



Canada LifeTM
Reinsurance

Capital Solutions

Michael Green

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GREAT-WEST
LIFECO INC.

Benefits of Structured Reinsurance

Support
strain from
rapid growth

Use capital to
buyback shares
or reduce debt
a lower cost

Allow more
competitive
pricing on new
business

Raise Capital
for M&A
Activity

Improve capital
efficiency (cost
of capital) and
ROEs

Maintain and/or
improve RBC ratio
for regulators,
analysts, rating
agencies

Group Life Structured Reinsurance

- For Group Life, the main source of RBC is Net Amount at Risk (NAR)
- NAR can be transferred to the Reinsurer at a low cost to the Ceding Company
- Benefits of Structured Reinsurance for Group Life
 - provides liquidity in times of underwriting stress
 - accomplishes the goals of regulatory capital requirements
 - reduces the burden of holding idle long term capital
 - allows access to capital at a low cost under flexible terms

Structural Features

- Regular (at least quarterly) settlement of cashflows
 - Premiums, Claims, Risk Fee
- Experience Refund
- Loss Carry Forward
- Recapture and Termination Provisions
- Balance of Structural Protections and Risk Fee
 - More Protections → Lower Fee
 - Fewer Protections → Higher Fee

How it Works

- Yearly Renewable Term (YRT) Premiums
 - MRT – minimal amount (if any) of reserve transferred
- Premiums are set at or near Gross Direct Premium Rates
- All Profits net of Risk Fee returned to Ceding Company through Experience Refund.
- C-2 Capital Charge is reduced as NAR is transferred from the Ceding Company to the Reinsurer

How it Works

- Typically, the only settlement is the risk fee
- For temporary losses (ie losses followed by profits), the reinsurer provides liquidity
- The reinsurer is on the risk for permanent losses
- During due diligence, the reinsurer focuses on underwriting, ceding company financials, ceding company management philosophy

Example

- 100m NAR
- Premiums = 3.50 per thousand of NAR
- Risk Fee = 80 bps per thousand of NAR
- Ceded Quota Share = 80%
- RBC Ratio = 250%
- Cost of Capital = 8%
- 3 Scenarios – only consider C-1, C-2, C-3
 - C-2 Heavy – C-2 is 400% of C-1 and C-3
 - Balanced – All RBC amounts are equal
 - C-1 and C-3 Heavy – C-2 is 25% of C-1 and C-3

