



ReImagine

insurance



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ReImagine Regulation – Overview of Session

Steve Easson – Regulatory Landscape Overview

Paul Savage – LICAT (Direct Writer) Focus

Chris Piper – IFRS17 (Reinsurance) Focus

Questions and Answers



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Regulatory Landscape Overview

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Steve Easson

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**Canadian Life and Health
Insurance Association (CLHIA)**



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Regulatory Landscape Overview

Global Umbrella Overview – “Financial” Focus

- All FI's–Globally → Insurers–Globally → Insurers–Canada
- G20 → Financial Stability Board → International Association of Insurance Supervisors (“IAIS”) → Local Regulation / Supervision
- Financial Stability Board
 - Global Financial Crisis – Policy Responses
- IAIS
 - Umbrella global “regulator” (includes OSFI and AMF as members)
 - Provides non-binding “standards” in spirit of global consistency
 - Insurance Core Principles (26 of them)

Regulatory Landscape Overview

International Notes of Interest

- IAIS – their latest priorities
 - “ComFrame” for “IAIGs”, including International Capital Standard
 - Global Systemically Important Insurers (“GSII”)
 - Systemic Risk “ABA”
 - “Future potential of turbulence and disruption from emerging risks”
- International Capital Standard
 - To be finalized in fall of 2019
 - Monitoring period 2020 – 2024
 - Supervisory target capital in effect in 2025
- Solvency II
 - The UK experience
 - Key objectives met under SII? (May 2017 IFoA report)
 - Impact on UK insurance industry (Oct 2017 UK government report)
 - “Equivalence” for Canada

Regulatory Landscape Overview

Canada

1. LICAT
2. Segregated Fund Guarantee Capital
3. ORSA/DCAT
4. Use of internal models
5. Reinsurance Issues
6. Corporate Governance

Regulatory Landscape Overview

1. LICAT

- Lessons Learned
- High level calibration issues

2. Segregated Fund Guarantee Capital

- Life MCCSR Advisory Committee (“MAC”) → 2013 Directional Change
- Current work on update to new Standard Approach for 2021

3. ORSA/DCAT

- ASB/CIA
- OSFI

Regulatory Landscape Overview

4. Use of internal models

- Use for Segregated Fund Guarantee Capital; Other
- Upcoming consultation on “criteria”

5. Reinsurance Issues

- LICAT specific
- “Reinsurance Review Project”
- Winding Up and Re-Structuring Act

6. Corporate Governance

- OSFI updated Guideline
 - Roles and responsibilities for Board and Senior Management
- 18 Related Guidelines/Advisories, for example
 - Internal Capital Targets, ORSA, Stress Testing
 - Sound Reinsurance Practices and Procedures

Life Insurance Capital Adequacy Test (LICAT)

Relmagine Regulation

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Paul Savage

FCIA, FSA

**AVP, Insurance Product and
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Manulife



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Regulation and Product Design

- Insurance product design must fit certain criteria:
 1. Meets a need in the marketplace
 2. Can be offered at a “reasonable” price
 3. Complies with applicable laws and regulations
- Changes in regulation can impact all of the above

Regulation and Product Design

1. Meets a need in the marketplace

- Legislative changes can change needs, for example:
 - Tax changes
 - Changes in the health care system
 - Changes in EI, CPP, OAS, and other benefits

Regulation and Product Design

3. Complies with applicable laws and regulations

- Fairly straightforward...

Regulation and Product Design

2. Can be offered at a “reasonable” price

- May not impact needs, but could impact solutions that can be offered
 - E.g. LICAT

Customer vs. Insurer impacts

- Some changes impact the customer directly
 - E.g. changes in insurance contract taxation
- Others impact the insurer, but are invisible to the customer
 - E.g. changes in capital and accounting standards
- **All** impact the customer through product design and pricing

LICAT

Several elements of LICAT impact the insurance solutions common in the Canadian marketplace today

1. Changes to capital for market risks
2. Changes to pass-through credit
3. Changes to calculation of insurance risk capital

LICAT

Market risk capital changes

- Puts pressure on products that build up material reserves
- Negative impact to:
 - Long duration guaranteed products
 - Products reliant on investment returns

LICAT

Pass-through credit changes

- Limiting ability to reflect economics of investment performance pass-through of certain products with guarantees
- Uncertain future
- Negative for:
 - Products with imperfect pass-through or minimum guarantees

LICAT

Insurance risk capital changes

- Level, trend, volatility, and catastrophe risk for lapse and mortality
- Negative for:
 - Unclear

Future of product design under LICAT

- More expensive to offer guaranteed products
 - Especially long duration
- Better relative value:
 - Short duration solutions
 - Pass-through solutions
 - E.g. Whole Life, Universal Life YRT
 - Adjustable solutions

Using Reinsurance under LICAT

- LICAT is a new framework and an opportunity
- Certain structures and arrangements can now be more attractive
- Time to *Relmagine*

IFRS 17

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**Head of IFRS17 Valuation
Implementation for North
America**

Munich Re, Canada (Life)



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“A story always sounds clear enough at a distance, but the nearer you get to the scene of events the vaguer it becomes.”

