



SAVINGS PRODUCTS AND THE LIFE INSURANCE INDUSTRY IN CANADA

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25 November 2004



Topics

- OSFI's Role
- Canadian Industry
- Insurance Products in Canada
- Insurance versus Savings
- Segregated Funds
- Universal Life
- Investment Expertise of Insurers
- Risk Management and Corporate Governance Practices of Canadian Insurers



The Role of OSFI

- Primary regulator of Financial Institutions
- Safeguard policyholders from undue loss
- Contribute to the public confidence in a competitive system



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Federally Regulated Financial Institutions

- 305 Insurance Companies
- 145 Deposit-Taking Institutions
- 29 Foreign Bank Representative Offices



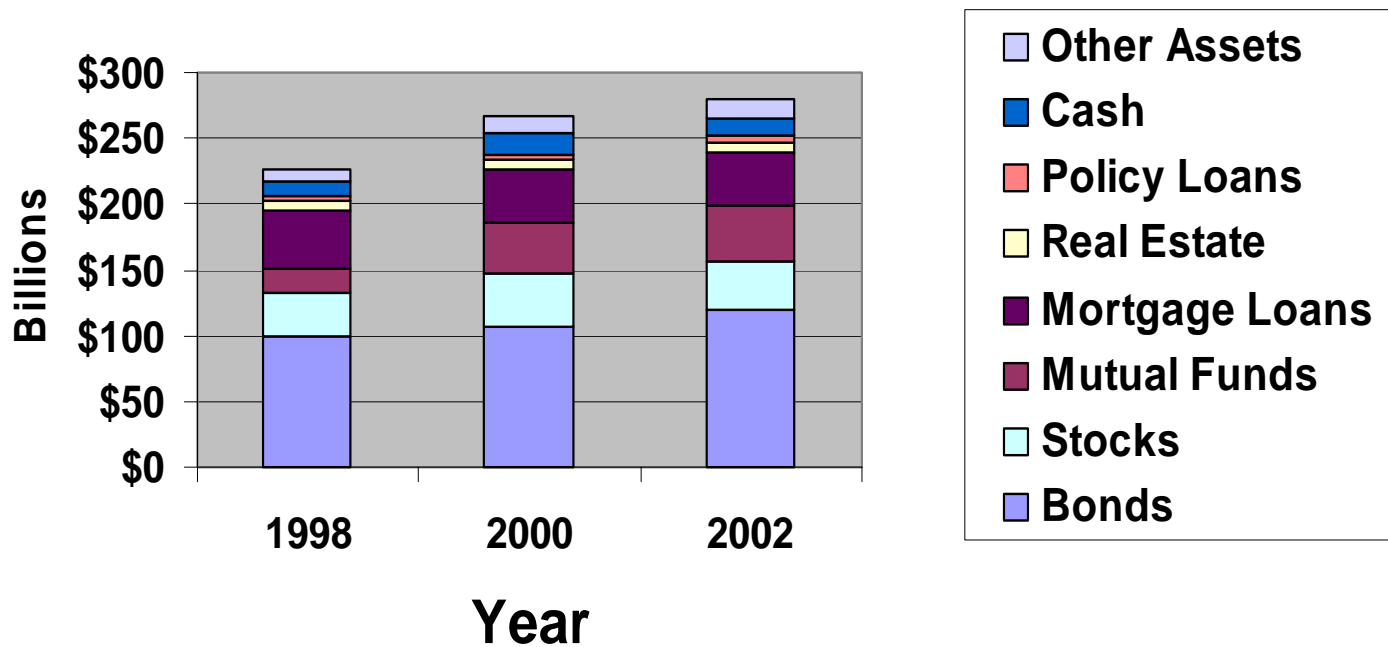
Asset Breakdown Conglomerate Insurers Worldwide

At June 30, 2004

- Assets Under Management \$855 Billion
 - General Fund Assets \$367 Billion
 - Segregated & Mutual Funds \$488 Billion



