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Life & Annuity Reinsurance Trends

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Agenda

- Recent Trends in the Life & Annuity Reinsurance Market
- Impact of IFRS 17
- Expected Changes



Recent Trends in the Canadian Market – Individual Life

Individual Life New Business
(millions)

	Reinsurers in Canada		Reinsurers in Canada		Total Direct in Canada	
	Volume	% Change	Premiums	% Change	Premiums	% Reinsured
2022	219,000	4%	92.4	5%	771	12%
2020	211,000	26%	87.8	32%	795	11%
2017	168,000	8%	66.4	4%	1,004	7%
2015	156,000		63.7		889	7%

Source: Volume from SOA Reinsurance Surveys/Premiums from OSFI Data



Recent Trends in the Canadian Market – Individual Life

- From 2015 to 2022, Individual Life Recurring New Reinsurance business has increased on average by 6% per year (volume and premiums)
- Cession rates (in volume) have been increasing from 61% in 2015 to 72% in 2022
- Cession rates (in premiums) have been increasing from 7% to 12% during the same period
- In-force cession rates (in premiums) were about 45% in 2022
- There are 8 reinsurers, with three representing about 70% of the market
- Portfolio reinsurance has been a small portion of business ceded since 2015

* Sources: SOA Reinsurance Survey and OSFI Data



Recent Trends in the Canadian Market – Individual Life

- Reinsurance market is still thriving with increasing new business volume and premiums and an increasing proportion of direct sales
- Direct writers more competitive pricing, with future mortality improvements
- Direct writers are well capitalized
- Most new reinsurance done on YRT basis
- Most new reinsurance concluded with registered reinsurers



Recent Trends in the Canadian Market – Group Life

Group Life Business (millions)

	Reinsurers in Canada Premiums	% Change	Total Direct in Canada Premiums	% Reinsured
2022	130.6	-26%	5,128	3%
2020	177.2	-82%	5,104	3%
2017	971.0	-21%	5,226	19%
2015	1229.5		5,113	24%

Source: From OSFI Data



Recent Trends in the Canadian Market – Group Life

- Group Life Reinsurance Premiums have decreased between 2015 and 2022
 - There were large portfolio deals in 2015 and 2017
 - In 2022, cession rates are approximately 3% in premiums
- There are 5 reinsurers in this market, with one dominating
- Direct business is yearly renewable with good profitability



Recent Trends in the Canadian Market – Group Annuity

Group Annuity Business
(millions)

	Reinsurers in Canada		Total Direct in Canada	
	Premiums	% Change	Premiums	% Reinsured
2022	449.4	87%	7,528	6%
2020	240.2	-4%	5,551	4%
2017	251.4	19%	5,332	5%
2015	211.0		4,001	5%

Source: From OSFI Data



Recent Trends in the Canadian Market – Group Annuity

- Large increase in direct business as a result of pension risk transfers (“PRT”)
 - Group annuity reinsurance premiums have more than doubled from 2015 to 2022
 - Direct business is expected to continue to grow at a fast pace
- Cession rates have not materially moved during the same period (about 5%)
- Direct writers have some concerns about longevity risk
- There are now 3 reinsurers in this market
 - Limited reinsurance capacity expected to lead to new entrants



Impact of IFRS 17

Accounting rules and solvency regulations have a direct impact on reinsurance decisions:

- Where there is significant insurance risk transfer, the reinsurance contract is considered an insurance contract under IFRS. An insurance contract is one under which one party accepts significant insurance risk, other than financial risk, from another party
- Reinsurance held contracts are recognized and presented on the statement of financial position separately from the underlying insurance contracts. The measurement of values of groups of reinsurance held are aggregated at the portfolio level
- There could be differences in grouping between reinsurance contracts held and the related underlying insurance contracts



Impact of IFRS 17

- Reinsurance contracts held cannot be onerous; the CSM on reinsurance contract held can be positive or negative, deferring the gain/cost of reinsurance contracts held
- If the insurance contracts are onerous, the entity will offset the loss by recognizing a portion of the gain on reinsurance contracts held and adjust the CSM on the reinsurance contracts held
- In determining the fulfillment cash flows, the present value estimates of future cash flows to be received for the reinsurance contracts held are reduced by an allowance for reinsurance counterparty failure to fulfill the contractual obligations, reflecting both the failure due to defaults and allowances for disputes resulting in reduced payments and reflecting effect of collateral



Impact of IFRS 17

IFRS 17 will impact cedant's reinsurance needs and the potential for future new reinsurance business:

- Direct insurers will re-evaluate the value of reinsurance under IFRS 17
- Earnings & capital ratios volatility is expected to increase – this might increase the demand for reinsurance coverage
- The cost-benefit of reinsurance might however not be as worthwhile to cedants, which might result in reduction of reinsurance covers and perhaps increased demand for recapture



Impact of IFRS 17

IFRS 17 will impact reinsurers' pricing and approach:

- Reinsurers are reviewing their risk appetite as a result of IFRS 17 implementation
- Reviewing and restructuring expected cash flows patterns to maximize value of reinsurance contracts issued



Expected Changes

The primary objectives for buying reinsurance remains the same:

- Mitigating mortality/longevity risks
- Alleviating financial volatility
- Improving capital efficiency
- Value added services including underwriting, product management and pricing support



Expected Changes

- IFRS 17 will have an impact on reinsurance needs and structure of reinsurance agreements
- Longevity risk:
 - Insurers are taking more longevity risk and there are uncertainties about the assessment of this risk. Although longevity can be used a partial hedge for mortality risk, the hedge is far from perfect. Reinsurers are assessing their appetite for longevity risk to support the increasing direct longevity business. New reinsurance players are expected to enter market to offer additional capacity
 - Large pension plan sponsors are looking for innovative solutions to manage pension plan surplus, which may include insurance/reinsurance solutions



Expected Changes

- Optimization of in-force business: insurers are looking for innovative solutions to solve the economic challenges of this business
- Reinsurance needs and solutions under review
- In the wake of the COVID-19 pandemic, there is an increased focus on life insurance and economic uncertainties
- Evolving regulatory/solvency landscapes continue to influence the insurance market, with trends in data privacy, consumer protection, and climate-related regulations impacting how insurers operate and design their product offerings