- George Orwell

IFRS 17

1. Reinsurance practical considerations:

- a) Insurer perspective
- b) Reinsurer perspective

2. Finding opportunities

Reinsurance

Practical Considerations under IFRS 17

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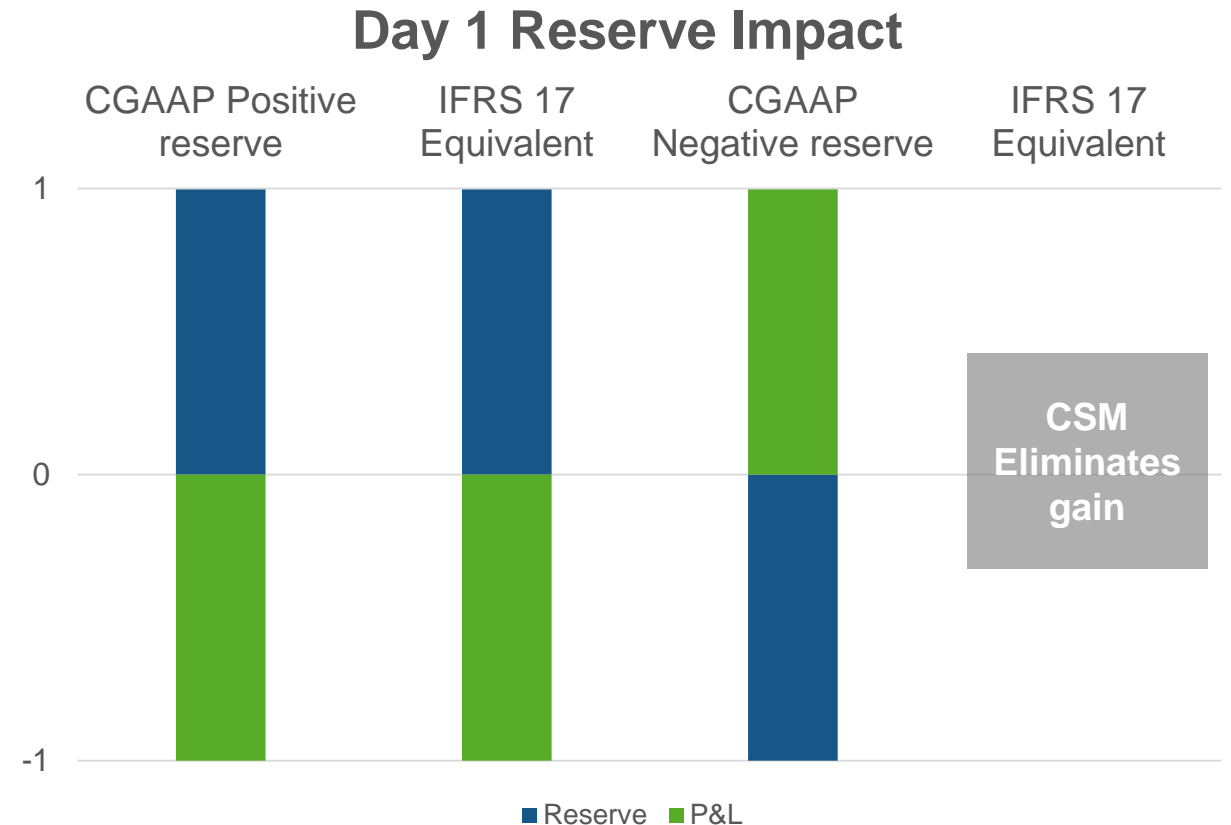
Primer – IFRS 101

