REFINITIV STREETEVENTS

EDITED TRANSCRIPT

IAG.TO - Q1 2021 iA Financial Corporation Inc Earnings Call

EVENT DATE/TIME: MAY 06, 2021 / 3:30PM GMT

REFINITIV

CORPORATE PARTICIPANTS

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

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

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

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

Renée Laflamme *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

PRESENTATION

Operator

Greetings, and welcome to the Industrial Alliance First Quarter Earnings Results Conference call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, May 6, 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*

Good morning, and welcome to our first quarter conference call. All our Q1 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. The conference call is open to the financial community, the media and the public. I remind you that the question period is reserved for financial analysts.

A recording of this call will be available for 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 & CEO*

Thank you, Marie-Annick. Good morning, everyone, and thank you for joining us on the call today. As usual, I will start by introducing 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; Renee Laflamme, in charge of Individual Insurance and Annuities; Sean O'Brien, responsible for our mutual fund business and Wealth Management distribution affiliates; Francois Blais, in charge of our Dealer Services, special markets and iA auto and home; and Eric Jobin, responsible of our group businesses.

iA Financial Group has had an excellent start to the year, as can be seen in our solid results disclosed earlier this morning. All our business lines performed well, delivering strong sales and earnings. The KPIs shown on Slide 4 are a good reflection of our Q1 performance. Core EPS and core ROE are 2 important profitability measures for which we provide guidance to the market.

At the end of the first quarter, these 2 metrics were at the top half of our guidance, which is a very good result. Core EPS was $1.70 per share, up 20% year over year, and core ROE for the last 12 months was 13.6%. Sales were also excellent. Premiums and deposits increased by a strong 25% year over year to $4.4 billion, and AUA/AUM of more than $201 billion increased by 15% over the last 12 months. Our solvency ratio is solid at 128% and is further enhanced by our distinctive market protection, which amounts to an additional 8 percentage points. Finally, our book value increased by 3% quarter over quarter and by 9% year over year.

Now to Slide 5, which illustrates the power of our diversified business mix. Those of you who attended our investor event in March will recognize this triangle. It is an overview of our business mix based on 3 broad categories: Foundation, Support and Expansion. Foundation businesses, namely Individual Insurance, Individual Wealth and Dealer Services in Canada are those in which iA is well-established and where we already have a leadership position.

In Q1, sales were strong in these businesses. In particular, Individual Insurance and Wealth sales were outstanding. Individual Insurance sales carried on their momentum to increase by 29% over last year, while we set new records for seg fund and mutual fund sales, with net inflows exceeding $1.3 billion.

As for Dealer Services, we observed a recovery in sales and, more importantly, the sector recorded a $0.05 EPS gain during Q1 thanks to favorable experience from P&C products and car loans.

Our Support businesses deliver synergies and competitive advantages to other iA businesses, while simultaneously supporting the attainment of our ROE target. These businesses also performed well in Q1, with sales up more than 50% in the Employee Plans division, and again, very favorable experience for our P&C subsidiary, iA Auto and Home.

Finally, our Expansion businesses, which are our distinctive businesses with high-growth potential, include our retail distribution businesses and our U.S. operations. On the distribution side, contribution from both insurance and wealth distribution affiliates was better than expected. We're also very pleased with both U.S. divisions, as Individual Life reported good results in line with expectations and Dealer Services recorded sales and profit above expectations. This suggests that we are beginning to reap the benefits of the IAS acquisition.

With these very positive results, we are well-positioned to continue our growth towards the targets presented earlier this year at our investor event. At the same time, we will, of course, continue to be present and supportive of our clients, employees and communities as they face the challenges of the current dynamic. It is in this period that we recently announced our participation, along with other companies, in the vaccination effort.

I will now let Mike comment further on business growth. And following Mike's remarks, Jacques will provide more information on our Q1 earnings and financial strength. We'll pass it over to Mike.

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

Thank you, Denis, and good morning, everyone. As you heard in Denis's comments, we started the year strong in terms of business growth. All lines of business, in fact, delivered good sales performances in the first quarter. In particular, the Individual Insurance and Individual Wealth Management sector stood out. I also want to highlight the very good results of U.S. Dealer Services.

