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# ILS ASIA 2016

## NEW HORIZONS



13 July 2016 | Singapore

# Post-event Report

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#ILSASIA2016

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ILS ASIA 2016

NEW HORIZONS  
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## INTRODUCTION

Welcome to the Artemis ILS Asia 2016 conference report, which offers an insight into some of the discussions that took place between speakers and attendees during the first Artemis event in the region.

The event took place in Singapore's iconic Raffles Hotel in July 2016, with over 170 delegates gathering to hear leading ILS and reinsurance market participants from around the world discuss the Asian ILS market's potential.

The emerging Asian re/insurance and ILS market is widely regarded across the sector as a region with high growth potential, and with Singapore positioned as a hub for reinsurance business across the continent, we felt it was the perfect location for market participants to come together.

The day was a resounding success, and attendees were treated to insightful and thought provoking discussions surrounding the potential for ILS capacity, and its features, to play an increasingly important role in Asia.

The first catastrophe bonds exposed to Asian risks emerged in 1997 and, owing to the region's consistent involvement in the ILS industry we wanted to highlight the important role Asia has played in the marketplace so far, and also underline some of the opportunities for ILS to expand its Asian footprint.

The global risk landscape continues to evolve, and as advanced technology supports the development of greater modelling capabilities in some of the most vulnerable corners of the world, the use of ILS and capital market capacity within Asian insurance and reinsurance is poised to expand.

Event attendees enjoyed both individual speaker and panel sessions throughout the day, which included risk modellers, brokers, investors, sponsors, and other industry service providers, with a focus on both the challenges and opportunities for ILS in Asia.

**Artemis ILS Asia will be back in Singapore in July 2017. We hope to see you there!**

**Steve Evans**  
*Founder & Editor, Artemis.bm*







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ILS Advisers, domiciled in Hong Kong is the first Asia based investment specialist with a pure focus on insurance linked investments. ILS Advisers evaluate the best ILS managers globally from a fund pool of over 40 ILS managers and provide tailor-made ILS fund investment solutions, advising institutional clients on investing in ILS funds since 2012. ILS Advisers are also the initiator and sponsor of the Eurekahedge ILS Advisers Index, the only benchmark tracking the performance of ILS funds. In 2014 ILS Advisers launched one of the first fund-of-ILS Funds.



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RMS models and software help insurers, financial markets, corporations, and public agencies evaluate and manage catastrophe risks throughout the world. From underwriting and risk transfer to capital allocation and portfolio optimization, RMS software and services scale across the enterprise to support business objectives. Continuous innovation of the data-driven technologies and software behind our modeling solutions gives you the most informed view of risk possible.



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**The first talk of the day focused on reinsurance in Asia and the potential for ILS expansion in the region, and was delivered by Lixin Zeng, the Chief Executive Officer (CEO) of AlphaCat Managers Ltd., the third-party reinsurance capital management and ILS unit of insurer and reinsurer Validus Holdings.**

Zeng explained that Asia accounts for roughly 7% of reinsurance limit purchased globally, a notably lower volume than witnessed in more developed markets, like the U.S., for example. The reinsurance premium share of the U.S. is far greater than witnessed in Asia, and Zeng attributed this to the tail risk in traditional markets.

"The tail risk, the concentration to the tail risk, is very important in determining the premium of reinsurance cost," said Zeng, continuing to stress that as the Asian market expands to a comparable size and the tail risk becomes more important to the traditional players, the premium rate will rise also, ultimately creating more of an opportunity for ILS capital.

Currently, the smaller market size and resulting reduced importance and focus on the tail risk in Asia, means that "cedents in Asia don't really need to bother with ILS, because the traditional market is very affordable," said Zeng.

"However, in a 5x or 10x growth scenario for Asia the tail risk is going to be so much bigger, and the traditional reinsurance market will have to increase the premium rate to make their capital model work.



“The rapid growth will increase; it's not a matter of if, it's a matter of when we increase the tail contribution of the Asian risk to the global reinsurance market. And as a result, ILS is well positioned to support the growth. We have already observed the impact that ILS has on the peak zone markets, and when the Asian market reaches that stage, ILS will play a very important role,” explained Zeng.

Owing to their sheer size when compared to other Asian countries, Zeng explained that India and China are the obvious candidates for where the majority of this growth is going to come from.

