ILS MARKET RETURNS COULD BE HIT BY FURTHER NATURAL CATASTROPHE LOSSES

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Natural disasters in the second half of this year could have a serious impact on the returns generated by the insurance linked securities (ILS) and reinsurance linked investment markets in 2016, a panel of industry figures has claimed.

Speaking at the Guernsey-hosted 'ILS Insight' masterclass in Zurich earlier this month, Des Potter, Head of GC Securities, EMEA, told the audience that three sizeable events in the first half of this year had created a scenario where further disasters, such as hurricanes, in the latter part of 2016 could lead to losses being incurred by some ILS funds.

"If the second half, particularly the hurricane season, shows even a mid-size level of activity, I think you could see serious impact on some of the returns for some of the investors into these sidecar vehicles," said Mr Potter.

Mr Potter said the first half of 2016 had been an interesting period for catastrophe losses.

"There's probably been three reasonable-sized events so far; the largest being the wildfires in Canada and you can probably add to that some of the tornado hail events in the US and the earthquake in Japan. Each of those events is estimated to generate over $3 billion of losses to the insurance industry."

He explained that much of this loss was being borne by the reinsurance market, which in turn had retroceded some of that loss into the ILS market, either as standalone industry-loss warranties (ILWs), as was the case with some of those involved in the Canadian wildfires, but also as part of the cessions in some worldwide property cat sidecars.

"The impact in the ILS market is going to be relatively small, though. The losses so far, in the first half of the year, will just be within the expectations of the budgeted loss ratios of these sidecars, although the level of losses in the first half are probably running ahead of plan. So, we're probably at an interesting stage of the year when we're looking with interest at the activity in the second half," said Mr Potter.

Andreas Von Reitzenstein, Underwriter at Credit Suisse's ILS team in Switzerland, who was speaking on the same panel, said he largely agreed with Mr Potter's outlook, and added that the Canadian wildfires had surprised the market.

"Nobody would have expected a wildfire to cause 4.6 billion Canadian dollars [worth of damage]. I think that was a surprise for everybody, especially for the primary insurance carriers there. They will see losses up to the second, third layers, which is quite an event for Canada. We will see changes in the Canadian market on the pricing, that's for sure," said Mr Von Reitzenstein.

'ILS Insight' was held at the Park Hyatt Zurich and attracted more than 100 delegates from across the insurance, asset management and wealth management and adviser communities. It consisted of two panel sessions featuring ILS experts from Guernsey, the UK and mainland Europe and a keynote speech from Dirk Lohmann, Chairman and Managing Partner of Secquaero Advisers AG. It was the second time that the annual event had taken place in Zurich, having moved to London last year.

The first panel session focused on the rise of ILS and examined current themes in the market, the appetite for ILS among investors, rated reinsurers and the impact of Solvency II. The second panel session looked at the servicing of ILS funds and considered open-ended and closed-ended structures, options for administration of funds, choice of domicile, benefits of stock exchange listings and the use of delegation agreements for pricing of ILS contracts.

Guernsey Finance Chief Executive Dominic Wheatley said: "The success of the ILS Insight event reflects Guernsey's growing prominence as an ILS centre. We now look forward to welcoming many of the same people to our Les Rendez-Vous de Septembre reception in Monte Carlo on 13 September and to the Guernsey Insurance

Forum on 21 September in London."

'ILS Insight' was supported by event sponsors Aon, Artex, Carey Olsen and the CISE.

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