

GREAT-WEST LIFECO INC.

Developments in Reserve Financing

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Canada Life Reinsurance

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Changes Are Occurring Faster

- How many years did it take radio to reach 50M users?
38 years
- How many years did it take Google to reach 50M users?
6 years
- How many years did it take Facebook to reach 50M users?
3.5 years
- How many years did it take iPad to reach 50M users?
1.5 years
- How many years did it take Google + to reach 50M users?
88 days

Regulatory Changes

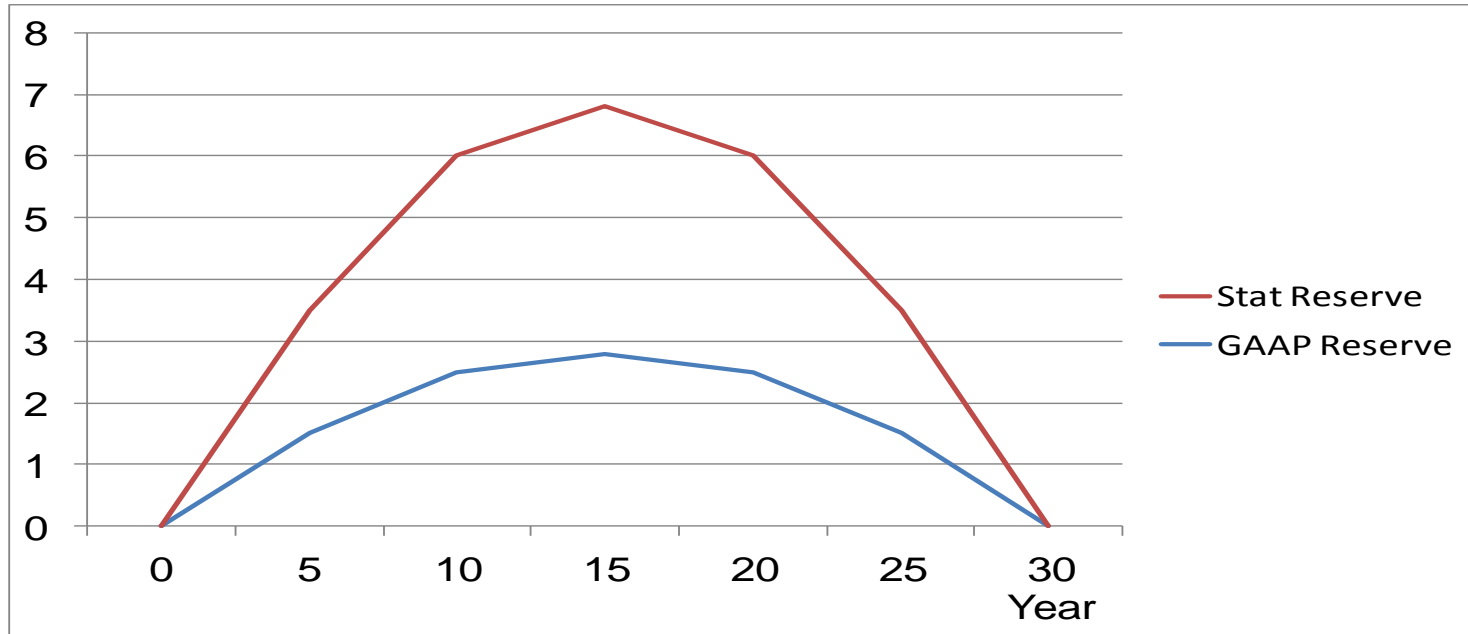


"These new regulations will fundamentally change the way we get around them."

- In the US has large amounts of redundant XXX and AXXX reserves are generated- \$10 to \$15B per year is being financed – Reinsurers cannot handle all the strain – Banks got involved
- VIF financing - purchasing business via reinsurance – essentially selling a portion of your block of business for upfront price in cash
- Closed blocks (participating business) have need for financing. Reinsurers have helped with the same type of structures
- Credit insurance industry has typically use reserve financing for their large upfront reserves