Now please refer to Slide 7, as I will comment on Q1 sales results by line of business. In Individual Insurance, sales exceeded $58 million during the first quarter, a notable 29% year-over-year increase. The combination of 3 factors supported this growth: our enhanced product offering, the strength of our distribution networks, and the excellent performance of our digital tools.

Now looking at Group Insurance. With the addition of several new groups, the Employee Plans division also recorded sales significantly higher than for the same period last year, up 53%. In Dealer Services Canada, sales were up 3% from 2020, mainly driven by car loan originations and P&C sales. In the Special Markets divisions, sales were lower than last year, mainly due to the decline in travel insurance as sales of other products were generally good. In our U.S. operations, sales momentum remained good in Individual Insurance, with a 6% increase year over year.

As for the Dealer Services division of our U.S. operations, sales totaled USD233 million. This significant increase of 99% year over year was supported by the addition of IAS Sales, along with the enrollment of several new dealer groups. Speaking of IAS, the integration is progressing well, and the synergies between IAS and DAC are starting to pay off as demonstrated by our good sales results.

Now turning to Slide 8 for Individual Wealth Management. Guaranteed product sales continued to be excellent, totaling more than $228 million. Looking at segregated funds, we are now #1 in both gross and net sales. Gross segregated fund sales exceeded $1.3 billion, up 58% year over year. Net sales were more than $972 million for the quarter, more than double on a year-over-year basis. As with Individual Insurance sales, our distribution networks and superior digital tools have been key to the success of our segregated fund sales.

Moving to Mutual Funds, gross sales were up 36% year over year to nearly $942 million. Net sales recorded solid inflows of nearly $378 million. This performance was supported by the contribution of all distribution networks.

As a result, gross and net sales for both segregated and mutual funds recorded record high results during the quarter. In Group Savings and Retirement, sales were also higher than a year earlier due to the signing of new groups with substantial assets. Finally, direct written premium in our P&C affiliate, iA Auto and home, continued their steady growth and increased 14% year over year.

Overall, our excellent sales results led to an increase of premiums and deposits to over $4.4 billion at the end of the first quarter. As for assets under management and administration, the growth of the financial markets and solid net inflows of fund resulted in a 15% increase over the last 12 months.

In conclusion, I would like to draw your attention to Slide 9, which shows our premiums and deposits for the first quarter over the last 5 years. The amount of premiums and deposits is a key indicator of our success in growing our business. The 5-year CAGR of 18% and the year-over-year growth of 25% speaks volumes about our continued sales growth momentum.

I will now turn it over to Jacques to comment on Q1 earnings and capital strength.

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

Thank you, Mike, and good morning, everyone. All our business lines contributed to our good profitability in the first quarter. As shown on Slide 11, overall, our results compare favourably with guidance. Both core EPS at $1.79 and core ROE at 13.6% were in the top half of our guidance. Ongoing organic capital generation was strong at about $90 million. The only deviation from guidance was taxes, which I will explain further in the next few minutes.

Slide 12 presents the reconciliation of core earnings with reported earnings. A few things are worth mentioning here. First, and not surprisingly, market-related impacts were somewhat favourable. The other three adjustments, namely IAS integration costs, amortization of acquisition-related intangible assets, and noncore pension expense were all very close to expectations, with only a $0.01 difference for integration costs.

Before continuing with the presentation of the results, I want to draw your attention to some additional information now included in our documents. Following the revision of our core earnings definition, we have decided to include some additional information in the financial information package. For example, the main experienced gains and losses and other items of note are now disclosed in EPS, but also in million dollar pre- and post-tax.

Now moving to Slide 13, where our Q1 results are presented on a core SOE basis. First, expected profit of $216.5 million is up 11.6% year over year, which clearly demonstrates the pace of our growing earning power. Overall, policyholder experience, which is further detailed on Slide 21 in the appendices, was slightly above expectation with a $0.01 EPS gain. Both the Dealer Services divisions in Canada and in the U.S. reported results above expectations.

In Canada, P&C experience was favourable, and car loans generated again as we observe favourable car loan credit experience. In the U.S., a $0.04 EPS gain was mainly driven by favourable claims and strong sales. These favourable items were mostly offset by higher expenses and, to a lesser extent, by higher mortality in the employee plan division. At 5% of sales, strain was within guidance but slightly higher than expected, resulting in a $0.01 EPS loss.

