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# Artemis Monte Carlo Executive Roundtable 2017

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# FOREWORD

**Welcome to the second Artemis Monte Carlo Reinsurance Rendezvous Roundtable, in which participants discussed the potential impacts of recent catastrophe events on the insurance-linked securities (ILS) sector's investor base, and the broader marketplace, as well as emerging trends and challenges as the January renewal season fast approaches.**

Following the devastating impacts of hurricanes Harvey and Irma, roundtable participants discussed whether the active 2017 Atlantic hurricane season would be the first real test for the ILS space, highlighting how important the coming months would likely be for both sponsors and investors across the industry.

Recent catastrophe events have again brought the lack of insurance penetration in both developed and emerging parts of the world into focus, and ILS industry experts explored the potential for the asset class to expand its remit, providing both protection and revenue, with an added humanitarian element.

The bundling of risks and potential challenges this creates was also discussed during the debate, as was the need to reverse some of the loosening of terms and conditions that has been evident throughout the softened market phase.

As one of the most rapidly advancing and changing exposures in the risk transfer space, cyber was highlighted as a possible avenue for ILS expansion, but roundtable participants were eager to underline the inherent complexities and challenges surrounding cyber risk.

Looking forward to the key January 2018 renewal season, participants shared some thoughts on whether recent catastrophe events in the U.S. would have a meaningful impact here, stressing the need for investors to understand inherent uncertainties with catastrophe risk investments.

Throughout 2017 the ILS market has continued to grow, with both investors and sponsors showing maturity and sophistication during a testing insurance and reinsurance industry landscape.

**Steve Evans**
*Owner and Editor in Chief, Artemis*

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**CLOCKWISE FROM LEFT, SEATED:**
Jutta Kath - *Secquaero*, Richard Lowther - *Hiscox Re + ILS*, Will Haddrell - *Blue Capital Management*, Steve Evans - *Artemis*, Tom Johansmeyer - *PCS*, Clark Hontz - *Beach Bermuda*, Luca Albertini - *Leadenhall Capital Partners*

**CLOCKWISE FROM LEFT, STANDING:**
Robert Procter - *Securis Investment Partners*, Nick Bugler - *Wilkie Farr*, Rick Welsh - *Sciemus*, Ed Jordan - *Tokio Millennium Re*

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# PARTICIPANT INDEX

**Steve Evans**, Owner and Editor in Chief, Artemis.bm

**Richard Lowther**, Partner and Chief Operating Officer, Hiscox Re Insurance Linked Strategies

**Rob Procter**, Chief Executive Officer, Securis Investment Partners

**Jutta Kath**, Chief Operating Officer, Secquaero

**Luca Albertini**, Chief Executive Officer, Leadenhall Capital Partners

**Clark Hontz**, President, Beach Bermuda

**Nick Bugler**, Partner, Wilkie Farr

**Will Haddrell**, Portfolio Manager, Blue Capital Management

**Tom Johansmeyer**, Assistant Vice President, PCS

**Rick Welsh**, Chief Executive Officer, Sciemus

**Ed Jordan**, Head of Capital Solutions, Tokio Millennium Re



STEVE EVANS

**The focus at Monte Carlo will be on the impacts of recent hurricanes, which could be the biggest test for the insurance-linked securities (ILS) space since its inception. With this in mind, how do those in the room expect the industry and investors to respond?**

RICHARD LOWTHER

It's been an extremely active aggregate loss year, and this is a chance for ILS to show that it doesn't have a glass jaw, that it will pay claims quickly and provide stable capacity.

Hiscox Re + ILS is open for business. We are in constant communication with our investors on both the impact of recent events, and also the opportunity. Our ILS investment partners can respond quickly and we were pleased to be quoting on business with the additional capacity we are able to bring into the market. So, that said, I think we are at an inflection point. You can't have these events, this level of loss aggregation and there not be a change in the supply and demand mechanics of capital in the market. By actively quoting for backup covers we are helping to spur on price discovery, at this stage.