TOTAL ASSETS - Canada only





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LIFE PRODUCTS EARNINGS

BALANCE SHEET

PROTECTION
INSURANCE
LIFE
HEALTH
UNIVERSAL LIFE

ON
ON
ON
ON

PROFIT MARGIN
EXPERIENCE GAINS/LOSSES
INVESTMENT INCOME

SAVINGS

DEFERRED ANNUITIES
IMMEDIATE ANNUITIES

ON
ON

SPREAD
SPREAD

SEGREGATED FUNDS
MUTUAL FUNDS

OFF
OFF

FEE INCOME
FEE INCOME



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On Balance Sheet



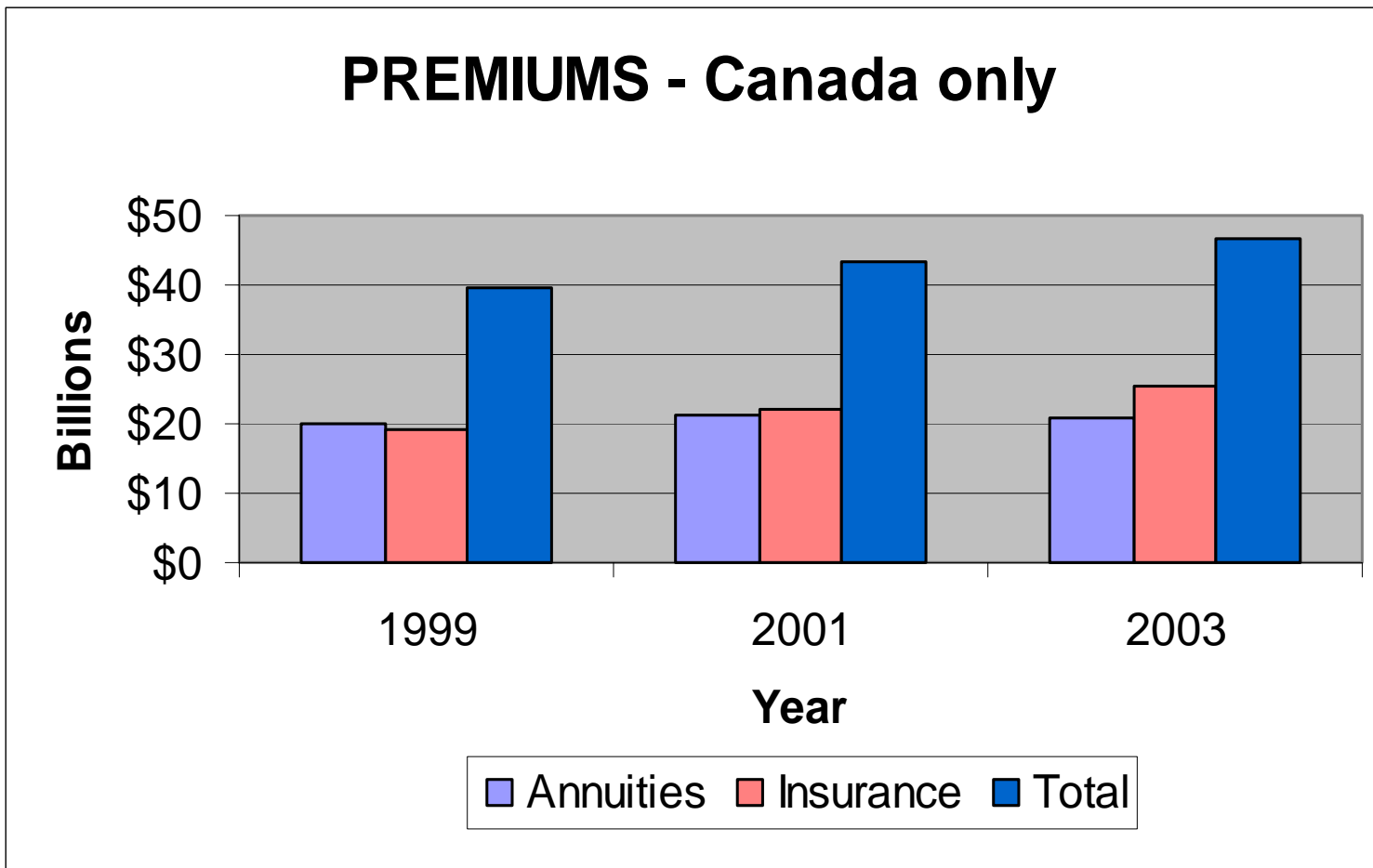


Premiums – Canada only

BREAKDOWN BY PRODUCT TYPE

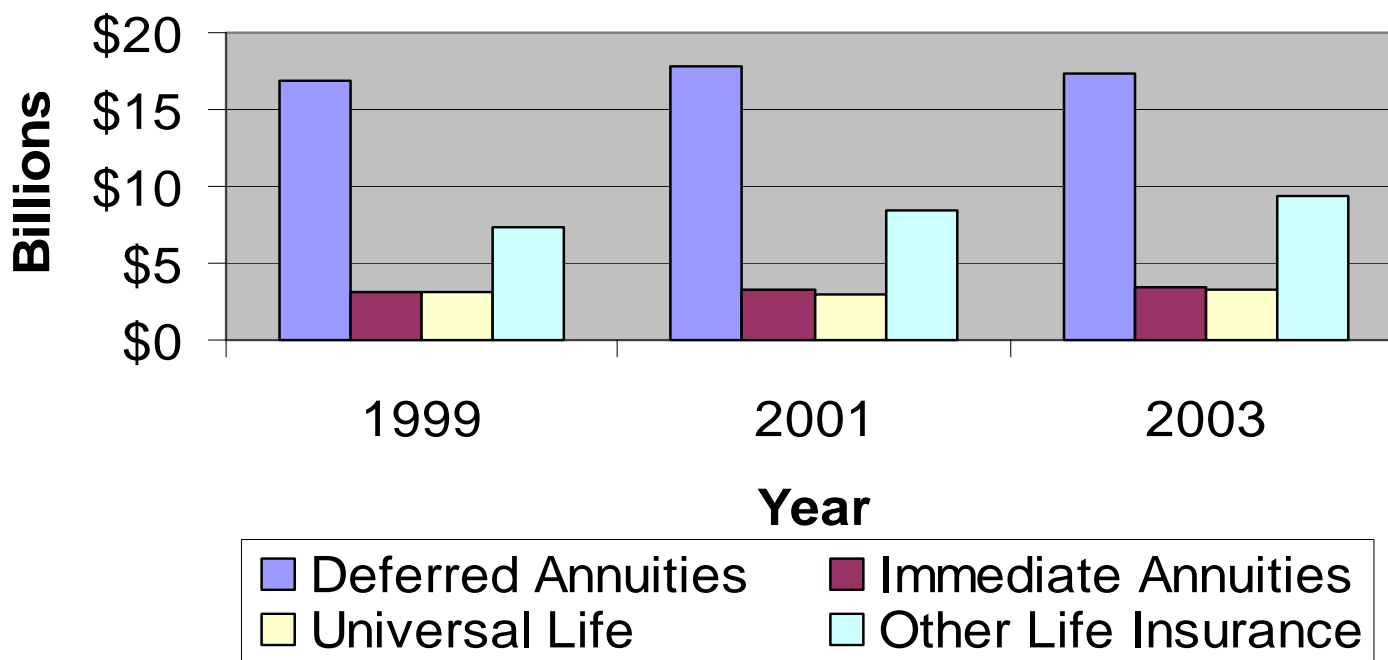
(NET OF REINSURANCE) - \$ Billions

YEAR	2003	PERCENTAGE
ANNUITIES	21	45%
INSURANCE	26	55%
TOTAL	\$47	100%





SAVINGS & INSURANCE PREMIUMS Canada only (on balance sheet)





Benefits of Product Mix

- Market Volatility Balance
 - Insurance versus savings products
- Mortality Balance
 - Annuities versus insurance
- Attractiveness varies with economic conditions



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Off Balance Sheet





LIFE PRODUCTS EARNINGS

BALANCE SHEET

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LIFE
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SEGREGATED FUNDS
MUTUAL FUNDS

OFF
OFF

FEE INCOME
FEE INCOME



Segregated Funds

- Off balance sheet
- Generate fee income
- Ten year capital guarantee
- TBS approach
- Modelling
- Low probability, high severity risk
- Assets off balance sheet
- Liabilities on balance sheet