Income on capital was much higher than expected in Q1, resulting in a $0.09 EPS gain. In addition to higher investment income on surplus, this gain was mostly due to very favourable experience at IAAH, as claim ratios for both auto and home insurance were more favourable than expected. However, income taxes were higher than expected, resulting in a $0.09 EPS loss. This is mainly explained by higher taxation from the company status as a multinational insurer due to market-related variations, essentially raising interest rates. Other smaller deviation, such as the negative impact of the decrease in the value of real estate, also explain this result.

All in all, these items of note offset each other and, when considered as a whole, with the impacts outlined on Slide 13, resulting core EPS of $1.79 is above the middle of our guidance.

Turning to Slide 14, where you will find an update regarding our additional protections in reserve for pandemic uncertainty. For Q1, we expected the additional mortality related to the pandemic to be equivalent to $0.09 EPS. In practice, excess mortality was lower than expected and represent $0.07 EPS. The additional mortality experience has been fully absorbed by the additional protection set aside for the first quarter, and the remaining amount will be retained in the provision for possible use in future quarters.

As for adverse policyholder behavior, no adverse experience was recorded during the quarter. Therefore, the additional protection remained intact and will also be kept for potential use in future quarters.

Let's now look at our financial strength on Slide 15. Our solvency ratio continues to be robust, with a very healthy capital ratio of 128%. Its slight decrease during the first quarter is the result of market-related variations, mainly higher interest rates. The recent rise in long-term interest rate has had short-term unwanted impacts, such as the decrease in the solvency ratio. However, rising interest rates are good news and will be beneficial in the longer-term in several ways, including an immediate impact of reducing URR sensitivity.

The decrease of the solvency ratio resulting from market variation was partially offset by organic capital generation. Indeed, organic capital generation continued to be strong in Q1 as we generated $90 million. In addition, our distinctive market protection presented on Slide 16 is currently worth more than the equivalent of 8 additional percentage points of solvency ratio. I will conclude my remarks by underlining that the first quarter results are positive and are a very good start for the year.

Operator, we will now take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Meny Grauman with Scotiabank.

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

Capital generation this quarter of $90 million was very strong and puts you on track to be quite a bit above the target on an annualized basis. I'm just wondering if there's anything there that's unusually pushing that number up. And then, if I look forward, is it reasonable to assume that you could keep a stronger pace going through the rest of the year in terms of generating capital?

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

Thank you, Meny, Jacques speaking. It's a pretty good result. I'd still keep the guidance we provided when we tabled our results in February. Q1, we had very strong net sales in both seg funds, which is now the large percentage is low guarantee product, also on the mutual funds. So I would say that probably the capital required to support the new business in Q1 is probably smaller than other quarters. So that's why I prefer to sit on the conservative side here and not create too much expectation.

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

And then, another question is related to the Dealer Services business, good results, but we're hearing a lot about chip shortages in the auto market. I'm wondering if you expect that to have an impact on volumes there. Are you seeing anything in your business that is likely to slow things down because of that, or any other factor?

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

I think I'm going to let Mike answer that question.

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

Sure. Thanks, Denis. Yes, it's in the news a lot. And basically, obviously, we had a pretty good first quarter, indications so far that car sales are going to be pretty strong in the second quarter. So I think we expect to see that trend continue. But into the second half, I do think that we will end up facing some headwinds because of the chip shortage and car inventories. And I guess what we're hearing from industry sources is that they're also expecting a recovery in 2022 in terms of the chip shortage catching up and inventories sort of getting back to normal sometime in 2022. But yes, definitely, we're going to face some headwinds in the second half of the year.

Operator

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

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

So yes, maybe start or continue with that discussion, like the decent experience in the U.S. Dealer Services, so IAS and DAC, can you talk a bit about what drove that experience gain?

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

We had 2 things, I would say, strong sales in the first quarter; and secondly, we're starting to feel the impact of integrating DAC and IAS, and that's having a positive impact, as well. Jacques, you may have some other things you want to add.

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

Maybe small lower expenses on the operations side, as well. And synergies are starting to play, as well.

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

And then, Jacques, just looking at the equity buffer that's built into your reserves that are backing liabilities; and I guess I understand the corridor approach and all of that. But it looks like the threshold increased quarter-over-quarter, and maybe my mind is a little fuzzy, but why would the threshold have increased so much quarter-over-quarter?