> Richard Lowther – **This is a chance for ILS to show that it doesn't have a glass jaw**

ROB PROCTER

It's obviously turning out to be a very different year to many of the years we've seen recently. Obviously, a challenging year. I think at Securis, first and foremost, our obligation is to our clients. This is a tough time for them, they're going to face some losses, we don't know exactly what those are yet, but, for many it will be a new experience and we want to hold their hands through that. To the extent we need to provide information and have frequent and ongoing dialogue with them, we are doing just that.

To compare the ILS market with the traditional carriers, we will put out something today that is our estimate. Now it will be caveated, it will be pretty wide-ranging, probably, but we have investors screaming for information about what these losses are. They want information yesterday about the size of the loss. Now, compare that to carriers, and they'll say, 'Well the third-quarter closes quite soon and then a few weeks after that we'll have to say something to the market.' Well this is just a very, very different level of communication.

I don't know who is going to fare better, but I don't think that's really the point. I think what the point is, is we're setting out to provide a service that our clients and investors are demanding.

JUTTA KATH

To build on what's been said about the dynamic of information, I worked in the traditional market for quite some time, including the claims side, and now in ILS. We had discussions on Friday (sic: before Irma made landfall) about what we could say, and it's really difficult. The storm has not even made landfall and you're supposed to say something. And on the other side, when I'm looking at the "traditional" side, I remember the 2005 floods where the water was still rising, and people were screaming for information, we could lean back and say, 'Well, the water is still rising so we will say something in three weeks' time.' So, I think that's a really different type of thinking. We have the responsibility towards our investors to be more proactive, even though the facts are still very, very vague.

LUCA ALBERTINI

The responsibility to the investors is also not to make them believe that we can actually be accurate. Pretending to accurately predict losses immediately after landfall or even with a storm in the water is not good service. Investors need to understand that for large events it is really, really uncertain and it's not just a small disclaimer.

On the price discovery conversation, I raised a point with brokers that seemed not particularly obvious to them. Which is, when you run a model on how much is lost, apart from the unmodelled perils, such as AOB issues and everything that can amplify the loss, have somebody work out the capital that will not be there post-event because the buffer loss table traps it. It's a collateral trapping issue, and I believe when we work out how much collateralised capacity backs the industry, we need to work out how much capital is trapped to understand how much capacity has really been taken by the hurricanes. And the meeting I had with a reinsurer on the renewal of their retro cover, I said, 'Well look, my price will be X for the loss affected stuff, Y for the clean stuff and Z for the stuff that is clean but we have to hold the collateral.' So that is something I think that for the first time where for large losses the non-ILS world is working next to an important ILS partner.

CLARK HONTZ

I think that what Luca is saying is 100% accurate. Many of Beach's clients that are in the ILS space, both retro or ILW, have collateral that is not going to be released; there's going to be a lot of collateral trapped because there is no way of understanding what that loss is going to be in the short term and a standard collateral release clause allows for the collateral to be trapped without knowing what the ultimate loss is.



So, with that being said, I'm very sure that side-lined capital can replace that, but at what price have they been promised to come back in? We all hope for increased prices, I think, relative to the industry. We spoke to rated carriers when storms were still in the water and we were advised that they are likely to have capital post event with 5% to 10% of surplus potentially impacted. On the other hand, ILS markets will have their capital trapped in trust accounts and will need to raise additional funds to meet existing clients' needs. So, we think that there will still be significant competition for the catastrophe business that everyone's seeking.

NICK BUGLER

Another example arising from recent events is about the substitution of "trapped" capital. I've never seen that actually. The capital is just there, it's held back. I haven't seen a provision providing for substitution of capital. When you think about it, it's kind of a bit obvious, but you haven't seen it. So, I would hope that, in terms of the ILS market, recent events would drive improvements to make the market better in the future.

WILL HADDRELL

The dilemma that most concerns me is in regard to when new capital comes in. You must consider the scale of locked capital compared to the new capital sitting in the wings. Which one outweighs the other? If there's more capital sitting on the sidelines than is actually locked, you could have a bigger capital influx, which could easily suppress any pricing changes.

The managers who have the ability to raise and bring in fresh capital, what are they promising the newer, reloading investors? 10%, 20% price increase? If they promise them 20%, and there is a larger capital influx than estimated, how do they deliver this extra return? Take more risk? Add leverage? This is the precise situation where one could be tempted to go outside your original remit, and potentially cause issues with investors.

