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# ILS ASIA 2019

## DEMYSTIFYING ILS



11 July 2019 | Singapore

## Post-event Report

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#ILSASIA2019

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**ILS ASIA 2019**  
DEMYSTIFYING ILS  
THURSDAY 11 JULY 2019

## INTRODUCTION

Welcome to the Artemis ILS 2019 conference report, a condensed view of the key moments from what was our fourth event in the region.

Held at Singapore's Suntec Convention Centre in Suntec City, the event was hugely successful and drew over 180 delegates from around the world.

Singapore continues to be a leading reinsurance hub for the continent and remains a flourishing capital market centre.

The theme of this year's event was focused on 'Demystifying ILS', and featured engaging and insightful discussions from some of the ILS and reinsurance market's leading figures.

An introduction to the Singapore market and ILS more broadly was followed by a deep dive into 2018's catastrophe events. Then, insight into the country's first catastrophe bond and what ILS has to offer Asian investors was provided by two fascinating panel discussions.

The second half of the day explored return expectations after two heavy loss years, collateralised reinsurance opportunities in Asia, a look at the first Asian sidecar and ILS opportunities in Asia and emerging markets.

Our primary goal for this event is to provide education on ILS in the Asian region by inviting experienced market practitioners to network with local market participants.

**Artemis ILS Asia will be back in Singapore in July 2020.  
We hope to see you there!**

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



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RMS is the market leader in catastrophe risk modeling. Our models and software are used by the world's top 10 ILS funds, and are at the cutting edge of risk management solutions. Our continued investment in the development of ILS-specific solutions supports the growth and success of this global sector, including the enhanced ability to evaluate and manage worldwide catastrophe risks. From investment selection and portfolio optimization, to real-time catastrophe response and developing investor insight, RMS models and software solutions can integrate across an organization's entire ILS workflow to successfully support strategic business decisions and objectives.



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Mayer Brown is a leading global law firm that represents insurers, reinsurers, bankers, brokers and investors in structuring and executing complex multi-jurisdictional transactions. Many of our recent transactions have broken new ground at the convergence of the insurance and capital markets, and we have been at the forefront of the development of third-party capital management arrangements in the reinsurance markets. Within the past three years alone, Mayer Brown acted on the formation of more than 15 new insurers, reinsurers, and alternative capital funds, and advised on more than 50 catastrophe bond offerings providing in aggregate more than \$17 billion of risk capital. Visit [mayerbrown.com](http://mayerbrown.com) to learn more.

**Gillian Tan opened the day's proceedings with a keynote highlighting ILS market resilience following two years of heavy natural catastrophe losses.**

An Executive Director at the Monetary Authority of Singapore (MAS), Tan noted how total alternative capital reached \$91 billion in 2018 and accounted for 26% of total reinsurance capital.

"Issuances in 2019 have been more subdued due to continued loss creep and trapped collateral from the losses in 2017, but market outlook remains positive as this dynamic market continues to push the envelope in terms of new risks, new sponsors, and new geographic territories," explained Tan.

She went on to explore new and future risks and described how ILS had traditionally been used to insure property against perils such as windstorms and earthquakes.

Now, however, the industry is beginning to see ILS issuances covering newer risk types such as operational, pandemic and terrorism risks.

"ILS capital is best deployed where there is a market gap and the industry is unable to meet the capacity needs," she remarked.

"We are now expecting to see the ILS market expanding to provide cover for cyber risks. The estimated economic losses from cyber-attacks are alarming. A global ransomware attack could cost almost US\$200bn in losses, and as much as 85% of that is uninsured.

"While affirmative risks arising out of cyber policies can be quantifiable, insurers are struggling to quantify silent cyber exposures which are not explicitly covered, and yet the potential losses may be catastrophic.

"As new and emerging risks such as cyber continue to remain challenging for the insurance market to address, the ILS market may be a critical enabler to solve these large protection gaps," she added.

Tan went on to speak in greater depth about Asia and how, despite the progress made in developing its ILS market, there's still work to be done.

To catalyse the Asian markets, Tan said that data, education and a lively marketplace are key. However, unlike more mature markets like the US, Europe, Japan and Australia, which have the most organised data and the most developed models to support risk securitisation, the rest of Asia still suffers from a lack of standardised and good quality data.

**Gillian Tan – "ILS capital is best deployed where there is a market gap and the industry is unable to meet the capacity needs"**

"There are gaps in modelling and valuation which can make pricing challenging. This is one of the key reasons why ILS has not taken off in Asia in the past."