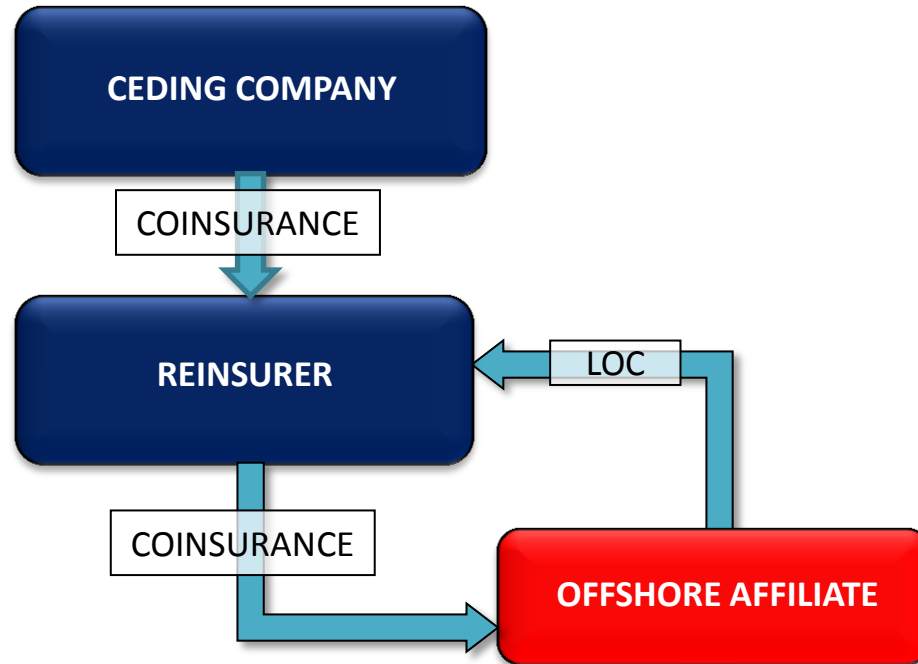
US Life Insurance Has Redundant Statutory Reserves

Mortality to be used for statutory reserve is approximately 3 times the expected mortality
Lapse are forced at 0.



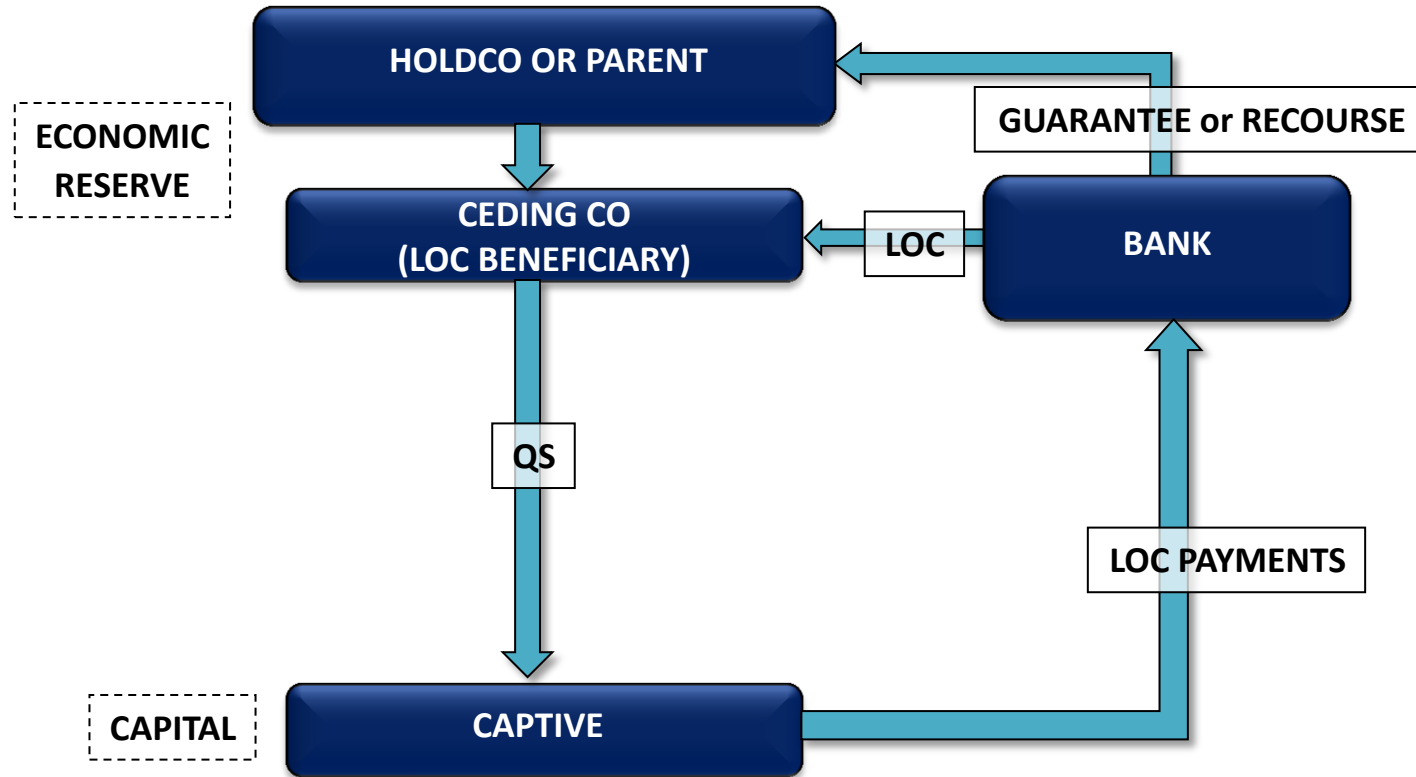
Evolution of Financing the Reserves

Originally – simple quota share of the business – pass the problem to the reinsurer but lose the tax reserves