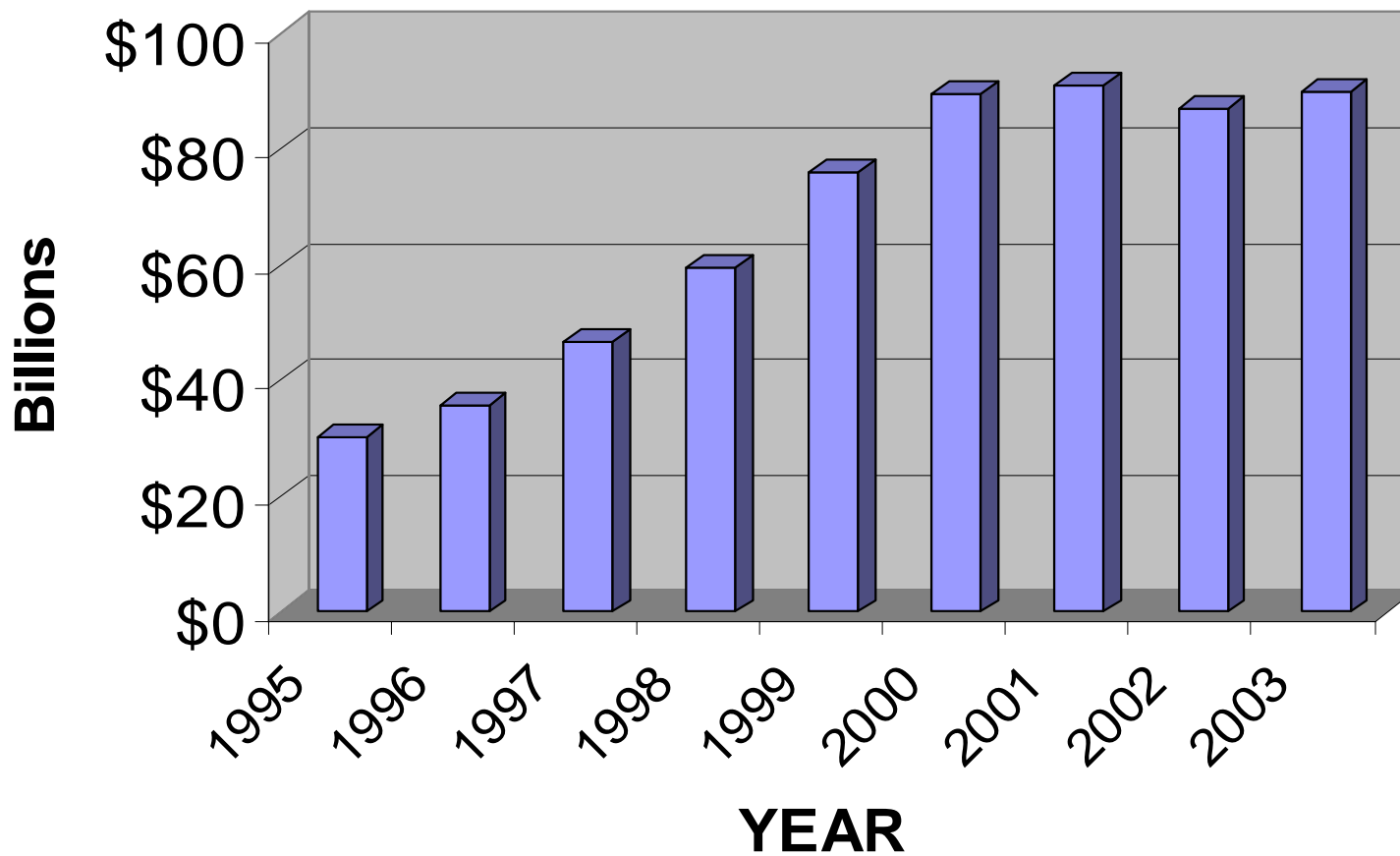


SEGREGATED FUND ASSETS HELD IN CANADA

End of Year	Bonds	Stocks	Mutual Funds	Other Assets	Total Billions
1996	27%	47%	10%	16%	\$36
1998	22%	33%	31%	14%	\$60
2000	15%	31%	42%	12%	\$90
2002	14%	26%	48%	12%	\$87



TOTAL SEGREGATED FUND ASSETS





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Universal Life Features

- On balance sheet
- Cost of insurance
 - Level – lapse supported
 - Yearly renewable term
- Savings element
 - Range of investment opportunities
 - Variable premium payments
 - Impact on profitability



Source of UL New Business Premium by Distribution Channel

- 60% brokers – GAs/MGAs
- 17% career agents
- 11% brokers – independent/PPGAs
- 9% national accounts
- 3% other



Universal Life Liabilities

- Large conglomerate companies
- Mid-sized companies



Large Conglomerates-2003 Y/E

PRODUCT	ACTUARIAL Liabilities CANADA only		ACTUARIAL Liabilities CONSOLIDATED	
	Billions		Billions	
INSURANCE EXCLUDING UL	\$38	47%	\$80	47%
UNIVERSAL LIFE	3	4%	9	5%
SEGREGATED FUNDS	0.3	0%	1.4	1%
DEFERRED ANNUITIES	23	29%	49	29%
IMMEDIATE ANNUITIES	15	18%	26	15%
OTHER	1	2%	5	3%
	\$81		\$171	