Similarities to current CGAAP

- Best estimate assumptions
- Margins

Key difference to current CGAAP

- “CSM” eliminates day 1 gain



Assumed vs Ceded

Insurer/assumed

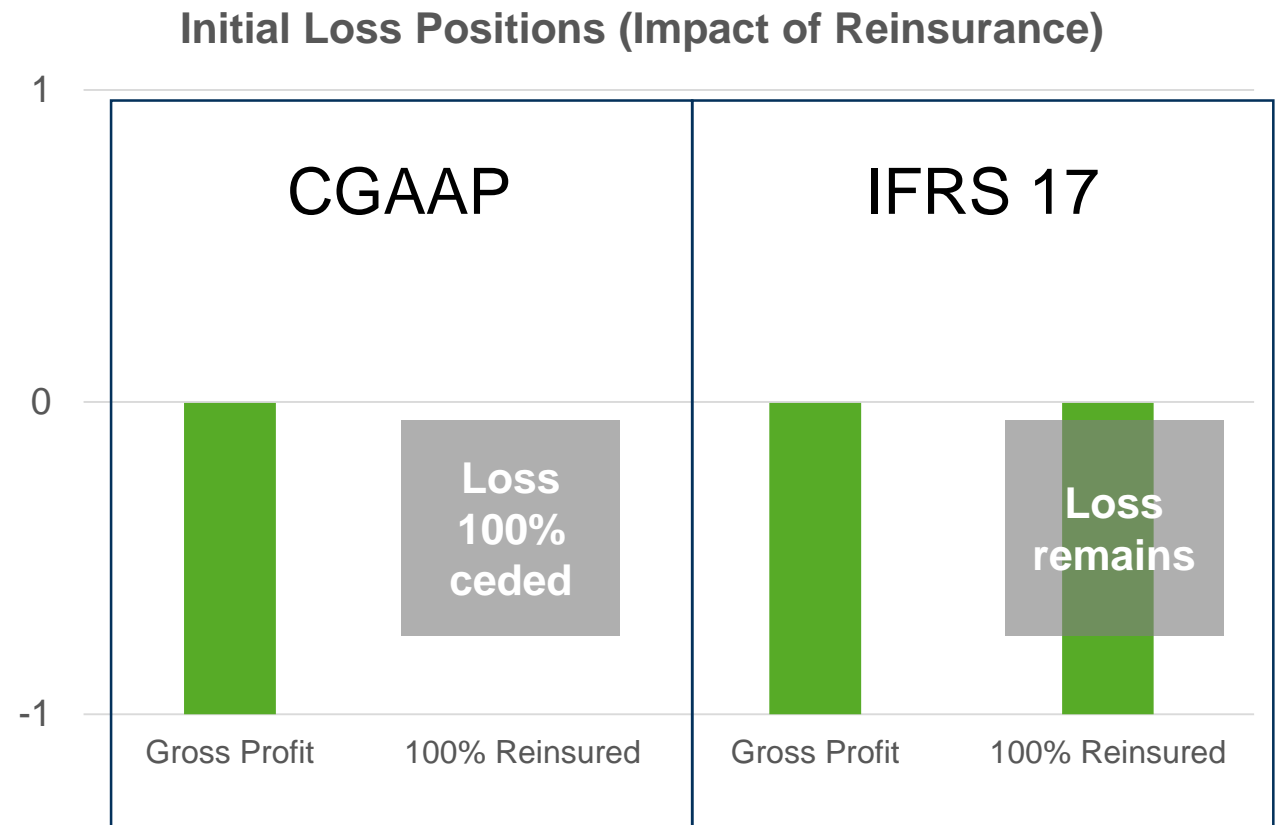
CSM can only be positive, to eliminate a day 1 gain

Insurer/ceded (reinsurance placed)

CSM can be positive or negative

Assumed vs Ceded

- Product with strain will show **loss** on assumed view, but **zero** on ceded (versus today where loss would be ceded)
- Profit emergence will be different, impacting measures such as IRR



Contract definition – what is a “contract”?

Cession or treaty?

- Reinsurance contract held/assumed = treaty
- Direct insurers: issued contracts \neq held contract

What is considered a new reinsurance contract?

- Brand new treaties, amendments, repriced?
- Impact on data requirements

Contract boundary – when does risk start and end?

Reinsurance contract held

Right to receive services from the reinsurer and the obligation to pay amounts to the reinsurer

Inclusion of future new business

Direct insurers:
Accounting mismatch

90-day termination clause

Taken together

How will this impact product design and pricing?

- Will some current products be changed, discontinued?
- Will new product emerge?

How does this impact reinsurance purchasing decisions?

- Shifts in efficient reinsurance structures/designs?

Opportunities

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Are you ready for IFRS 17?

Impact on product design, reinsurance decisions may not be clear. What is clearer is the potential impact on valuation systems and processes...

- Data requirements
- Systems
- Internal processes

Opportunities



- **Data:** One version of the truth
- Re-imagining systems and processes

Questions and Answers

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