Given this I think a cautious approach to how you advise investors, or what you can promise investors is the best approach. An approach where you demonstrate your portfolio performed as it was portrayed, showing what you promised as a return given a certain loss in a year. After this, there must be some good faith from the investor as a result of your performance and past experience, that the investor can trust the manager will have its best interests at heart, and

will construct a diligent portfolio in the same manner as before. If more profit can be derived from the same risk levels of last year, all the better. I think this is the important thing right now.

CLARK HONTZ

I'm not sure we're going to see massive price increases based on the events that have occurred, to date. I think you'll also see inter-fund trading more often, which is effectively rebalancing and providing portfolio diversification, which traditional reinsurers already have through multi lines of business. However, you might also see primary carriers and reinsurers buying more reinsurance as opposed to protecting their earnings by saving money and retaining more risk. So, there's a lot of dynamics.

STEVE EVANS

**So perhaps the market could potentially see increased buying of protection as a result of these events? Ultimately a change in the dynamics of reinsurance buying, driving opportunities for ILS?**

ROB PROCTER

Yes, definitely. Frankly, I've spoken to people today who've said this doesn't change their plans, yet, and that if the loss had been bigger they might have written more inwards and bought more outwards protection, in terms of retro. And others who have said, 'yeah, they are going to buy more.'

We are going to have a lot of discussions about economic losses. These are two very, very big economic losses, wherever Irma ends up as an insured number, it's probably in excess of $100 million economic, at least. Harvey is getting on for twice that, a highly unusual loss. But yet, once again, in the most developed market in the world, where is the reinsurance?

JUTTA KATH

Back to the point about the most developed insurance market in the world, is this a fair statement? At the time that Harvey was going on we had at the same time the Asian situation, if you look at the pictures they looked awfully the same, and the uninsured portion is huge. If you had a California earthquake right now, you would have a similar situation, because only 10% of policy holders buy insurance because they are not required to buy it or because they don't think it's relevant. You could have the same situation of a huge uninsured portion of losses, and that's why I'm questioning the picture of the most developed insurance market in the world. "Developed" in this context would imply high level of coverage in light of high property values.

Jutta Kath – **That's why I'm questioning the picture of the most developed insurance market in the world**

TOM JOHANSMEYER

It's an interesting thought, there is a lot of work to be done in developed markets, clearly. The CEA has a lower penetration rate than PAID in Romania. And is California that far behind? The TCIP has probably three or four times the penetration of the CEA, and I think the differences are significant, both in terms of product development and pricing, which are designed for attainability in Turkey and Romania, but also in terms of education and distribution. And I've been obsessed with distribution for the past year because I think it's the one thing our industry does wrong, everywhere. We don't use the dirty four-letter word, sell, but you've got to sell cover. You've got to develop something that's sellable and useful, and not every product is designed to be useful. And what happens when you bring all that together is a very low penetration rate in a developed market.



JUTTA KATH

But you also need to sell something that really provides a solution to the problem.

TOM JOHANSMEYER

The end user needs to understand what they're getting and why they need it. And they need to be delivered a product that they can understand as useful. If I were to develop the best product – the best insurance thing in the world – in my head and bestow it upon you, and you don't see it as useful, you'll tell me to bounce it. I think there is some work to be done on things like quake, flood, even on the specialty side, where you're developing a product that's designed to meet the customer or client need. And if you do that upfront, distribution becomes a lot easier because you developed something that's recognisable, or identifiable as useful, and that's a crucial bit. The problem is it's hard, it's expensive, and it's not always as much fun or simple as developing what you can develop rather than developing what the market needs.

LUCA ALBERTINI

Look at motor, it has to be made compulsory or else people don't buy. So, at the end of the day, we either make the whole insurance world compulsory, which would be good on one side but on the other side when the government would want to set the price, and this is not likely to be good. But what I think is in-between, is the fact that the lenders are allowed to lend without proper insurance coverage, that is something that is upsetting. I have been discussing with a rating agency, and I said, 'You don't give more than BBB+ to a first-event cat bond, but you don't stress any mortgage pool for quake, how do you do that?' And then, clearly, the banks are aware of that. So, it has to be a regulatory push to say, 'I only take your mortgage if it's insured', and things would change.


