



MEMORANDUM

DATE: August 29, 2013

TO: All federally regulated life insurers and reinsurers in Canada
Canadian Council of Insurance Regulators (CCIR)

FROM: Mark Zelmer, Assistant Superintendent, Regulation Sector

SUBJECT: Longevity Risk Transfer – Market and Regulatory Developments

In light of the fact that Canadians are living longer, the Canadian Institute of Actuaries recently released a draft report on Canadian Pensioner Mortality (July 2013).¹ It provides updated mortality tables showing that the life expectancies of Canadian pensioners continue to increase. Increasing longevity increases the cost of funding both pension plan obligations and insurer annuities involving life contingencies.

These increases are causing some pension plans to consider how they can best manage the larger financial obligations associated with longer periods of retirement. Life insurance and re-insurance companies have traditionally played an important role in assuming mortality risks, including longevity risk. It is therefore natural that there is a growing interest in transferring longevity risk from pension plans to insurance and reinsurance companies. If properly managed, longevity risk can be used to hedge the mortality risk in other life insurance obligations, and some jurisdictions (notably the UK) are already experiencing a trend in defined benefit pension plans transferring longevity risk.

The international regulatory community is working to increase the understanding of the risks associated with longevity risk transfers and to help set international principles for effective supervision of these arrangements. The Joint Forum² recently released a draft consultation paper entitled “*Longevity Risk Transfer Markets: Market Structure, Growth Drivers and*

¹ Draft Report for Comment - Canadian Pensioners Mortality, Pension Experience Subcommittee – Research Committee Canadian Institute of Actuaries (July 2013). The draft report can be found at the following link: <http://www.cia-ica.ca/docs/default-source/2013/213059e.pdf>.

² The Joint Forum was established in 1996 under the aegis of the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates. The Joint Forum is comprised of senior bank, insurance and securities supervisors representing each supervisory constituency.



Impediments, and Potential Risks". The Joint Forum is seeking comments from industry, policymakers and supervisors within and across the financial sectors by October 15, 2013.³

OSFI supports the development of international principles and standards that help promote a level playing field and limit the arbitrage of regulatory rules between jurisdictions. To this end, the industry and provincial insurance supervisors are encouraged to provide comments on the report directly to the Joint Forum. OSFI will consider what steps are necessary to meet the international expectations within the Canadian regulatory framework as international work progresses.

Similar to OSFI's advisory⁴ to defined benefit pension plans, OSFI expects that those insurers and reinsurers that may be interested in assuming longevity risk should have the appropriate risk management expertise and governance to assume this particular risk.

We look forward to receiving your comments on this Joint Forum paper specifically and the topic of longevity risk transfer more generally. Please direct your comments to Stuart Wason at stuart.wason@osfi-bsif.gc.ca.

Mark Zelmer
Assistant Superintendent
Regulation Sector

³ The Joint Forum draft consultation paper entitled "*Longevity Risk Transfer Markets: Market Structure, Growth Drivers and Impediments, and Potential Risks*" can be found at the following link: <http://www.bis.org/press/p130815.htm>

⁴ OSFI issued a draft policy advisory for defined benefit pension plans on longevity insurance and longevity swaps in August 2013, which can be found on the OSFI website at the following link: http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/pension/guidance/LongIns_e.pdf