“The property value is already huge in China and India; it's just that the coverage gap is very big. The fundamental is there, the property values are there and concentration is there,” said Zeng.

The protection gap, being the difference between economic and insured losses post-event, often finds its way into debates surrounding risk transfer and ILS in Asia. Zeng was asked whether he felt any other forces, such as regulation, could hinder increased insurance penetration in the region and therefore a greater need for ILS involvement.

Zeng explained to the audience that penetration in Asia was already so low that it's hard to see a “way out,” suggesting that so little protection is purchased in the region that it's unlikely penetration would fall any lower.

This highlights the vast opportunity for insurers and reinsurers to play a greater role in Asia and innovate products and solutions that enable greater risk transfer across the Asia-Pacific region. In turn, this will result in more of an opportunity for the ILS market to play a role and provide efficient capital and structures to cover a broad range of Asian perils.

Zeng expressed confidence that the risk markets in Asia are poised for expansion, and that the ILS space will likely have an increasing role to play as insurance and reinsurance penetration levels rise and the tail risk grows.



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**Lixin Zeng –  
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 market”**  
 .....

“It is important for Asian cedents to get familiar with and to start building some relationships with ILS and capital markets, that way when the growth (in tail-risk) materialises, the ILS managers are ready to provide capital support for Asian business,” said Zeng.

This is an important point. Although currently, cedents in Asia might not need to participate in ILS business owing to the efficient and affordable availability of traditional reinsurance market capacity, in order to be adequately prepared to capitalise on the growth potential driven by the tail risk and increased penetration, cedents would be wise to gain a solid understanding of the ILS space.

Throughout the conference the potential for ILS expansion in Asia was highlighted and, during The Sponsors Perspective panel China and India were again touted as the drivers of ILS market expansion in Asia.

“We definitely see Asia as a growth option first. China and India are certainly drivers of that. I think with the sort of growing middle class in a lot of these Asian countries, the insurance penetration will match an increasing number,” said Nick Harty, Senior Manager Reinsurance, ANZ Property at IAG.

Susan Lane, Co-CEO of Tokio Solution Management Ltd., noted positive advances in the regulatory frameworks for both India and China, two regions that are keen to boost the presence of reinsurers with the goal of creating a more mature, sophisticated, and effective risk transfer market.

“In 2015 China and India also developed their frameworks. So we’ve seen a lot of new reinsurers beginning to enter that market and then also with the introduction in China of C-ROSS, I think the solvency capitalisation requirements there could drive some more demand for reinsurance on that side.

“While these improvements and developments have been more directly focused on traditionally the insurance market, I think it will lead to natural developments and opportunities for ILS,” said Lane.

Varied regulatory hurdles in countries across the globe, Asia included, can hinder the development of any asset class, and ILS is no different. Despite a notable effort to facilitate more reinsurance business in India, and China’s C-ROSS framework being positive steps for market growth, Harty feels that regulators really need to “come on a journey with us and understand how ILS is developing in this region and give us the capital to grow in the solution.”

But it's not just improved and favourable regulation that will help facilitate ILS expansion in Asia, and panelists were keen to underline the importance of education and also the need for greater data and improved modelling capabilities in the region.

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**Susan Lane –  
 “I think it will  
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"It's an education need. The ILS market, once it finds a home and it's comfortable, as investors become more sophisticated, as the buyers of the protection become more knowledgeable about it, then it tends to find its home and it tends to be a permanent home," said Lane.

Lane also highlighted the lack of adequate and comprehensive data in the region as detrimental to the growth of ILS across Asia, but was quick to add, "The increased use of technology is going to be vital for us to develop the infrastructure that we need and develop the models so that we're comfortable with the underlying risk."

A lack of adequate risk data, historical trend information and resulting modelling capabilities for Asian risks is seen as a major hindrance to the advancement of risk transfer markets in the region. During the second-half of the day Jinal Shah, Director at RMS Capital Market Solutions, provided some insight into the role of models in the ILS space, with a mention of modelling advances in Asia.

"Our focus over the next few years is in Asia. Over the next three years we are heavily investing in Asia, it's an important and growing market," said Shah.

RMS is one of the world's leading catastrophe risk modelling firms, and Shah explained that throughout the event there were a lot of questions surrounding the lack of modelling in Asia.