TOM JOHANSMEYER

Eastern Europe was running a lot of 120s, 130s and 140% combined ratios [for motor third-party liability]. But it's tough because compulsory can sometimes just require you to write that business.

LUCA ALBERTINI

That's why I didn't say compulsory. That's why you don't force someone to buy quake insurance, if they don't have quake insurance then they don't get the mortgage (or they pay more for it). And then you start actually making the banking industry safer, you actually stop lying about what the mortgage situation is, and then you reduce the cover gap.

JUTTA KATH

How about asking whether the risk is insurable, at all, before you can get to specific insurance products, or you even make insurance compulsory. Are buildings in flood plains insurable? That is not only an issue in the U.S., I have seen the 2007 floods in the UK and the buildings sat in flood plains. This is a wider issue for a given society: affordable housing, cheap houses and all these things. These questions need to be answered first before we get to the question of compulsory insurance. It also needs a wider dialogue including but not limited to the insurance industry.

CLARK HONTZ

I think it's hard to contemplate compulsory insurance purchasing for multiple lines of business, especially in America. In order for ILS underwriting capital to be able to write compulsory insurance they will need to follow the fortunes and get to know their clients very closely, instead of relying so heavily on modelled output.

STEVE EVANS

**In light of recent events there's been a lot of focus on property business, but what else do people think is going to be interesting at renewals? Will investors be looking to capitalise on any market dislocation and, at the same time, will they be looking to gain some diversification?**

LUCA ALBERTINI

First of all, investors aren't asking for diversification, at least not with us. If diversification comes profitably, ok, but I have noticed with the international business, rate reductions have been going on for much longer, and much more severely. Diversification is expensive.



It's interesting, one of the things about these two losses is how much money an energy loss will there be, hence you're starting to find diversifiers are different. Because of these hurricanes, maybe their diversification benefit will be taken away. Marine and energy, having just suffered big losses in the last three months, will need a correction on how much of a diversifier it is and we need to see.

RICHARD LOWTHER

I think it's probably important to remember that most investors are attracted to ILS because of its low correlation benefits. However, what unlocked the asset class was the development of robust modelling tools that enable investors to have an independent view of performance.

But, we're very cognisant to make sure that we can understand the correlations and also be able to value these trades, that's another key part. If it's slow to report, if it's opaque, if it means high attritional losses, then it just enters a whole new level of complexity that we don't want to entertain for certain investors.

It might fit some, and that's great, they may well have an appetite to explore these areas. I think again, it's horses for courses. If an investor wants ILS that has low correlation to wider financial markets it needs to be predominantly natural catastrophe. Other event-linked, volatile, short-tail lines of business can also be a source of attractive diversifying trades. We put a lot of work into understanding how perils like flood and per-risk policies covering man-made events might clash with natural catastrophe covers. They can be appealing, but you need to be able to explain them very carefully.

STEVE EVANS

**What about the bundling of risks that we've seen in the market, with specialty risks finding their way into property portfolios? Moving forward, is this trend expected to persist or reverse?**

ROB PROCTER

When we do write specialty, we do it in various ways, and we try and do it on a stand-alone basis. So, if you want specialty risks we give you specialty risk cover, not something that's going to be bundled with lots of other risks.

One of the things we've not talked about is whatever the price impact, and obviously as assumers of risk we hope for the biggest price increase, but pricing aside, what's going to happen to terms and conditions? I think a lot of the creep that's happened in the past few years, I would hope is going to be reversed. However large these losses are, this is a different year, and I hope it is going to wake up some of the ILS markets and other markets that are out there to just stop and reverse this creep, whereby, marine and terror, and cyber has crept into reinsurance and retro coverages, that's one thing that we are utterly focused on. Ensuring that it becomes essentially a pure property market again. If you want specialty risk cover, fine, but we price and

Rob Procter – **Ensuring that it becomes essentially a pure property market again** give you that separately. But you shouldn't be assuming property risk as an investor thinking you're getting pure property risk, and then other perils are creeping in because of the slack market of the last few years.

This is being driven by an abundance of capital, it's capital chasing risk, an oversupply of capital. Cedents will demand it, and people will write it.

