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SOA NEWSLETTER INTERVIEW

by Katrina Spillane

"Canada Life Re has always been at the forefront of developing risk and capital solutions for clients"

- Jeff Poulin, CEO Canada Life Reinsurance

Canada Life™ Reinsurance

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Interview with Canada Life Re's CEO Jeff Poulin

By Katrina Spillane

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Jeff Poulin is the CEO of Canada Life Re, a division of Great West Life Assurance Company. He was appointed CEO in May 2017, but he has been working for the reinsurance company since 1991. He has worked in the reinsurance offices of Canada Life Re in Canada, Barbados, Ireland and the United States. Canada Life Re provides structured solutions, traditional risk and catastrophe retrocession covers to clients in both the United States and Europe. Jeff is an actuary and the proud father of four children.

KS: Jeff, you were appointed as CEO of Canada Life Re a few months ago. How do you see your position and what will be your influence on the division?

JP: I have come in at a very turbulent yet exciting time. We have a catastrophe retrocession business, and it has been a very busy year with three hurricanes hitting the United States, two earthquakes in Mexico and the California fires. I'm happy to see how our reinsurance agreements offered clients valuable protection against these losses. Reinsurers are in the business of paying claims in difficult times.

On the life reinsurance side I am actively involved with the American Council of Life Insurers. This past year was by far the most exciting the life and health industry has seen in years. Our clients are increasingly looking for support to optimize the risk, capital and return profile of their business in order to support changes to regulatory capital rules such as principle-based reserving (PBR), but even more importantly to support investment in new customer propositions such as accelerated underwriting.

Canada Life Re has always been at the forefront of developing risk and capital solutions for clients, so I view my role as keeping the Canada Life Re team focused on these evolving needs and developing the most effective solutions for each client's individual need. We will not change this basic customer-focused principle, which is based on a win-win relationship with our clients. We have developed very strong partnerships and will continue to build on those and develop new ones. We offer both conventional reinsurance and structured solution reinsurance, and are increasingly seeing situations where the right solution is actually a blend of the two. While we have historically concentrated our efforts in the United States and Europe, we are also starting to help our existing clients with solutions in other parts of the world and with non-life insurance products.

KS: Canada Life Re has experienced rapid growth over the last 10 years. To what do you attribute this growth?

JP: I see four major reasons for our growth. First, the main factor for our success is our ability to adapt to changes. We have seen new regulations, taxes, products and technologies. These changes usually disrupt your business, but we also see them as opportunities for new business. Adapting quickly to a changing world is key to any business's success.

Secondly, we have focused on what we are very good at: bespoke solutions for our clients. Trying to anticipate what our clients will want and offer proper solutions to these needs is key. We have avoided trying to offer everything to everyone, especially in lines of business that other reinsurers are already serving well. As an example of this, when we looked at continental Europe 15 years ago, we noticed that insurance companies were not strong buyers of financial solutions via reinsurance. We made developing this market a priority using the principles we were using in the United States, with very positive results for us and our clients. We also look at emerging markets with large potential growth. The longevity market is a good example where we were one of the first reinsurers involved in a longevity swap. We also closed the very first large multibillion annuity quota share reinsurance transaction in the U.K. in the early 2000s. This willingness to be amongst the first to look at new risks has been a great strength.

Third, we have remained diversified, which is critical because all markets do not always go well at the same time. We have approximately half of our earnings coming out of European clients and half coming out of the United States. We also have a variety of products in different lines.

Finally we benefit from the support of a very strong parent with excellent ratings and a large capital base. While the financial market's memory may be fading, the financial crisis of 2008 provided a sharp reminder as to the importance of prudent and strong business partners.

KS: What is your outlook on the life business in the United States?

JP: The U.S. market is very mature and relies on thorough but cumbersome underwriting for a new policy to be issued. I suspect

we are on the verge of a major change in the market that could reshuffle who the main players are. The trend is away from this heavy underwriting and toward a more simplified underwriting process. This creates potential for anti-selection as the same products are sold with and without full underwriting. It may still take some time before some of the big-data-based underwriting systems are as efficient and reliable as drawing blood. Everything else consumers buy today is easy, even car insurance. It makes it very difficult for the life industry to survive if we do not adapt and make it easy to sell our products. I think we may need a disruptor to help show us how to do it better than we currently do. We have had success offering our products on the internet and simplifying our underwriting, but our products are still too complicated and not universally marketed the way consumers expect today. It is important that we continue to change our offering so it is more consumer-focused. If we called a "premium" a "payment" and borrowed from our European colleagues and called "life insurance" "protection," it may be a step in the right direction as even the dialect we use is complicated for the end consumer. My sense is that the next generation is less aware, if not completely unaware, of the importance of the protection we offer and will not tolerate an agent coming into their home to explain the concept. So, the first companies to simplify, educate and market their products to the younger customers will be the next winners.

Canada Life Re continues to monitor the InsurTech world to see the key innovations that could have an effect on our industry, and we are ready for this next wave to come. Insurers will need strong partners over the next few years as companies will go through a trial-and-error process before the "new way" is fully implemented. At the base, life insurance is a product that is very important and that every family should buy, so I am optimistic that we will find a way to market it to the next generations.

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KS: Will PBR affect reinsurance?