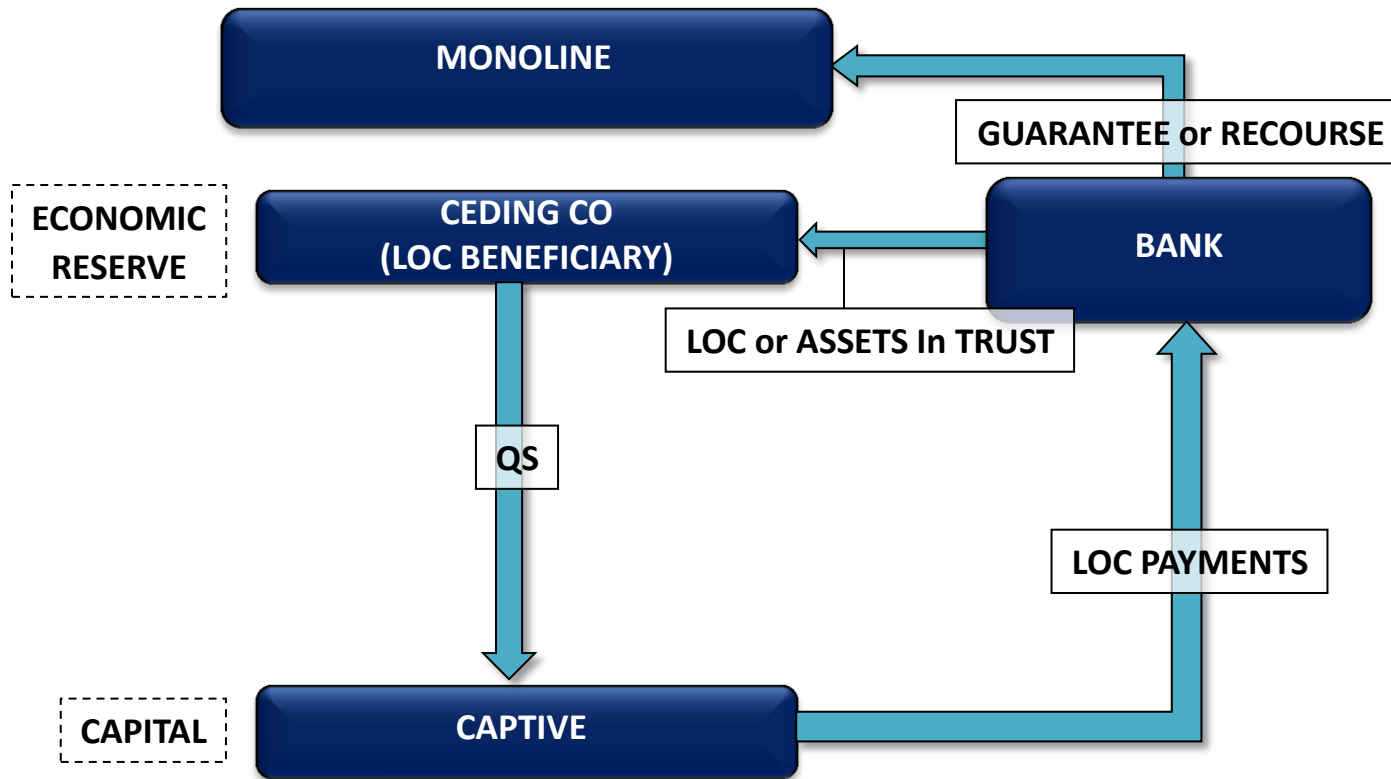


Some reinsurers would retrocede to an affiliate offshore and finance the redundant reserves with an LOC