RICK WELSH

Why is it that people are conflating cyber and terrorism? The two are not the same. I accept that if there's an abundance of capital then people are going to blur the lines. But from where I'm looking at it, it just shows a demonstrable lack of understanding and just adds to the underlying risk.

I know that your capital is coming from much more disparate areas, much more disparate than it did previously, but if you're looking at bigger problems and more complex exposures the same boom and bust problem keeps recurring. The underlying issue is that our way of underwriting is just so completely outmoded. As an industry, we must try to redefine how we take on difficult risk and redistribute it responsibly.

CLARK HONTZ

Although Beach is a big supporter of ILS, and we've been supporting and executing transactions for many years and will continue to see that grow, with respect to low-modelled or unmodelled perils, these are solutions that reinsurance companies can provide more effectively; where multiple perils, multiple lines of business at different levels can be aggregated to create a more capital efficient transaction for the client.

The ILS distribution model is evolving and therefore they are more effectively being able to offer multi line solutions at cost effective pricing.

NICK BUGLER

To give a legal perspective, these are the situations where you stress the wordings and people start to read the contracts and try to figure out what they actually say. And they realise, 'Oh my god, we've been a bit slack.' And I think that's obviously hugely disappointing.

One of the things that the ILS market has done reasonably well in the past but maybe has got a little bit complacent more recently, is that it has paid attention to the wordings and to the description of the risks, and to things like the collateral release provisions and exactly what they mean and how the mechanics would work. I think that a positive development coming out of the recent cat events would be to pool the general experience that you've all been talking about, and say, 'How can we make things better? How can we draft our contracts better?' So that everybody knows exactly what the situation is.

Already, I've heard some things from the table, for example, talking about information requirements. You do have certain information requirements, typically, in your contracts, but there's nothing like, 'I want to have an estimate within 24 hours,' or anything like that. And if you said that at the outset, and your counterparties said, 'Well I can't give you that,' then that opens the conversation to say well, 'What can we do?' So, you can then work with your cedents and say, 'How can we improve information because we've got our clients, our investors, and certain requirements and this is what we need to satisfy them?' And hopefully that's going to instil discipline and improvement on the cedant side.



RICK WELSH

If you're pushing off into specialty, there are charitable foundations around the world looking for homes, looking to unlock problems. My own experience with a recent investment in us, is that I was a little surprised that this is private equity money, and they want a return tomorrow. And you think, there's a sort of mismatch. Because I want to make money for my investors, but the way that I underwrite and the stuff I'm trying to do, I'm trying to make it a better place.

Yes, there is a requirement to generate returns on capital, but equally as an industry we should help to unlock difficult risk for humanitarian purposes. A number of ILS managers I have spoken to want to invest responsibly, generate investment returns but concurrently, ensure that there is a humanitarian element involved. So, I just wonder that crossing over this political divide that if there's enough capital, that it can be coalesced in the right way then maybe that's a start.

ROB PROCTER

I share your view, that there are investors and pockets of capital around the world, you think about aid budgets, that are interested in finding solutions where I think ILS can play a part. Whereby it is not all about making returns, but it's actually about genuinely providing humanitarian relief in parts of the world where the insurance loss as a percentage of the economic loss is extremely low.

RICHARD LOWTHER

I think we are on the right side of the ethical spectrum, in that we pay claims compassionately and quickly when these events happen, and I think that's important to a lot of our investors. They can say, 'Well we lose money, but it's going to people who need it, it's going quickly, it's keeping insurance companies solvent, it's actually working.

LUCA ALBERTINI

There are initiatives, one in the UK we've been part of, and basically, they say, 'look, rather than putting aside an aid budget of say £10mn to give after every-one event, if I spend £1 million in insurance, that can actually amplify my response.' In that sense, it's humanitarian, but when that is done, you've still been paying bench line commercial prices. By the way, most of our money is pensioners, and in a way, look at it the other way, it's not the hedge funds that are super rich.

TOM JOHANSMEYER

Humanitarian aims are best achieved when you're able to deliver the profitability on one-side. I can give you all the good will in the world, but when things get tough, I'm going to give up the humanitarian stuff, and take care of my shareholders. I've been looking at micro as of late, and I think it's tragic that as an industry we haven't gotten further with it.