Tan concluded her keynote by highlighting the importance of Singapore's first ILS issuance: the Orchard ILS transaction by Insurance Australia Group (IAG) in December 2018.

This was followed by the issuance of First Coast Re II by Security First Insurance and the issuance of Manatee Re III by Safepoint Insurance.

"With these deals under our belt," Tan observed, "Singapore is fast maturing as a viable ILS domicile with more established processes and institutional knowledge in place to efficiently facilitate new ILS issuances."

Next up was Dr. Morton Lane, President of Lane Financial & Director at The University of Illinois.

Built around the concept of ILS as a "small window into a big world," Lane's keynote began by breaking down the size of the alternative market and how it might be useful in determining characteristics of the wider reinsurance market.



"The outstanding exposure in the ILS market is around \$30 billion, if you add in private ILS and ILWs it maybe rises to between \$40 billion and \$60 billion, collateralised reinsurance and sidecars will take it up to roughly \$100 billion."

"But the big number cumulatively is traditional reinsurance capital, which I have at between \$400 and \$600 billion."

"That's a big range," Lane remarked, "and actually no one has been able to tell me what exactly that \$600 billion represents. In my opinion, even though these numbers are bandied around I think there are still questions to be asked about what is meant by those numbers."

However, Lane noted that there are inferences one can make from the ILS market, which is visible to a lot of people, in regards to the cat component of that \$400 billion - \$600 billion figure.

"These inferences don't tell you how much that component is leveraged, but since risk is transferred up and down that chain, you can expect that the prices you see are somewhat related to the prices that are taking place in the real world."

Lane proceeded to examine whether the current market is a hard or soft one, before determining that it has indeed hardened.

"Can it get harder? Yes. if we have losses this season. The recent earthquakes in California have reminded me of the north ridge earthquake, which also shook a baseball stadium back in 2004. It took an awfully long time for the losses to develop. Most people are thinking that it's not a big loss. Probably they're right, but only time will tell."

Lane went on to explore the reliability and efficacy of nat cat models, explaining that, if you have a coin and want to determine whether it is biased or unbiased, you would have to flip that coin more than once or twice.

"Well, we've flipped ILS a lot of times. By my count, between 2002 and 2018, we've issued 638 tranches of nat cat ILS. So we've flipped the coin 638 times, by now we should be able to say whether the actual losses are somewhat equal to what we'd expect."

"Now, that's a simple question and it's about the third time I've asked it in the last few years, but it gets more and more difficult to answer."

"As of the end of 2018, I calculated that the losses were 2.4 billion as opposed to the expected 2.3bn. Now that's not a big difference."

Following Dr. Lane was Hemant Nagpal, a Director of Model Product Management at RMS who kicked off his keynote by taking a deep dive into 2018's cat events.

"If you look at last year there were 140 events worldwide, approximately one event every three days," Nagpal explained.

"In Asia 2018 was tagged the year of disasters, in Japan we had five typhoons, two earthquakes and one big flood which has losses of around 20 billion."

That flood in Western Japan, Nagpal said, was somewhat of a surprise for the market, as one would typically expect to have more quake losses than anything.

"Also worth mentioning is Typhoon Mangkhut, which affected the Philippines, Hong Kong, and Southern China. You also have the floods in India's Southern state of Kerala, however there was not much in terms of insured losses."

Nagpal went on to provide some examples of how analytics are useful in the aftermath of an event. These examples included: capital adequacy, reinsurance evaluation, claims handling, syndicate/regulatory requirements, loss reporting, profits and earnings calculations, and customer service.

"It's not a race to give out a number," Nagpal added, "What RMS is trying to do is help clients. You don't want the range of uncertainties to be large but at the same time you want it to be useful for the clients as well."

"So when an event happens you don't just run a model and dish out a number, there's a lot of expert judgement involved as well. You learn from the real time event characteristics, there's a lot of hazard observations involved, there's a lot of recon involved also."

Nagpal then examined Typhoon Jebi, considered the strongest Typhoon to strike Japan in over 20 years.

"Internally we were looking at a range of losses from \$2.8 billion to \$8.6 billion," explained Nagpal.

"There was a ground recon and within 10 days we came up with an estimate of between \$3.5 billion and \$5.5 billion."

"This number was perceived as high from the market at the time, but within two months you were looking at \$5.3 billion given out by the Insurance Association."