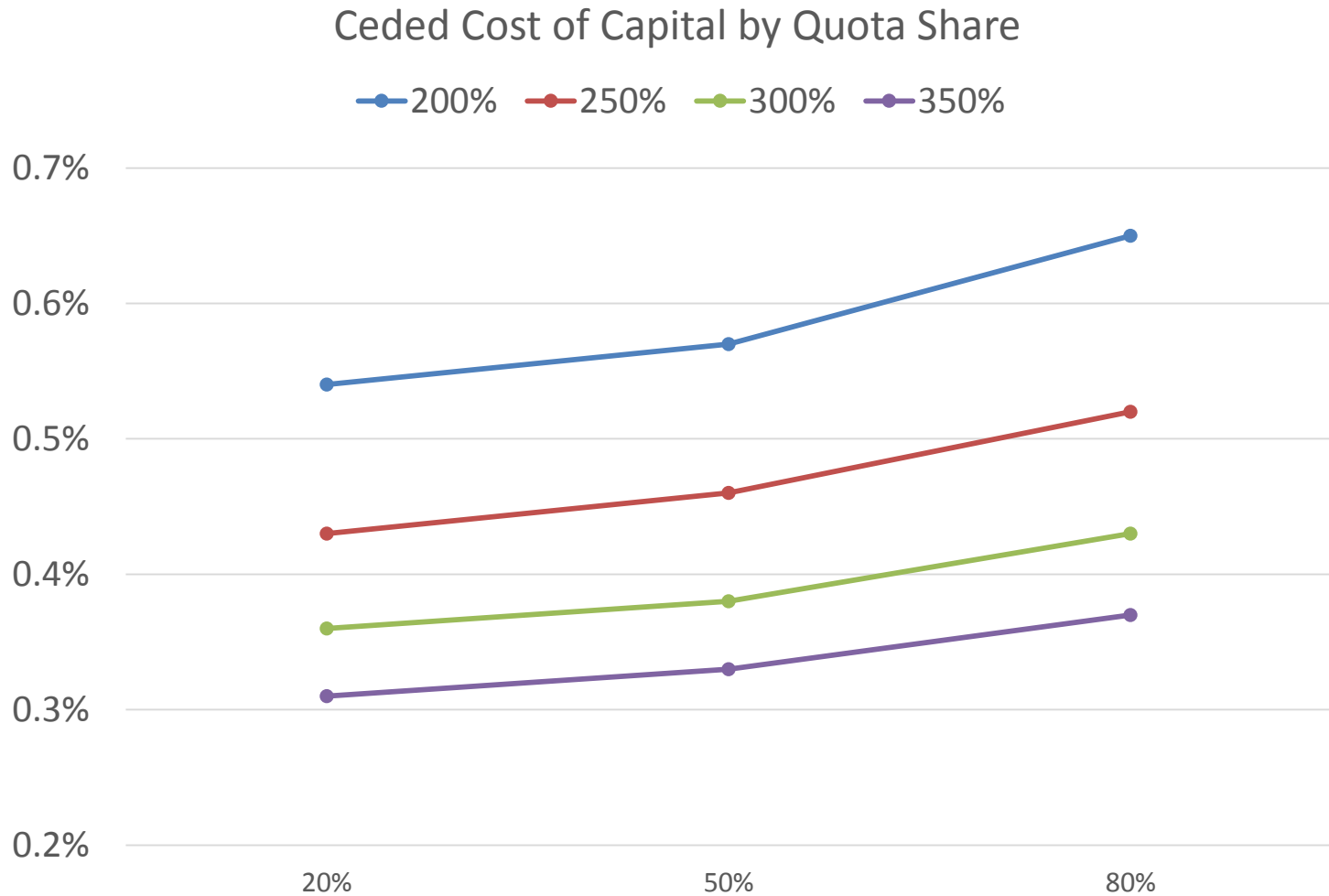
Example

	Q1	Q2	Q3	Q4
Premiums	280,000	280,000	280,000	280,000
Claims	224,000	308,000	252,000	224,000
Net Cash Flow	56,000	(28,000)	28,000	56,000
Risk Fee	800	800	800	800
Reinsurance Profit	55,200	(28,800)	27,200	55,200
Loss Carry Forward Payback	0	0	27,200	1,600
Loss Carry Forward	0	28,800	1,600	0
Experience Refund	55,200	0	0	53,600
Settlement				
Premiums	280,000	280,000	280,000	280,000
Claims	224,000	308,000	252,000	224,000
Experience Refund	55,200	0	0	53,600
Net Settlement	800	(28,000)	28,000	2,400

Factors affecting C-2 Relief

- Portfolio Profile
- Cost of Capital
- RBC Target Ratio
- Quota Share

Ceded Cost of Capital – C-2 Heavy Scenario



Ceded Cost of Capital – 250% RBC Ratio

		C-2 Quota Share		
		20%	50.0%	80.0%
SCENARIOS	C-1 & C-3 Heavy	3.37%	4.04%	5.04%
	Balanced	0.92%	1.08%	1.33%
	C-2 Heavy	0.43%	0.46%	0.52%

- C-1 and C-3 Heavy – C-2 is 25% of C-1 and C-3
- Balanced – All RBC amounts are equal
- C-2 Heavy – C-2 is 400% of C-1 and C-3

How to Evaluate – Treasurer

- Structured Reinsurance offers access to capital at a low cost under flexible terms
 - Valuable tool to improve capital management efficiency across all sources (debt, equity, etc.)
- Reinsurance CoC vs Other Sources CoC
 - RBC target multiple will allow the company to release multiple times the CAL RBC for the product.
 - Other considerations (debt to capital ratio, equity dilution).

How to Evaluate – Actuary

- Structure satisfies Risk Transfer Requirements
- Reinsurance provides liquidity cover that will protect the company's capital position in the event of losses
- Quota Share capital relief provides leveraging effect to pricing / profitability ratios.
 - Increases ROE / IRR, decreases payback period



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Questions?

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Example – C-2 Heavy

	QS C-2	C-1	C-3	C-2	Sum	100% RBC	250% RBC
No Reins	0%	21,250	21,250	85,000	127,500	95,033	237,582
80% QS							
C-2	80%	21,250	21,250	17,000	59,500	45,774	114,435
20% QS							
C-2	20%	21,250	21,250	68,000	110,500	80,189	200,472

	Total Cap	Retained CoC	Ceded CoC	Total CoC	Total CoC (%)	Ceded CoC(%)
No Reins	237,582	19,007		19,007	8.00%	
80% QS						
C-2	114,435	9,155	640	9,795	4.12%	0.52%
20% QS						
C-2	200,472	16,038	160	16,198	6.82%	0.43%