Tom Johansmeyer – **You're saving the world and doing right by your shareholders**

If we as industry figure out micro we're solving the humanitarian issue, we're creating opportunity for middle class growth, great, but you're also creating an industry growth opportunity. Because 4 billion people who need agriculture, or other insurance, and as that middle class develops they also consume more goods, they're going to need motor third-party, and so on. You're going to need personal property insurance, and these are opportunities where maybe in the near-term you don't generate 15%, but five years from now you've got eight different lines of business that bring in real money.

If you can solve this one I think it's fantastic for the industry, it solves the humanitarian problem, but we're here to provide protection. On top of that, it provides an opportunity that, as an industry, we've been complaining about for years now. Let's stop shaving fractions off a basis point out of a transaction and lets actually start bringing percentage points into the industry. You look at micro, great opportunity, you look at a lot of these humanitarian issues, well there's actually a real business opportunity underlying it, but if you solve it commercially, then you're guaranteed at the humanitarian end, and it will continue because it's profitable and it's paying off. You're saving the world and doing right by your shareholders.

CLARK HONTZ

The industry still comes down to, who's providing the capital, why are they providing the capital and are they making any returns? In order for the humanitarian benefit we are talking about to be realised, the insurance industry must be a really good entity because at a 100% combined ratio, there's not a whole lot of profitability in this business. So, instead of looking at all the different perils that should be solved in the future, and raising the price, we could also be looking at the distribution network and the cost structure of the industry, in general, because that has to change.



STEVE EVANS

**Cyber is obviously a peril that requires vast amounts of capital and extensive understanding, and one that often divides opinion, what does the room think of the potential for ILS here?**

JUTTA KATH

As a starting point, I would like us to understand what we are talking about in the first place. Is it an insurable risk? Based on some research, even existing products already cause coverage issues. So that's number one, you cannot run this like an experiment and try to find out in litigation whether your product is designed as intended. I think we need to better understand the risk first.

Another point that is being raised: 52% of the issues are still caused by negligence, for example, by the employee opening an attachment to a phishing email. So, are we prepared to insure that kind of negligence? Traditionally, this is not what insurance is meant to cover. This quite honestly is like leaving the key under the doormat and then being surprised when your house is burglarised. I think we need to really solve first some underlying problems. What I don't like is when people say, 'The insurance industry failed to provide a solution.' Let's first think about the fundamental: What exactly do we want to insure and then we can take it from there and provide solutions that solve the issue.

RICK WELSH

You're absolutely right and the regulators fall on your side. The industry's understanding of insurable cyber risk is too heterogeneous. Because if you look at the evolution of cyber insurance, to now, insurers were never taking on that non-fortuitous operational risk, it was a moral risk and insurers tried to impose exclusions to say, 'No, you have to maintain antivirus patches,' for example, but sadly the law courts were not always on our side.

You're right, not everyone understands what they are doing and yet there's a handful of reinsurers that have taken the time to understand the difference.

I don't think we have to redefine what property is. I mean there's property and there's specialty, and the two aren't the same. But, if you have certain triggers that will cause the same property loss, it still looks the same. If you understand the underlying triggers then you've got something to talk about. We talked earlier about capital efficiency, in terms of how companies run themselves and they run their risk registers, they know what cyber looks like and we need to do more as an industry to synthesise the risk the more sophisticated clients want help with.

STEVE EVANS

**Do you think then it would be fair to say these companies probably understand their risk better than the insurers?**

RICK WELSH

But this is the point. So, you've got, in terms of the ILWs, little understanding or visibility as to the original risk, by the time it falls all the way back to the retro market or an ILW type of structure, you don't know what it looks like anymore.

Now, to your point, it's about the industry understanding what technology is all about, and we don't do that well enough. In terms of the property and cyber treaties, there have only been three instances since 2012 where those viruses or those attacks have occasioned property damage. Three.

NICK BUGLER

What I don't understand is the aggregation risk. We've been talking about cyber, but first of all, defining what is a cyber risk is quite tricky. And then there is the issue of aggregation. If cyber risk is not well defined then it is possible to say all sorts of losses are kind of linked to that trigger, and then you've got massive aggregation, potentially.