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

Doug, I want to make sure, when you see the threshold, could you be more precise and tell me which number you're looking at?

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

Yes. So Slide 29, and it's 14,200 points versus 12,800 points. So it's the amount of decline that you would have to have in the market before you would have to strengthen your provisions for policyholder benefits. And if it's easier, we could take it offline, but that was just one I had missed.

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

Yes. I would say it's normal movement of the market. Business is evolving, as well. So I didn't pay that much attention to that one because, for me, that variation is quite normal with the market movement.

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

But there wasn't any release of those reserves?

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

Not at all.

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

And then, just Individual Insurance sales, again, strong. Can you provide us how much came from PAR? I'd be curious to see how much of that growth came from PAR. I know, historically, you haven't disclosed the different segments, but it would be interesting to kind of understand that.

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

Renée?

Renée Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

This is Renée speaking. Thanks, Doug. Yes, as you said, we actually don't disclose the proportion of business coming from which product. Keep in mind that we launched 2 products in 2020, a UL YRT as well as our PAR business. And truly, it's a combination of those new products with the distribution networks, all of them contributing to the growth and the digital tools that are performing very well and that we continue to invest on. So it really is a combination of different things. So I guess that's the best information I can get at this point.

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

The one thing that I would like to add, Renée, is the fact that we remain very disciplined in our pricing of products. So, I mean, for sure, we are not buying the market as we speak. It's more that we strategically have invested in distribution, digital, and also have better products.

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

And so if we backed out PAR, would you still have sales growth?

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

The answer is yes.

Renée Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

This is a great indirect question. Yes.

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

And then just maybe lastly, and Jacques, quick, was there any negative lapse experience in the quarter? I didn't see any. And it didn't feel like there was, but I just wanted to confirm that.

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

No. In fact, pretty in line; a little bit, I would say, a little bit negative, but pretty much in line. And one thing that we noticed is, last year, you will recall that policyholder behavior were favourable. We were having less lapse in the early duration of policies, and it was really positive things. In the first quarter, what we have observed is really that it came back to pre-COVID behavior from policyholders, so no gain coming from that part.

And Doug, I can come back on your first question you asked. The way you asked the question in regard of provision, have we released provision, the reality is no. But there's something with the stock protection that happens during that quarter that has not happen since its inception. And it's important. It's something a little bit complicated. But that stock protection usually will vary with the stock market performance. And that's what has happened since its inception in 2005.

And you will remember that, since that time, we have diversified our portfolio of assets, and the proxy we're providing is no longer as, I would say, correlated with our real exposure because we have private equity. We have stock options there.

However, this quarter, with the huge increase in interest rate that we had, it has an impact on our entire provision backing long-term liabilities. And like I said, it has not happened in the 100 previous quarter. So this is what happened. So it's not that our provision has been decreased. It's more, I would say, a movement. Some protection have been moved to protect for interest rate movement instead of stock market. That's really the way to look at it right now. So there is no reduction in overall protection for the life insurance.

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*

A few questions. First one is with respect to the auto loan book. And I remember, a year ago, you created some credit reserves there, additional credit reserves. And I can't recall if you have anything left in that bucket. And I guess the reason I'm asking is, if credit broadly continues to trend better than expected, including in auto loans, is there something still left that might come back into earnings and into book value?

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

It's Jacques speaking. I would say most of it has not been used, actually. In reality, for this quarter, there was $1.5 million less in provision compared to the previous quarter. And it's not because we have reduced the conservatism here. It's really the fact that we have less clients that are in a deferral situation, and we have less car repossess.

So a slight part of the provision taken last year has been released. And we still continue to maintain it because it will come probably in Q2. We will see most of the clients for which we provided deferral will have to start to repay. So we'll continue to follow the experience there, but we are very pleased with the credit experience.

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

So basically, the story is perhaps there's a chance that, if the credit experience as those deferrals roll off in the next couple of quarters, that we'll get a truer sense of what the right provisioning level is?

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

Exactly, yes.

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

And then, I was also hoping to get an update on PPI, right, an acquisition you made and subsequently had to write-down the goodwill associated on that. I'm just wondering if that division is performing better now, along with the strong Individual Insurance sales for IA broadly?