To date, Shah told the audience that RMS has 16 models for the Asia-Pacific region, but that over the next two to three years the firm has plans to expand its Asia models. This will include new models for New Zealand earthquake and Japan typhoon later in 2016, and also a new Asian typhoon model (Korea, Taiwan, China and Japan) in 2017, which will include wind, inland flood and coastal flood.

"And then in 2018 and beyond our focus will be on Japan earthquake, where we will include liquefaction landslides, business interruption (BI) and fire following. Hopefully this gives you some idea about how we think about the Asian market, and where our focus will be over the next two-to-three years," said Shah.

Improved modelling abilities for peril regions across Asia will help investors in the ILS space to better understand the underlying exposures and the local market, which in turn will lead to greater investor confidence and acceptance of the asset class and ultimately support ILS expansion in the region.

"Today, ILS is recognised as one of the major asset classes in the alternative bucket. I think in the Japanese market today we probably have \$5 or \$6 billion in total (in ILS), but the reality is that this is concentrated to five or six ILS managers," said Akira Takahashi, Head of Asset Management Japan, at Credit Suisse, speaking on The Investors Perspective Panel.

Further supporting the heightened awareness and understanding of ILS as an alternative asset class across

Jinal Shah –  
**"Over the next three years we are heavily investing in Asia, it's an important and growing market"**



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the globe, Ben Somers, Head of Business Development & Investor Relations at Elementum Advisors, told the audience that what the firm hears “from a lot of allocators, irrespective of it is here in Asia or North America, or Continental Europe or the UK, the resounding comment is ILS is the least bad alternative.”

“We are starting to see some allocations coming from Korea, obviously Singapore and Hong Kong. From an ILS perspective, the real leading market for ILS investments was really in Japan and in Australia. The two markets I think that have the highest assets also happen to be Australia and Japan – in respect to the total dollars of capital on risk,” continued Somers.

As discussed in the Sponsors panel, a need for improved education surrounding the asset class was again highlighted during the Investors panel. Takahashi explained that one of the challenges for Credit Suisse is educating Asian investors about ILS to ensure they fully understand the risks, as in many senses it’s “different from the traditional investment.”

Educating potential and existing investors about the benefits and efficiencies ILS investments can bring to a portfolio is vital in supporting growth of the asset class. The greater understanding Asian investors have of the asset class, the more comfortable they are likely to feel and therefore the more likely they are to participate in the space.

Stefan Kräuchi, Founder of ILS Advisers, a Hong Kong domiciled company and the only ILS manager/consultant based in Asia, discussed the trends of Asian investors in the space and also offered some insight into what the future might hold for ILS in Asia.

“I must say that here in Asia, most prospect investors that we talk to, they’re first always concerned about the counterparty risk, and being able to assure them that there is not much counterparty risk in those instruments, often is a very important and appealing selling point,” said Kräuchi.





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but never lose sight of the bigger picture.



Interestingly, Kräuchi also alluded to the fact that until recently Asian investors didn't really have a need to look at ILS investments, as more traditional alternative asset classes, such as real estate, offered attractive returns.

But the landscape in Asia continues to evolve, and Kräuchi expects "demand for ILS in Asia to grow strongly over the coming decade," as Asian investors are "now looking for yield and uncorrelated returns," and are also starting to look at investments in a portfolio context.

"I see this changing as well now, and in that process, investors start to fully appreciate the benefit of ILS as an addition to existing movements inside their portfolio, that ILS can enhance the return while reducing the risk," said Kräuchi.

Interestingly, and perhaps unsurprisingly the regions with higher insurance penetration levels invest more heavily in ILS and have also been early adopters of the asset class. A trend that Kräuchi says repeats itself across the Asia-Pacific region; with Australia, New Zealand and Japan boasting greater insurance penetration and ILS investment, when compared to other Asia-Pacific countries.

"ILS in Asia has only just started, and as insurance penetration will increase in Asia, so will the appetite for ILS investments," said Kräuchi, explaining to the audience that institutional investors in Asia favour fund structures such as UCITS and traditional instruments like the 144A catastrophe bond.

Alluding that "in Asia, we see a very strong preference for liquid investments."

Later in the day, an insightful exploration of ILS liquidity, the importance of a functioning secondary market and what this means for investors in the space, was delivered by Steve Emmerson, Head of ILS & Insurance Desk at Tullett Prebon.

Emmerson provided the audience with a valuable overview of the secondary trading market and ILS liquidity, which, as noted previously in the day, appears to be a preferable investment for Asian investors.

