

FUNDS AND INSURANCE COLLIDE IN THE DEVELOPMENT OF SINGLE ILS STRUCTURES

24 JULY 2018

A new single structure for conducting both the fund and insurance element of insurance-linked securities business is being devised in Guernsey, delegates heard at the Guernsey Finance-hosted ILS Insight event in Zurich.

Expert insurance lawyer Mark Helyar, of counsel at event sponsors Bedell Cristin, is leading the way with the development of “true convergence” in the ILS space where, he said, “capital markets and insurance markets meet”.

“My job is to put together structures to help them to invest in each other,” he said while speaking as part of the event’s technical showcase. “The collateralised re market has become so big in recent years. With Cat bonds you’ve got risk looking for capital, and with collateralised re you have capital looking for risk.

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Mr Helyar is involved in the development of what he called the “Fund of One”, where the investor would set themselves up with an unregulated investment fund and their own transformer cell, thereby running a private fund within a regulated structure.

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“This is the way I think investors want to see the direction of travel – more control, reduced costs, both vehicles in the same jurisdiction, variable capital commitments brought in and out, and you can see exactly what you are doing.”

He said this model removed the challenges of frequently operating in different jurisdictions, regulation, time zones, accounting rules, audit, and extra layers of administration costs.

“There is a big circle and everyone in that circle is taking a cut. Investors have difficulty understanding where the value is in the chain, it is difficult to understand the process, and particularly when you get a year of natural disasters like last year, people start to ask questions. It occurred to us and to clients that this kind of approach doesn’t suit them. They want to clearly control the deals they are doing.”

Mr Helyar said he expected the structure would become popular for large investors who did not want to be treated like a private investor, offering full transparency, a significant reduction in duplicated costs, and the

chance to work with their choice of co-investors.

“I am quite excited by this – in talking to regulators we are doing two things here which are usually done in silos – investment and insurance divisions often take a different approach to risks,” he said.

“We have one of these on the starting blocks at the moment – a transformer and fund in the same vehicle. I’d like to see people considering this type structure in the future, it is an excellent vehicle to demonstrate transparency for investors, and good thing for Guernsey.”

The Guernsey ILS industry has been generally supportive of such innovation, which it is felt would present significant efficiencies for ILS fund managers.

Dominic Wheatley, Chief Executive of Guernsey Finance, who opened the ILS Insight event, said: “We’re proud that Guernsey offers a combination of stability, expertise, and receptiveness to new ideas that makes us uniquely able to facilitate innovation as it emerges in this space, and our commitment to maintaining this environment is clear and unwavering.”

A panel debate at ILS Insight also heard about increasing investors demands for transparency.

“It is important to have a committed and engaged investor community if you are going to have a sustainable investment product. I take this as a sign of a properly mature market, and demand for the product and innovation in the industry bodes well for the future,” Mr Wheatley added.

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