2 now in terms of gross sales. Obviously, there's a lot more money, a lot more savings that individuals have, and they invest that money.

As I said with the life insurance or Individual Insurance as well and the contribution of our distribution networks, it's the same distribution network. So they all have performed very well during the year, and this last quarter was also very significant.

So difficult to answer specifically your question. There's a bit of a trend in the market. There's a bit of the effect of the pandemic. But there's also a lot that has to do with our distribution network. Our own success in the past that is fueling this success this year. As well as the digital tools for our advisors for seg funds business.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

Can you just elaborate on the digital tools comment?

Renée Laflamme - *iA Financial Corporation Inc. - Executive VP of Individual Insurance, Savings & Retirement*

Yes. Actually, if an advisor can open a new contract and do subsequent contribution to the account. And that can all be done fully online, fully digitized. If it's a new contract, in less than 9 minutes; and if it's a subsequent deposit, almost instantaneously. So that really sets us apart in terms of the experience for the advisors. All of that linked with Fundserv, which is the industry system to flow to the MGA.

Does that answer your question? Yes.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

It does. Yes.

Sean O'Brien - *iA Financial Corporation Inc. - EVP of Wealth Management*

Yes. And this is Sean, just to touch on the Clarington side. I mean, we saw a gradual return in sales sort of pre-pandemic, when there was the beginning of a trend. The pandemic sort of quarter obviously threw some disruption into it. But in Q4, the markets are obviously strong. So it's like Renée said, it's hard to differentiate specifically what the difference was. But we're definitely feeling the work we're putting in, the affiliates and also kind of refreshing our shelf on funds is, definitely, that work is starting to pay off. So we got a good outlook on it.

Operator

Mr. Ricard, there are no further questions at this time, please continue with your presentation or closing remarks.

Denis Ricard - *iA Financial Corporation Inc. - President and CEO*

Thanks a lot. At some point during the call, I was a bit desperate that we had questions about sales, because they were so good, that I expected to get some. And we had some questions on the sales side. Amazing sales during the quarter, and the momentum is great for 2021.

I think one takeaway of our results this quarter is the many layers of protections that we were having on our balance sheet to withstand any unfavorable situation in 2021. The URR, we've adjusted the URR down in advance of the CIA 2021 requirements. As was mentioned in the call, we've basically proactively provisioned for an extra pandemic uncertainty with some conservatism in that.

Our capital ratio is very, very strong. So we are in a very good situation to withstand any unfavorable situation, and then we're ready to grow. So that would be my ending remarks. Thanks a lot.

Operator

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

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