
The President of Industrial Alliance Shares Some Reflections on the Financial Crisis at the Company's Annual General Meeting

QUEBEC CITY, May 6 /CNW Telbec/ - Yvon Charest, President and CEO of Industrial Alliance Insurance and Financial Services Inc., shared some personal reflections on the current financial crisis at the company's annual general meeting. After discussing characteristics of the crisis that most impressed him, Mr. Charest proposed a number of ways for public authorities to envisage solutions for preventing a similar crisis.

Characteristics of the crisis

Without attempting to make an exhaustive analysis of the crisis, Mr. Charest nevertheless gave some overall impressions by presenting some of the main characteristics of the crisis. In his opinion, the crisis has several unique characteristics:

- **A value crisis** - The crisis underwent several transformations: it started as a traditional bubble in the United States real estate market, transformed into a financial crisis, metamorphosed into an economic crisis, and became, in certain respects, a value crisis. As such, it caused us to call into question our beliefs, our doctrines and our ways of doing things.

- **A baby boomer crisis** - The crisis was man-made: it's the result of recent financial inventions and public policies set up over the past few decades, with our support in many cases. It's the crisis of a generation, that of the baby boomers.

- **An unpredictable crisis** - The crisis was, to a certain point, unpredictable: the majority of experts and qualified leaders, including those in charge of the economy, didn't see it coming, even if all the ingredients that led to the crisis were set into place under their very eyes.

- **The first globalization crisis** - The crisis is the first of the globalization era: it covers the entire planet and shows that globalization, despite its beneficial effects, can have a flip side.

- **A crisis of excess** - The crisis can be characterized as one of excess: an excess of low interest rates, which stimulate spending instead of saving, and encourage households to take more risks than they would normally take; an excess of deregulation, especially of financial institutions, while the securitization at the origin of the crisis occurred outside of any regulatory framework; excess household debt; and an excess of compensation for a number of corporate executives.

- **Failure of self-regulatory safeguards for the economy** - The crisis demonstrated the limits of self-regulatory safeguards for the economy. Without appropriate regulation as a counterbalance to private interests, the economy doesn't necessarily balance itself out, rapidly and harmoniously.

Possible solutions

To prevent another crisis such as the one we're experiencing from happening again, Mr. Charest proposed possible solutions, such as:

- Concerted action among governments to supervise financial institutions on an international level, so that poorly-regulated institutions in one country do not "contaminate" other countries.

- Regulation of all financial activities, both on and off balance sheet.

- Much tougher capital requirements in countries where they are not tough enough. In Canada, for every dollar of capital, banks can have 20 dollars of assets. Leverage of 1 for 20. In the US, this leverage could go from 1 for 45 for certain types of institutions, and in Great Britain, up to 1 for 60.

- Anti-cyclical capital requirements, which would allow companies to build safety cushions in times of prosperity and to use them in times of crisis.

- A reconsideration of accounting at fair market value, which doesn't take into account the long-term nature of a life insurance company's commitments, and which creates useless fluctuations in company results, which have nothing whatsoever to do with their earning power.
- A reconsideration of the conversion to International Financial Reporting Standards, which risk exacerbating problems caused by accounting at fair market value and also risk creating even greater fluctuations in company results.
- Improved disclosure and transparency, so that everyone, sellers and buyers on financial markets, has the same information on complex financial products.
- Concerted action on an international level to fight against tax havens.
- A thorough examination of executive compensation, which is excessive in some cases, which is not always tied to risk, and which should take into account internal fairness in a company, as well as fairness between peers.

Mr. Charest concluded his speech with a comment on the public's reaction to the current crisis. "When I saw the public outcry over executive compensation at AIG, I realized the full extent of the power wielded by the people. In times of crisis, I have the impression that public outrage is powerful motivation for governments to take action. However, anger distracts from clear thinking and detracts from sound decision making. If we don't want the public, through its outrage, to impose solutions on us, it's best that we ourselves put solutions in place. And the sooner the better."

About Industrial Alliance

Founded in 1892, Industrial Alliance Insurance and Financial Services Inc. is a life and health insurance company that offers a wide range of life and health insurance products, savings and retirement plans, RRSPs, mutual and segregated funds, securities, auto and home insurance, mortgage loans and other financial products and services. The fourth largest life and health insurance company in Canada, Industrial Alliance is at the head of a large financial group, which has operations across Canada, as well as in the Western United States. Industrial Alliance contributes to the financial wellbeing of over three million Canadians, employs more than 3,400 people and manages and administers over \$49 billion in assets. Industrial Alliance stock is listed on the Toronto Stock Exchange under the ticker symbol IAG. Industrial Alliance is among the 100 largest public companies in Canada.

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