RICK WELSH

There's been this massive bifurcation between aggregation modelling and exposure modelling, the two aren't the same, and the two aren't really correlating but they have to. So, if you're looking for deterministic claims data, it's not the same, you can't put it in the same barrel. So, you have to look at how technology has moved, and say ok, probabilistically, where are we at this point in time knowing what we know about the risk.

I rally when people say there's no data. There is data. It just means that we as an insurance industry have to look at how security looks and how technology is harnessed, in conjunction with the security and technology industries rather than relying on a more narrow approach of actuarial science.

RICHARD LOWTHER

Property catastrophe became an investable asset class not because it suddenly became an uncorrelated investment – hurricanes and earthquakes have always been uncorrelated. It became an investable asset class when technology emerged to independently better quantify the risk. There's modelled uncertainty but investors are beginning to trust the models as a benchmarking tool.

Hiscox is making a significant investment in the underwriting tools to quantitatively understand cyber. We have some ILS investors that are very interested, but like anything it is not the right fit for every portfolio.

RICK WELSH

These exposures can be managed, except the industry isn't enticing enough of these people in. But you've got world class expertise in the UK and in the U.S., that can help with these exposures and measure these risks.

This is what I would love the ILS market to do, if you can model these risks clearly, with visibility and transparency, clients will love it, and I so believe that the ILS market can do this better and more quickly than the traditional market.

Rick Welsh –
**I so believe that the ILS market can do this better and more quickly than the traditional market**

TOM JOHANSMEYER

When we say there isn't enough data, we are talking about one kind – insured loss data. To Rick's point, and don't get me wrong, I love insured loss historical data, but, realistically there's a ton of cyber data out there. If you want to measure the size of an earthquake you can do that, DDOS, same thing. You can measure the size of it. There's lots of this stuff out there, it's accessible data. And there are plenty of people who have the ability to get that data. Yes, there are complexities to it, but there's enough data out there that if you want to learn it you can.



STEVE EVANS

**Looking at the broader ILS space, will the market support the price increases that the traditional market is hoping for? Or, is this an opportunity for the ILS space to demonstrate its potential to have more cost efficiency?**

ED JORDAN

The ILS market will continue to put pressure on rates since they have lower expense ratios and their investors require lower returns on capital. Since we front for a lot of ILS funds, we're collateralised on a portfolio level, and so we will be working with them to figure out what's the necessary collateral to hold over on the portfolio.

We were talking earlier about buffer tables which are applied at the contract level. We are dealing with buffers at the portfolio level, so it's different to manage. We need to make sure we have enough collateral, but not to hold back too much because we want our partners to be able to write business.

STEVE EVANS

**And what about renewals? With January fast approaching, and in light of recent events, has anyone's view on the market changed?**

LUCA ALBERTINI

For me, this is probably the first year we can focus on the word relationship. I mean the relationship has been pretty one-way for a long time and now the question is what kind of relationship it is.

We are seeing people saying after Harvey, that Harvey is going to make a market change. What we will be trying to do is to verify if there actually is an opportunity. But the last thing we could do, is we would be shooting ourselves in the knee if we raised more than what was lost, and then the price stayed flat.

RICHARD LOWTHER

We're currently just over half-way through the wind season, so it is important to remember that residential insurance policies are aggregate in structure, and storms to date have probably eroded a lot of homeowners' deductibles. If there's another event in Florida or Texas, then that really goes straight in on most homeowners' insurance policies. So, I think where we are now with all of the events that we are all very aware of, is that it has to have an impact on the supply and demand mechanics of reinsurance capital. But like I say – the season isn't over yet.

CLARK HONTZ

There is a stronger relationship between both a reinsurance company and its clients, and a ILS fund with their clients, than people perceive and I think that we are all trying to enhance that relationship, one way or the other. It doesn't always have to be one-way, which we've seen in the last several years. The buyers of cat reinsurance do want to have a relationship for the longer term, so following these losses, ILS funds should be benefitting from the same long-term partnerships as traditional reinsurers, which should lead to stronger relationships in the future.

In the end, if everyone is going after the same cat dollar, then there's going to be an equilibrium between markets, but I still think this is a relationship business.