JP: Yes. I think as cedants get more familiar with the reserving methodology and adapt their products to it, PBR will create a certain impact. I can see right away less demand for reinsurance solutions on AXXX and XXX reserves because there will be less redundancy in the statutory reserves under PBR. Another aspect of PBR that may be interesting for our clients is whether or not they need rate guarantees on their reinsurance treaties, at least for a period longer than one year. Reserve credit under reinsurance ceded will also need to be looked at because regulators will find out that insurers and reinsurers may not hold the same prescribed reserves on a given block of business.

KS: Is Canada Life Re involved in the health industry?

JP: The health market in the United States and Europe is a key market for Canada Life Re given the size of this market and current demographic trends in those areas. Health insurance should have a bright future. While in the United States there is more talk about a single-payer or government system, in Europe and even in Canada the discussions are promoting private systems. Health insurance premiums have grown tremendously in the developed world recently, and we see that trend continue. The individual mandate under the Affordable Care Act has not worked very well but despite that we feel the health market is healthy in the United States. As such we have focused heavily on developing risk and capital solutions that help optimize our clients' balance sheets by reducing their risk and capital needs while allowing them to retain their hard-earned returns.

KS: How do you see the development in genetic testing affecting our market?

JP: It is both a threat and an opportunity. In the next few years, I think we will be able to get full genome testing with DNA sequencing that will provide us valuable health information like the propensity for certain cancers or diabetes for a cost of approximately $500 per individual. This could drastically change our underwriting. However, our industry would need to have access to that information as part of the normal medical file. If we do not have access to it, it could create significant anti-selection. If it becomes part of the medical information that we have access to, it will require us to become better at developing the expertise to translate the DNA information into a mortality or morbidity assumption. So, we have some work to do on this front.

On the positive side, we could be opportunistic and use this as a way to develop a closer relationship with our customers by offering them prevention tools to explain how to prevent the diseases they are more prone to get. Whether the insurance industry gets involved in prevention or not, the information associated with genetic testing could result in more preventive measures and better behaviors, which could result in lower mortality and morbidity overall. As a reinsurer, any medical development has an impact on what we do and on our assumptions. We have to be ready to help our clients face these challenges.

KS: You mentioned the longevity market. What is your involvement and do you see it developing in the United States?

JP: We have been pricing longevity transactions in Europe since the late 1990s, and we have a very strong team of experts looking at this in our Dublin, Ireland office. As a group, we also write this risk directly in the U.K., Ireland and Canada. We started writing this risk on U.K. annuities that were mandatory at retirement in the U.K. Many insurers had written large books of payout annuities, and, in retrospect, we can now say that the U.K. regulators became a little too conservative in their required assumptions. This created large basis change losses for annuity writers. These insurers started to reinsure their block to avoid further assumption adjustments. This fueled the market originally but then came the pension plans that wanted to de-risk their portfolios, which continued to feed the demand for longevity reinsurance. This happened not only in the U.K. but also in continental Europe. We have been offering solutions to help with longevity covers for 20 years and continue to be a major player in that market. We continue to see strong demand for both "at the money" reinsurance and structured solutions on longevity books in Europe. The U.S. market is less developed and, despite some significant transactions being done between pension plans and insurers, very little has ended up in the reinsurance market. We expect this to change and that market to expand over the next 10 years. We plan on using our existing expertise to help our U.S. clients manage this risk.

KS: What impact do you think the new U.S. tax reform will have on reinsurance?

JP: International reinsurers are usually organized in a way where they keep most of their capital in a central place. They then have subsidiaries and branches in various jurisdictions to serve their clients and retrocede a large portion of the risk to that centralized reinsurer. This allows them to quickly send money when and where it is needed to pay claims and, at the same time, benefit from this global diversification in their capital in this central location. The base erosion tax has essentially forbidden the retrocession out of the United States for foreign reinsurers by taxing gross payments out of the country to an affiliate. This tax does not allow the netting of claims or reserves and is very punitive. This will require foreign reinsurers to restructure their business in the United States. As a result, foreign-based reinsurers may have to offer clients to reinsure directly to entities outside the United States.

The increased exemption in the estate tax will have the effect of reducing the number of policies purchased for tax planning reasons and should reduce the amount of large policies issued in the industry. This could reduce the amount of reinsurance ceded since most reinsurance treaties are on an excess-of-retention basis.

Another effect is the potential impact on insurers of the lower corporate tax rate, which could result in loss of capital through tax asset recoverable on prior losses or through the second-order effect that the lower tax rate has on the risk-based capital formula. We expect that some companies will be looking for solutions to keep their capital the same pre- and post-reform if they are negatively impacted by it.

KS: Finally how do you see the future of our industry?

JP: If I could tell the future, I would guarantee that Canada Life Re would be the largest reinsurer in the world! Unfortunately, I often remark that I thought it was foolish to put a camera on a phone. The one thing I am certain about is that our industry sells very valuable services to consumers. Therefore, we should do well in the future because offering a good and valuable product is the basis for our success. I do believe things will continue to change at a very fast pace. We may sell our products online and even on cellphones. We may have instant access to more information than we ever dreamed of about our customers. We will be more focused on what the end consumer wants rather than what our distribution force wants. As actuaries, we will have to keep the complexities that we tend to like so much in the background—i.e., in the data handling and underwriting process—and keep our products simpler in the eyes of our clients. We need to listen and make room for the next generations of employees and listen to their ideas. They know what their peers want. Reinsurance will become more about risk sharing again because companies will take on more risk to sell these new products in an ever-changing world. I am certain the future is bright for both the life and health industry, and for the reinsurance industry. It will continue to be a fun ride! ■

Jeff Poulin, CEO, Canada Life Re.

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