Renée Laflamme - *iA Financial Corporation Inc. - EVP, Individual Insurance, Savings & Retirement*

PPI is performing very well, as planned, and as an independent MGA is contributing to the growth of IA, as well. So we're very pleased. Things are moving along very well. And we've regained everything that during the pandemic. All MGAs had some struggles at one point. But we're now back with the business, as I said, in line with the plan, both in the broad market as well as in the higher end market. So I'm pleased with the PPI at this time.

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

Maybe the one thing I would add at this point is that one of the strategic rationale also of PPI was to make some synergies between our businesses. And so we are using PPI as an MGA for some of our affiliates on the Wealth side, as well.

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

And last question I have for you is with respect to IA Auto and home. And so, if I look at Slide 23 of your deck, you're expecting now a quarterly run rate of $13 million a year. I think that's substantially higher than the last update I saw, if I remember correctly. So maybe you can comment on your outlook there through 2021.

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

Really great question. Actually, for a couple of years, we've been in very positive territory with iA Auto and Home following the market, and we're very pleased with the pre-pricing we've done, I would say, 2, 3 years ago. You will remember certainly that period. So we felt very comfortable expecting profit at this level for this year, but it's a short-term business, and price changes may come along the way. So we will see how it will go. But the Q1 results just proved that it's still very, very good experience on that business.

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

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

Clarification on IAS. And Mike, thanks for the guidance there. But I just want to kind of parse the commentary a bit in terms of what to expect vis-a-vis the $0.39 to $0.44 of accretion this year. It sounds like first half might be trending better than what you'd anticipated, second half weaker. When you bake that cake, do you still end up in that range? Or do we fall short of it, or what?

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

Gabriel, Jacques speaking. I would say yes. I would say that's the way to look at it, because Q1 certainly is more positive, really great gain there. And like Mike mentioned, we'll see what will happen in the second half of the year with that chip shortage. But we have to make sure to recognize also we are in the used car business, but certainly the new car business would be affected.

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

Right. So what are you saying about the $0.39 to $0.44? We just got that for the last quarter.

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

I would say for the year, Gabriel, I would say we continue with the guidance that we have. So that's the best indication we can provide.

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

Yes. Gabriel, we're still confident that we can hit that target.

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

The tax rate was high this quarter. You spelled out what was behind that. But it doesn't sound like a one-time item. You see those from time to time. Just wondering, are we at a newer level now for tax rate because you're 20% to 22%, I believe, guidance would be affected by that?

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

Yes, Gabriel, that's a good point. I will expect to be at the high end, unfortunately, of the range on the tax side for the remainder of the year because of that effect, yes.

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

And then lastly, I saw good growth across all segments, except for Individual Insurance. And I'm wondering, the core was down 5% year over year. There's some expense items. I mean, is this going to be a year or maybe more where growth at IAG's driven more by auto-related businesses, Wealth, lower capital intensity stuff, which is great, but the Individual Insurance might seem like more of a drag these days.

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

Gabriel, the negative comes mainly from tax because, when I look at the expected profit on in-force growth, it's quite interesting how it goes. And of course, we had some experience loss coming from expenses, and there was a provision for default. But I think really pretty good growth for insurance.

Operator

Our next question comes from Tom Mackinnon with BMO Capital Markets.

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

Just some questions with respect to Slide 21, where you talk about policyholder experience. The first is really just on that U.S. operations and the $0.05 there. And I think you spelled out that you had better (inaudible) in IAS, and that was driven by strong sales and better integration and some lower expenses and better synergies.

So the first question related to that is the sales were actually down quarter-over-quarter. And if we look at the last 3 quarters, the U.S. Dealer Services sales, where the first quarter of 2021 was the lowest that we've had in the last 3 quarters, maybe there's seasonality there. What made this number in the quarter be better than expected to you? And how much of that $0.05 was driven by better-than-anticipated sales?

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

Tom, Jacques speaking. One thing I forgot to mention earlier is claim also. Claim experience was better than expected. It also help there. And for sure, there's seasonality into the number, into the different quarter. So really, what you should look at is really this is, a gain, compared to what we expect for that quarter. So that's the way to say it. So it's strong sales, less operating expenses, and better claims. So that's really what explains that profit.