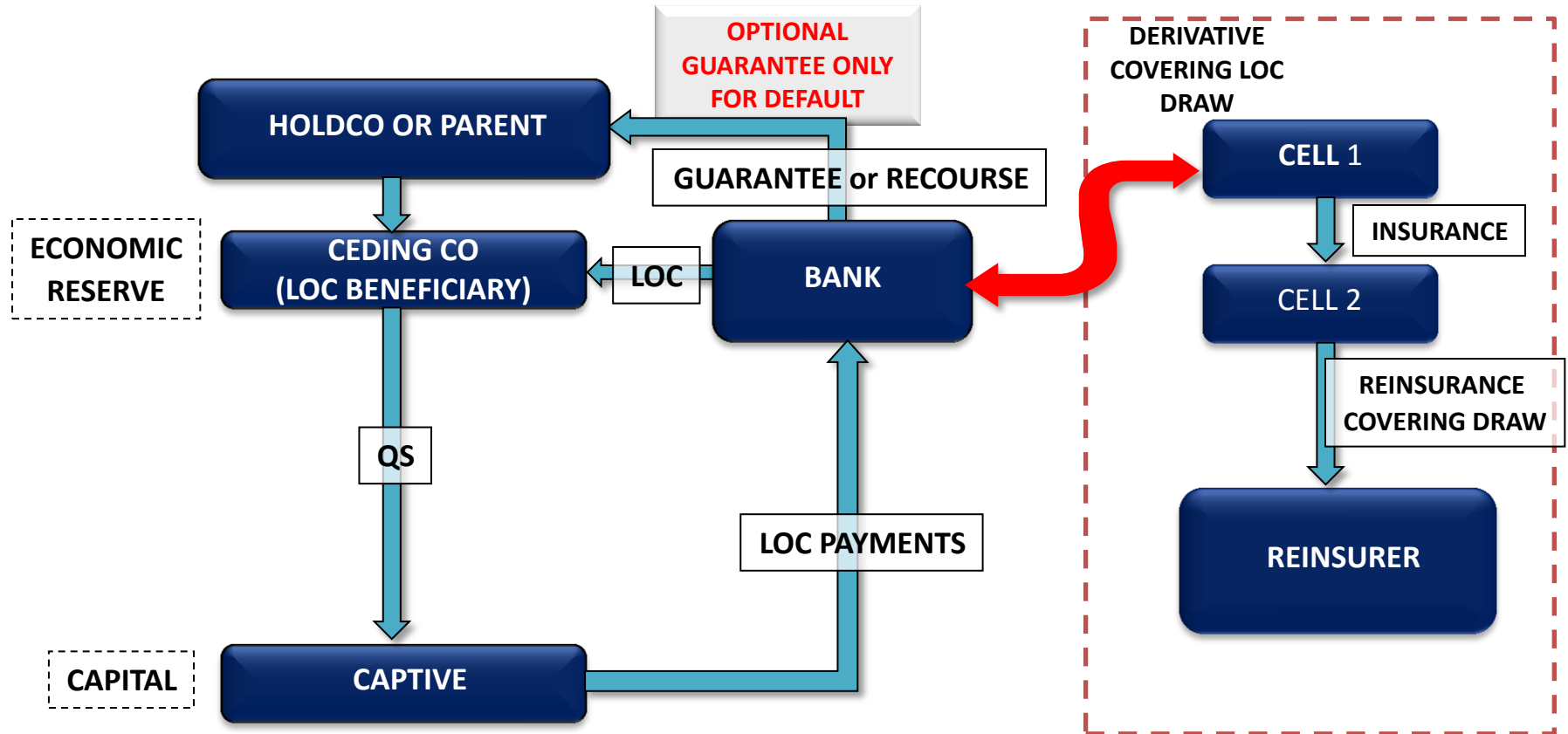
Creation of Captives Within the Ceding Company's Group