Seven Mid-sized Insurers

2003 Y/E

PRODUCT	ACTUARIAL LIABILITIES	
	CANADA only	
	Millions	
INSURANCE EXCLUDING UL	\$3,311	19%
UL	1,990	11%
SEGREGATED FUNDS	153	1%
DEFERRED ANNUITIES	8,813	50%
IMMEDIATE ANNUITIES	2,420	14%
OTHER	962	5%
	\$17,650	

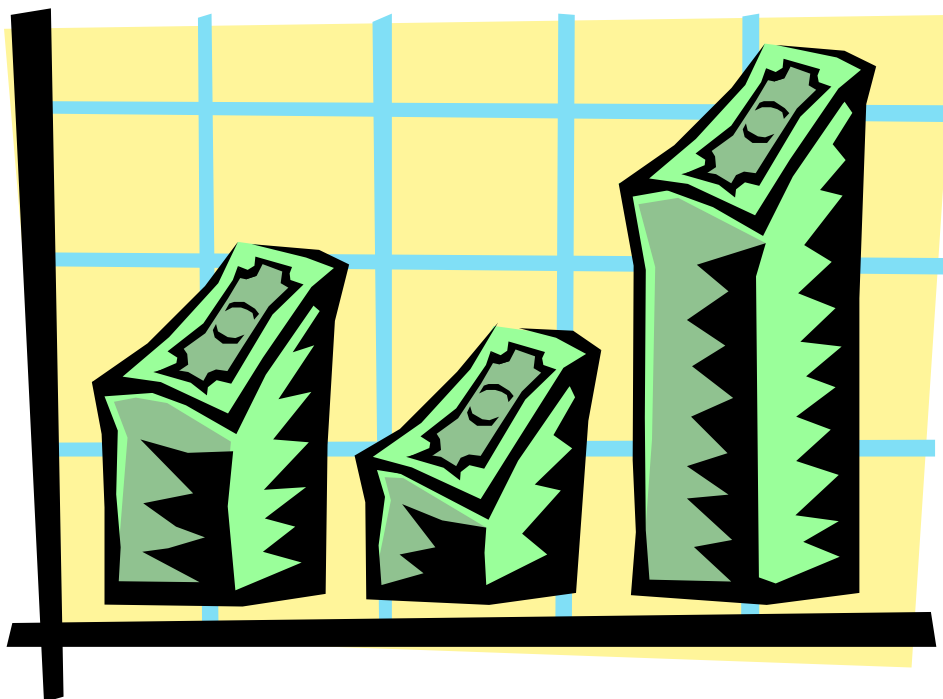


UL Pricing Assumptions

- Funding level
 - Fee income
 - Cost of insurance
- Level of flow-through of risk
 - Equity or linked investment
 - Minimum guaranteed renewal rate



Investment Management





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Asset Management Expertise

- Manage medium and long-term assets
- Skills relate to cash flow and duration matching
- Expert in fixed income assets
- Control interest rate risk
 - Robust ALM techniques
 - Credit risk analysis
- Insurers manage business conservatively



Asset Management Expertise (cont'd)

- ALM methodology unique to life insurance companies
- Little equity risk
- Stochastic cash flow analysis
 - More sophisticated understanding
 - Quantify risks



Effective Use of Cash Flow Differences Between Products

INTERSEGMENT NOTES

- Enhance cash flow management
- Make efficient use of cash flows between lines
 - e.g., deferred and immediate annuities
- Transfer spread from one line
- Maximum use based on capital
- Fully documented policy
- Surplus not used



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Savings Products - Risks

- Asset defaults
- Cash flow mismatch
- Interest rate volatility
- Market volatility
- DAC recoverability
- Persistency
- Management fee decline