Throughout the event there were some recurring themes and perceptions around what's required for the Asian ILS market to grow and flourish. Greg Wojciechowski, President and CEO of The Bermuda Stock Exchange (BSX), echoed the view of IAG's Nick Harty on the need for collaboration between the marketplace and regulators.

During a mini-panel on the development of a relative ILS domicile, Wojciechowski and Brad Adderley, Partner at Bermuda-based law firm Appleby Global, explained to conference attendees what's necessary to establish an ILS domicile.

"We heard this morning that the regulators are going to have to listen to the market a little bit to understand what needs to be brought into their frameworks, to be able to help accelerate the expansion of ILS in Asia.

.....  
Stefan Kräuchi –  
**"ILS in Asia has only just started, and as insurance penetration will increase in Asia, so will the appetite for ILS investments"**  
.....



“When it all comes together, when all those pieces that I talked about, and Brad talked about during his talk, you start to see the relevant jurisdiction that’s supporting this. And in our case, in our experience what we’ve seen is significant year-on-year growth, in respect of our ILS platform,” said Wojciechowski.

For any emerging market to flourish it’s important that local and global service providers from both the public and private sector collaborate. Widespread market disruption has seen all parts of the risk value chain search for increased relevance, highlighted by the broadening demands expected of the broker community.

During the Brokers Perspective panel James Beedle, Senior Managing Director at Willis Re Asia, explained that as a broker their job is to stimulate demand for accurately priced products that’s matched by supply.

“I don’t believe in our market, particularly in Asia at the present moment, that we’ve got a supply issue. What we do have is a demand issue. The capital market, in my view and from where I sit, could easily meet the demands of Asia as it grows.

“The stimulation of demand is around education and evaluating the products available,” said Beedle.

Panellists discussed the role of the broker community in the risk transfer value chain, highlighted current market trends and what this might mean for the Asian ILS sector. When asked if new products could have an impact on the Asian ILS space, Beedle told the audience that many Asian books of business are weighted towards motor lines, and this, along with excess mortality could be of interest as a non-property offering.



Nick Griffiths, Director, Reinsurance Division at RFIB Group Limited, also discussed the potential for ILS market opportunities in Asia outside of the more traditional peak catastrophe risks.

“The weather product does lend itself very nicely to ILS investors. Often it’s a seasonal product, so a short period where the collateral is deployed. And I would tie that in with agriculture and crop and we’re seeing more products and more offerings to the ILS world, both retro and directly,” said Griffiths.

The potential for ILS to have role in Asia outside of peak catastrophe risks was also noted in the final panel of the day, which focused on new perils and capital deployment, and where the audience was informed about the increasing importance of the agriculture sector in both India and China.

Crop pandemics and human pandemics in Asia also present a substantial opportunity for ILS, but for this to happen, and the expansion into other peril regions, the industry needs to increase its efforts in innovation, heard attendees.

Dr. Mili Eppler, Senior Underwriter at Credit Suisse Insurance Linked Strategies Ltd. agreed that collaboration between modellers, brokers, and the ILS community is needed to ensure the risks are properly understood.

James Beedle –  
**“The capital market, in my view and from where I sit, could easily meet the demands of Asia as it grows”**





"One way we could really enable greater access to alternative capital would be to create products with, for example, parametric triggers, where you remove a lot of the uncertainty about the underlying exposures," said Eppler.

Eppler continued to tell the audience how ILS structures that utilise a parametric trigger are already being developed and utilised in other parts of the world, and how it supports investment considerations in regions where limited historical data modelling capabilities cause underlying uncertainties.

"I definitely see these types of products as making it easier for us to invest in Asia," said Eppler.

There's clearly ample opportunity for ILS features and capacity to play an increasing and important role in both the emerging, and more developed Asian markets and risks.

Speakers were keen to underline both the challenges and opportunities for the ILS industry in Asia, but there was a clear belief that the region is poised for growth in the coming months and years.

To all our attendees, thank you for joining us, we hope you enjoyed the day and will attend again next year in July for ILS Asia 2017.

To all our speakers, thank you for traveling so far to participate, for providing insightful and thought-provoking discussions and for engaging positively with the Asian market attendees.

Finally, we'd like to thank our kind sponsors of the event, without whom the day would not have been possible.

**Artemis ILS Asia will be back in Singapore in July 2017. We hope to see you there!**



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