Recourse to a Parent is an issue, so went to Monoline Guarantors

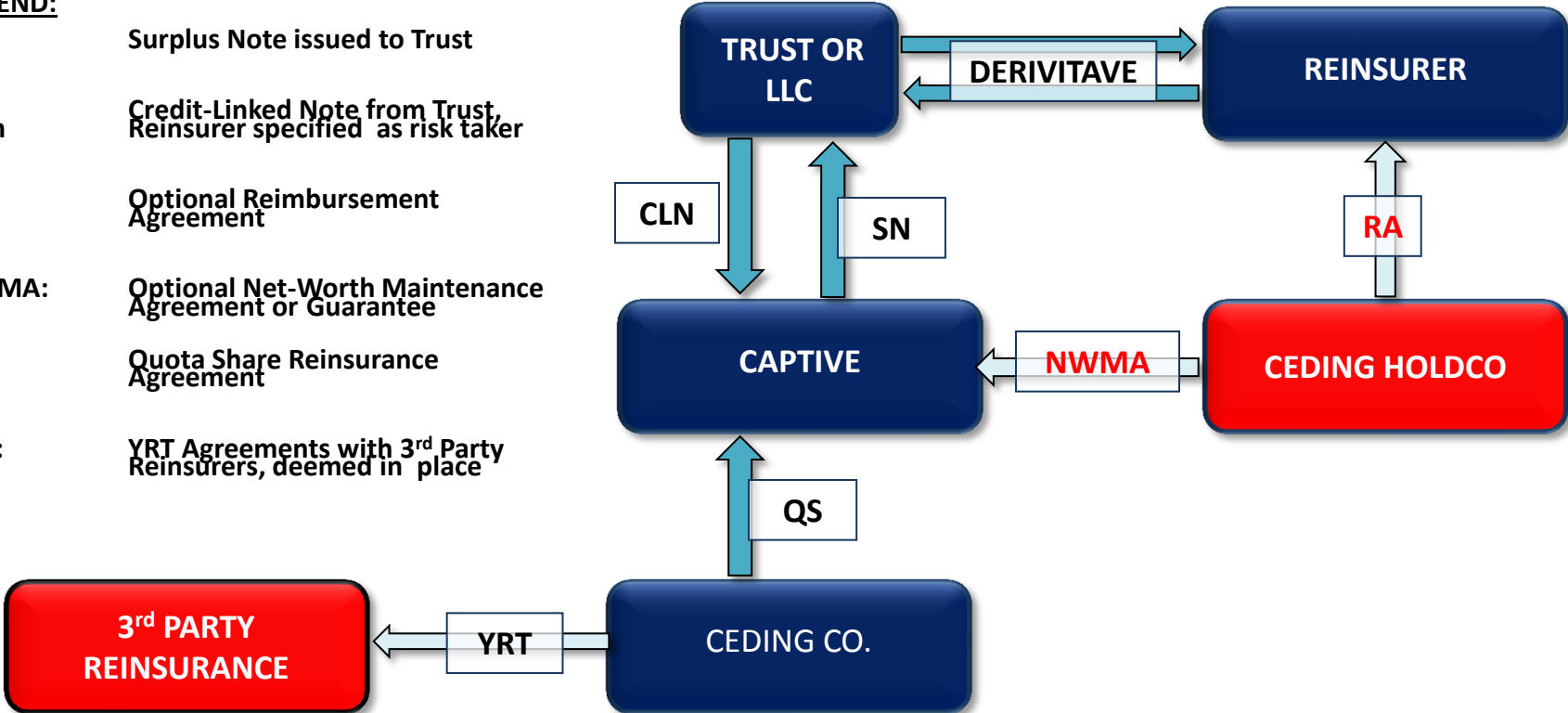


Creation of Transformers to Have Reinsurers Take the Insurance Risk of Draw

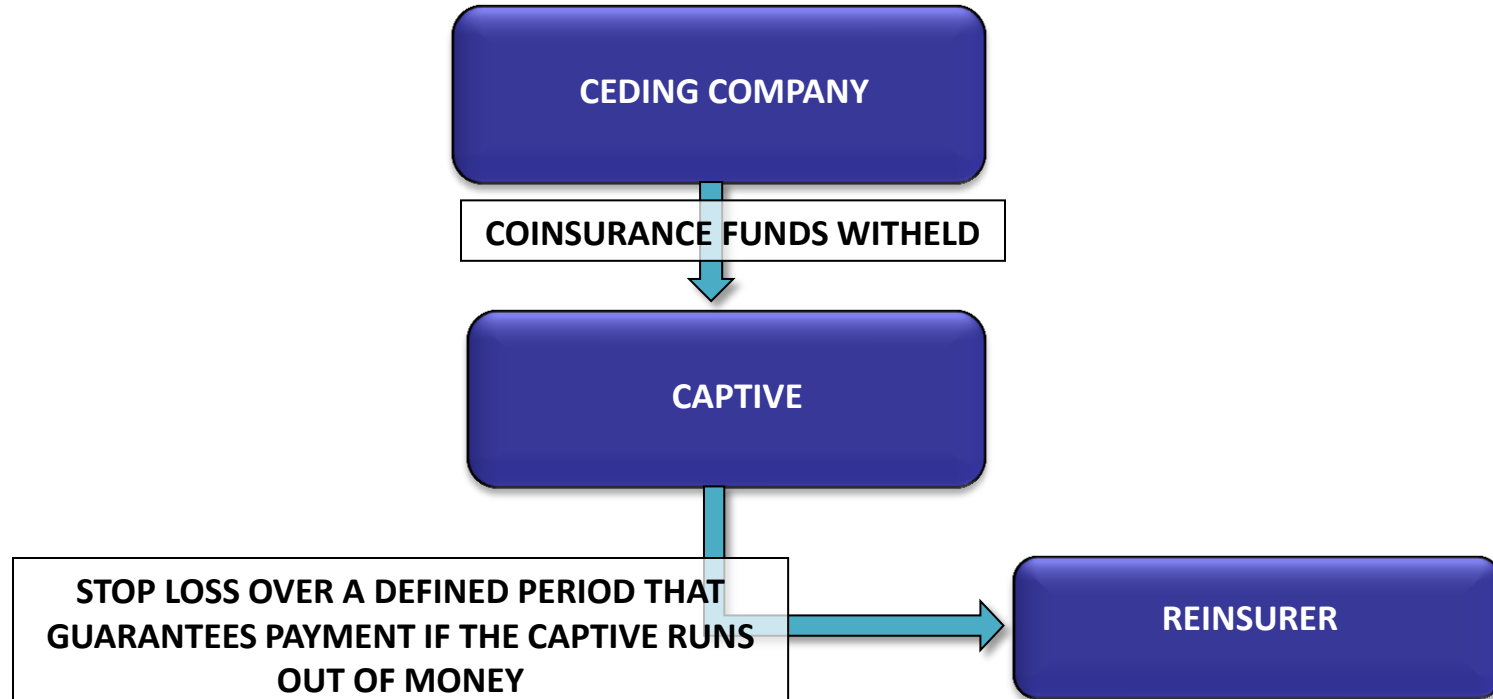


Note Swap Deal Diagram

- LEGEND:**
- SN: Surplus Note issued to Trust
 - CLN with: Credit-Linked Note from Trust, Reinsurer specified as risk taker
 - RA: Optional Reimbursement Agreement
 - NWMA: Optional Net-Worth Maintenance Agreement or Guarantee
 - QS: Quota Share Reinsurance Agreement
 - YRT: YRT Agreements with 3rd Party Reinsurers, deemed in place