Nagpal went on to explain that releasing a new estimate for Jebi at the wrong moment might actually be detrimental to the industry.

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Before wrapping up his keynote, Nagpal commented on how RMS had noticed a change in claims behavior.

"After discussions with the market it appears that in Western Japan, the Insured tend to be more aggressive in terms of their claims."

"Also, since 2011 we've seen a lot of social pressure to just pay out claims without asking many questions, with insurers perhaps being seen as helping society rather than only for profit."

After a coffee and networking break, Adil Imani, Manager of ILS at AIR Worldwide, introduced the day's first panel discussion.

The panel featured Mark Lamb, Chief Executive, IAG Re Singapore; Simon Goh, Partner, Head of Insurance & Reinsurance Practice, Rajah & Tann Singapore; and Jean-Louis Monnier, Global Co-Head of ILS, Swiss Re.

The discussion looked at the traction being gained by Singapore's ILS market and opened with an explanation by Rajah & Tann's Goh of the MAS' grant scheme and the role it's played in attracting deals to the country.

"The grant scheme was announced on the 20 February, 2018 and covers ILS bonds, not just cat bonds," said Goh.



"To qualify, there must be a minimum tranche size of 50 million Singapore dollars or its equivalent in foreign currency, a minimum tenure of 10 years, and 20% of the upfront costs of the issuance must be attributable to the revenue of Singapore companies."

Lastly, Goh added, if the bond is to be listed, it must be listed on the Singapore stock exchange.

Lamb, whose IAG Re was the first to sponsor a cat bond in Singapore, noted that it took the company around ten years to build its understanding of the space.

"Eventually we felt that the cat bond coverage was expanding and that led us to look at sponsoring a cat bond."

"Then, in 2017, the grant scheme was announced, and that neatly dovetailed with our desire to sponsor a cat bond as well as Singapore's preparedness and readiness to support the transaction."

Commenting on how the structuring process undertaken for Singapore differs from other more established domiciles, Global Head of ILS at Swiss Re, Monnier, explained how each jurisdiction has its own specifics and requirements.

"It's very much a learning curve, and explains why in the context of Singapore it's so hard to be a first mover."

Monnier added that, because Singapore's ILS framework is yet to be put to the test, there's uncertainty in terms of timing and typically uncertainty around cost, because you're also dealing with service providers that are on a learning curve.

"That's where I think the MAS has been quite smart, by setting up the grant scheme they got rid of the issue of cost," he said.

Lamb agreed, stating that the primary reason IAG Re didn't issue a cat bond in Singapore sooner was the cost associated with the transaction.

"From our perspective, when we issued it we were able to mirror our traditional placement. The ILS grant scheme took care of the costs pretty significantly."

Looking to the future, Imani asked the panelists to provide their thoughts on the suitability and value proposition of Singapore long-term as an ILS hub.

"I think we have a short window," said Goh. "The grant scheme is due to expire in 2020, and it's anyone's guess what will happen, whether it'll be extended, modified etc. remains to be seen."

Mark Lamb –  
**"Eventually we felt that the cat bond coverage was expanding and that led us to look at sponsoring a cat bond"**

"I think as we move forward, the grant scheme's relevance will remain, but maybe less important."

Goh was hopeful that by the time the scheme is over, Singapore will have a viable ecosystem with more service providers and boots on the ground for the "un-tapped" Asian market.

Next up was a panel led by Chris Caponigro, Head of Business Development at Mt. Logan Re exploring the opportunities ILS has to offer Asian investors and how it's viewed by the region's institutional investors.

Caponigro was joined by Yuko Hoshino, Co-head of Global Investor Relations at Securis Investment Partners; Lorenzo Volpi, Partner at Leadenhall Capital; and Maria Rapin, Business Development Director at Nephila Advisors.

Caponigro began by asking Securis' Yuko Hoshino how much of ILS' \$90 billion to \$100 billion invested assets is coming from Asia.

Hoshino explained that, although there's not a public figure for Asian ILS, as far as she knows roughly 90% of Asian investors are from Japan.



"I would guess that Japanese ILS investors probably represent around \$5 billion to \$6 billion, so a little less than 10% would make sense."

In terms of Japanese investors, Hoshino explained, 90% are from pension clients.

"To invest in any kind of products via pension client, they have to go through Fiduciary Managers (FM), so once we've established dealing with FM we are able to penetrate Asian clients."