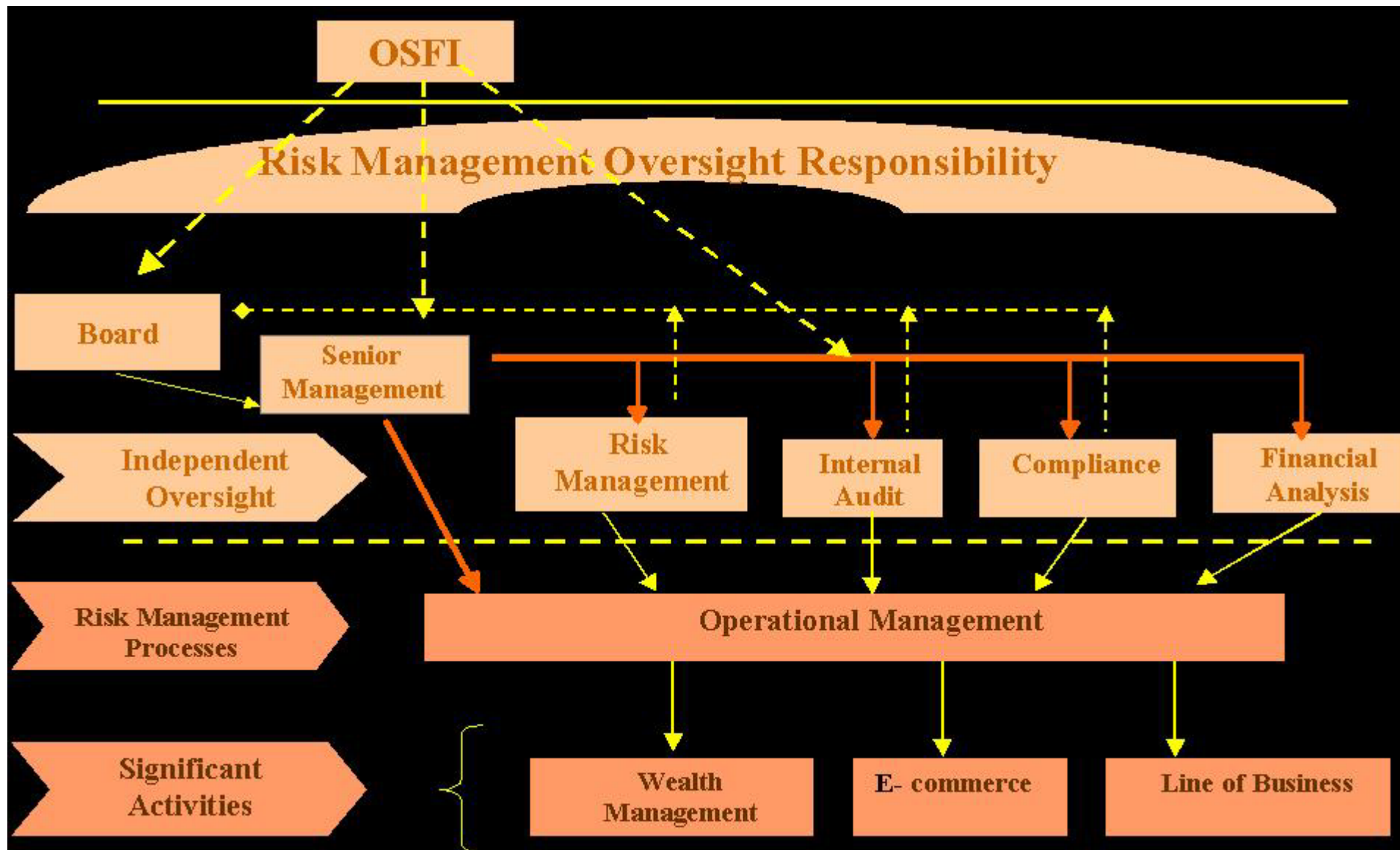
Risk Management

- Asset liability management
- Corporate governance
- TBS for segregated funds
- Product design and pricing
- Variable MERs
- CALM valuation methodology
- Reinsurance



Corporate Governance

- ALCO
- Quality of assets
- Risk management committee
- Expertise with managing savings products





Insurance vs. Banks

- Longer term assets
 - Liabilities longer term than assets
 - Major assets: bonds
 - Assets & liabilities equally important
 - Explicit provision for each type of risk
- Shorter term assets
 - Liabilities shorter term than assets
 - Major assets: loans
 - Focus mainly on assets
 - Reliance on spread as implicit coverage of risks



Attractiveness to Customer

- Consumer protection
- Privacy
- Tax deferral
- Higher yield than banks
- Flexibility, choice and features
- Guarantees – interest, capital, mortality
- Easy move from deferred to vested annuity