Some regulators have now agreed to a simple stop loss



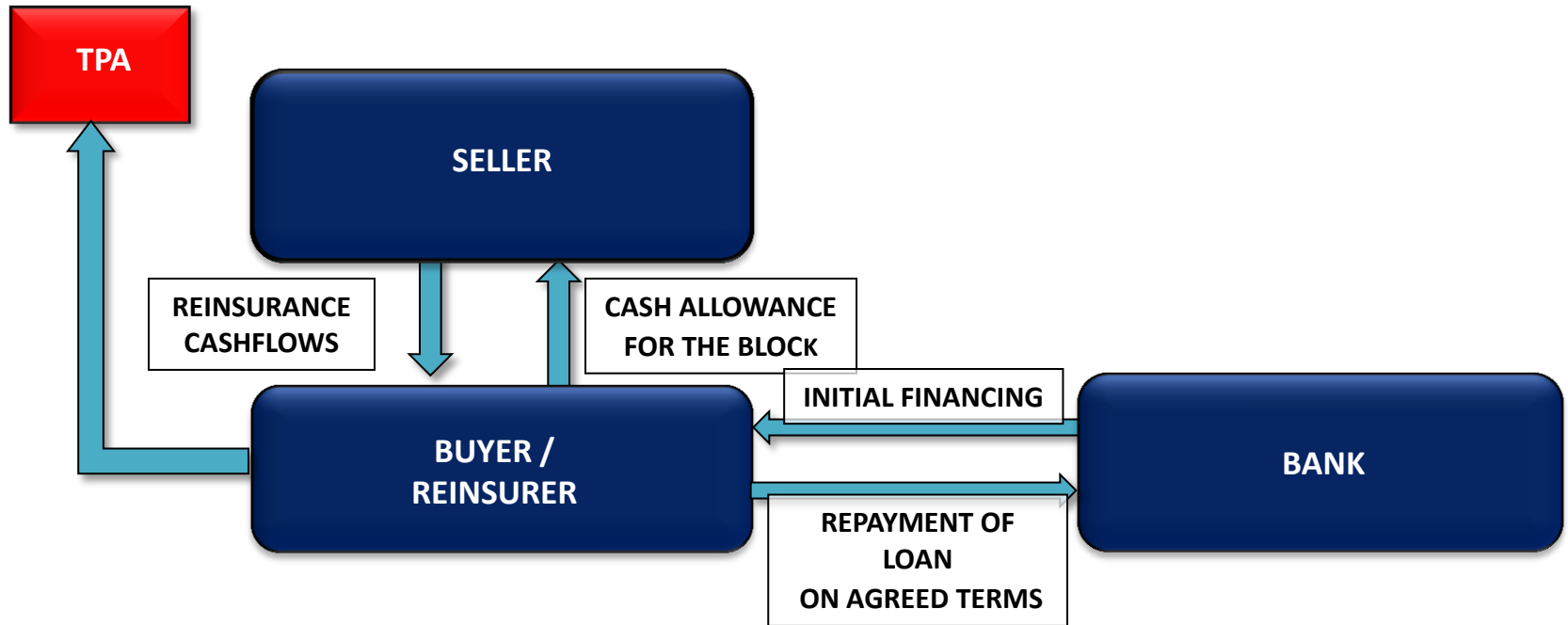
XXX/AXXX Captive Update

- Rector (AG38) is applied through the valuation manual (Actuarial Opinion) and essentially brings in PBR early for XXX and AXXX captives.
- Effective 1/1/2015 for policies issued after 1/1/2015 that are subject to XXX or AXXX reserving.
- Exemptions:
 - Reserves under YRT reinsurance
 - Business ceded to Certified Reinsurers
 - Business ceded to licensed or accredited reinsurers (unless they have a permitted practice or are in an RBC driven regulatory event).
 - Ceding company's state of domicile can exempt other reinsured business if it is covered under AG48 only by a technicality after consulting with FAWG.