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

Okay. So of those things, maybe the sales may not be as strong, going forward, but you're still going to have -- I mean, if you got the synergies put into place, that should continue to result in more favorable experience gains, going forward, for this line. Is that correct?

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

Tom, I prefer to say that we still believe in our expected profit. And if we were right every way in every line of business, every quarter, there won't be any gain and loss. So our best estimate that we still believe in that. We are very pleased with the fact sales are stronger. Certainly, it will add. But like Mike mentioned, there's a chip inventory maybe issue coming down along the road. So I would say, (inaudible) to say, work with our guidance.

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

And then the second question is with respect to that same slide where you talk about Individual Insurance, and it has a $0.06 hit. This is outside of all that reserve thing you set up. Is that correct? So what is driving the $0.06 hit in Individual Insurance?

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

Yes, it's really expenses. Expenses have been a negative factor for many lines of business, and it's coming from 2 things. We capitalize less IT development, so we spent a little bit more on the run for IT and some maintain project instead of a big transformational capitalized project.

And the second is in regard of our employee benefit. Actually, our people, our employees, they took less vacation than in normal years because of the COVID situation. And our internal policy is we pay above a threshold when the employee have too many days of vacation. And we took the provision because this year we will pay more for the fact that those people didn't take their vacation. So those are the 2 things for the expenses, and it accounts for half of that $0.06. And the other item is we took a provision for default on an asset. It's the other 2%. The other is 1%, is many different things.

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

So in a nutshell, I mean, most of the $0.06 is nonrecurring.

Operator

Our next question comes from Mario Mendonca with TD Securities.

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

Good afternoon. Perhaps for Jacques, you could help me think through this. In expected profit, I was just looking at some of the trends in the various lines of business. The one that stands out for me is Individual Wealth Management. Year-over-year, the expected profit is roughly, let's call it, 2% greater than it was last year. And just given the move we've seen in the markets and the very strong flows, I would have expected that business to show a lot greater strength in Individual Wealth Management, or expected profit. Is there some mechanism that I'm missing that would explain that?

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

That's a good observation, Mario. I would say that the sale of IAIC, okay, that was contributing last year. That is not contributing this year. And also, you're right saying that market movement have been very different.

So if we recall last year, the first quarter expected profit was pre-crisis based on year-end 2019 number, which were pretty high before the crisis. So that's also contribute to the first quarter.

When we look at the overall for the year, we are more in the range of close to 10% for that line of business. So that's really what happened, the two items.

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

Would I be correct in suggesting that next quarter's expected profit will be based on the quarter-end Q1 market levels?

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

Exactly, yes.

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

And then, a sort of related question is in Group Life and Health. That also took a pretty -- this is expected profit again -- dropped meaningfully sequentially. Can you help me understand what's going on there?

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

Yes. That's purely, purely seasonality here. When I look at that myself, I was surprised when I saw such a big thing. But when I looked at the experience loss of Q1 last year, I understood what our people have done. Actually, they wanted to reflect more the seasonality for that business.

And one of the information I can provide is for the remainder of the year for that division, the growth will be around, the expected profit on in-force growth would be around 9%. So it's purely seasonality.

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

For the remainder of the year, not on a full year basis.

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

Sorry, for the full year basis, including that Q1.

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 & CEO*

Thanks a lot. I guess it's been a very, very good quarter. As you've seen, sales momentum is incredible right now, very, very good.

The one thing that I think is important just to remind everyone is that, for iA, an increasing interest rate environment is very, very positive. When you look at it mid- to long-term, there may be some noise, I mean, from quarter-to-quarter. But long term, this is very positive, as you can see, if you just use the KPI of the URR.

The third thing I would mention is the fact that, all in, when you forget all the adjustments, like book value is up 3% quarter on quarter and 9% year over year, which is very, very strong.

And lastly, I just want to go back to IAS. We're very proud as to where we are today. We are confident on our objectives. And also the fact that, even though there is some headwind on the new car side because of microchip for a few quarters, like this year, we believe also there are some tailwinds. Like the used car business is quite strong. The value is there, which also is adding to the good experience that we had so far. So there's a lot of positive that we can see on the IAS side as we speak.

So with that said, I would also encourage everyone to get vaccinated because we're all tired of this pandemic, and we would like to go back to something more normal. So thanks a lot, guys.

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.