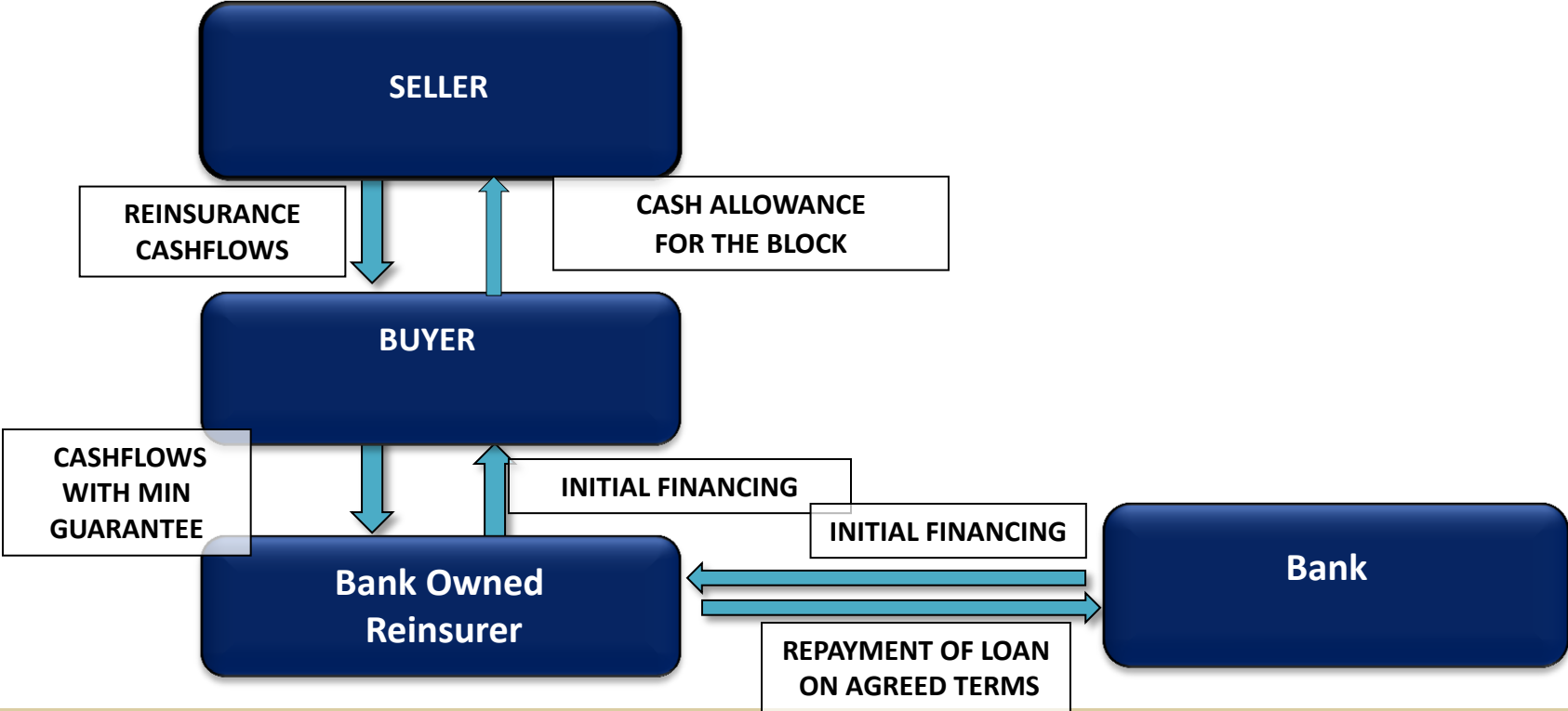
- Business ceded under a non-exempt reinsurance transaction as of 12/31/2014 is exempt
- The “economic reserves” calculated using VM 20 must be backed by Primary Security equal to:
 - Cash
 - SVO listed securities (excluding any synthetic LOC, contingent note, credit-linked note or similar security)
 - Commercial loans CM3 or higher, policy loans, and Derivatives used for hedging can also be used if backing funds withheld or modco reserves.
- Any assets acceptable to the commissioner can back the excess of the statutory reserve over the VM 20 reserve
- RBC? What will RBC requirement be for assets that are not Primary Security?

- Hard to buy a block of business outright – need policyholders agreement to move the policies to another insurer's books
- Permanent reinsurance is the solution
 - example: XL sold their UK/Irish Annuity block to GreyCastle via a permanent reinsurance agreement
- Banks and reinsurers are getting more sophisticated in the way they can help financing the transactions for buyers

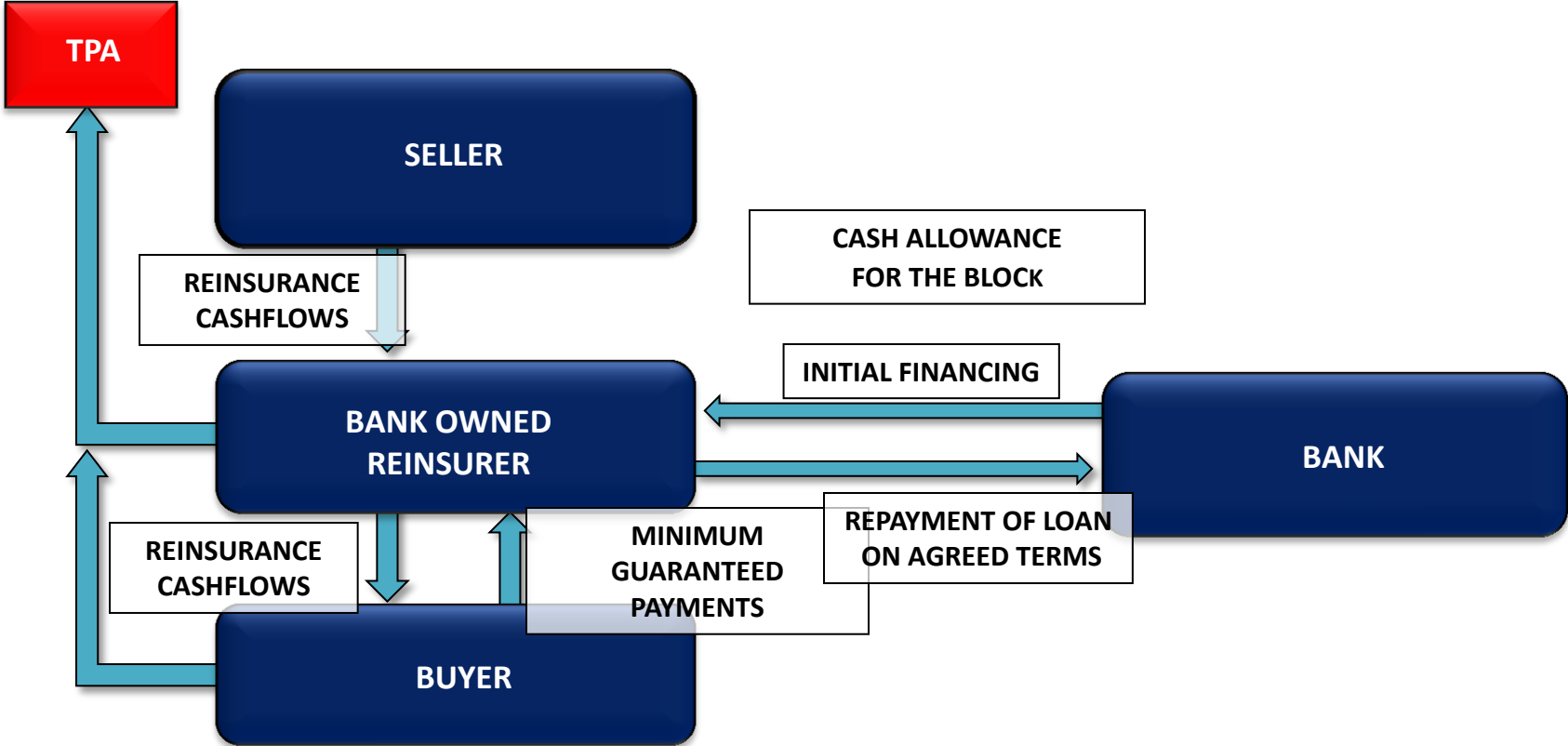
Purchasing a block - Typical Structure



Alternate Structure 1

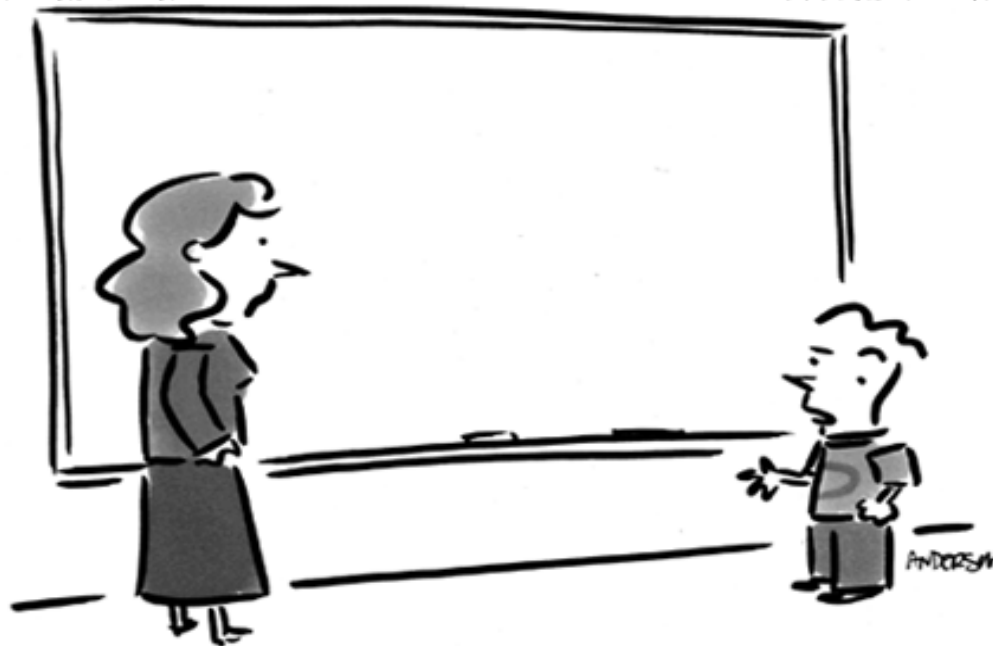


Alternate Structure 2



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"Before I write my name on the board, I'll need to know how you're planning to use that data."

- Data management/Security
- Documentation / Lawyer up!
- Regulations – relationship with regulators
- Representations and Warranties
- Credibility of the structure
- Good Reinsurer with Experience