"They've found ILS to be a fantastic product to diversify their hedge fund portfolios."

Focus then shifted to countries outside of Japan, where perhaps ILS is a newer concept, and how the heavy losses of 2017 and 2018 could provide some key education for investors.

"One benefit of two years of events," explained Maria Rapin, "is that investors who weren't on the scene in 2004 and 2005 are getting educated around things like development classes, sidepockets, how the funds react, how liquidity works."

Lorenzo Volpi, a Partner at Leadenhall Capital, hoped Asia's market sees further development, but said that the size of those investors must be taken into consideration.

"You have some big sovereign wealth funds and, when you look at these gigantic institutions, of course for them there's the question of how scalable this business is."

Caponigro went on to ask whether there's room in Asia for the kind of growth that has been seen in the American and European ILS markets.

"I think there is definitely growth in Asia," said Volpi. "It's just that the mindset is totally different from the west and Europe."

Volpi noted the absence of Asian investors in 2017 when money was instead flowing from places like Europe and the US.

"With a few exceptions, Asian investors do not typically wear the opportunistic hat. And that's just the culture, I think. In the US and Europe everyone was a lot more reactive."

Led by Mark Elliot, Director of ILS at Aon Insurance Managers, the third panel of the day featured discussions on return expectations in the wake of two heavy loss years.

After the second coffee and networking break of the day, Elliot was joined by Chi Hum, Managing Director at GC Securities; Kirsten van Exel, Senior ILS Underwriter at Aegon; and Dr. Marcel Grandi, Director & Market Head at Credit Suisse Insurance - Linked Strategies.

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Elliot first noted that pre-2017 there was a decade of low interest rate environment and 12 years without any significant nat cat events and an influx of alternative capital.

On a macro level, Elliot asked, what's been the output from the last two years and what has been the reaction from some of your ultimate investors to those losses?

The outcome was quite bad, remarked Dr. Marcel Grandi, who had looked at the ILS advisors performance index from September 2017 through to June, and found a minus 12% return.

"If we adjust this to the amount of alt capital in the market, the impact on the ILS market was \$9 billion to \$10 billion."

"Similarly, I also looked at the Swiss Re cat bond price index, the decrease was not so extreme at minus 8.6%."

Overall, Grandi stated that an investor who has predominantly invested in cat bonds should be more or less flat over the last two years, depending how lucky they were in their cat bond selection.

Kristen van Exel, whose company actually started investing in this area in 2017, noted that starting in a difficult time has had some upsides.



"Now we have a good way of selecting our potential partners in how they're doing their underwriting and claims handling, there's also a lot of data going around now, so for us it's certainly interesting, it's a great steep curve."

Looking at claims specifically, Elliot asked which have caused investors and ILS fund managers the most difficulties.

Grandi explained that, while the Florida situation with loss adjustment expense increase caused some concern, in terms of specific loss events it's Jebi loss creep that's "extremely difficult and frustrating."

"We apply a decent buffer but it's always embarrassing if you have some late developments in the April 2019 evaluation for an event which happened in the summer of last year.

"I've not really heard a sufficient explanation why the estimate was so different from the final number and that raises a couple of questions to modelling agencies."

"For us the challenge was with wildfires," added Exel. "I think we all know the modelling has picked up significantly since then but we did not really understand the exposure we had I think, especially in terms of aggregate bonds."

From a cat bond perspective, Chi noted that some people look at the models and think it should be a good predictor of events, whereas some use them as a benchmarking tool.

"I think the problem is we start to look at models and think that they are predictive, clearly, it's not going to capture all of the variables."

"With respect to the loss creep, the capital markets investors want transparency and clarity, whereas I think the reinsurance market tends to view it differently and have a little more flexibility because of the longer term relationship and shorter term contract."

"With a 12 month contract you get to reset the terms and pricing. So if you work on short contract but you've got a long-term relationship you might have a little more room to accommodate surprises."

Next up was a panel discussion, led by Steve Emmerson, Head of ILS and Insurance Desk at Tullett Prebon, examining the opportunities for collateralised reinsurance in Asia.

Alongside Emmerson was Aaron Coates, Executive Director of ILS sourcing at Twelve Capital; Inyeong Yi, Associate Director at Aon Reinsurance Solutions in Asia; Ram Garg, Founder & CEO of Nectar Specialty Risk; and Craig Hupper, Senior Vice President and Managing Director at TransRe Capital Partners.

Chi Hum –  
**"I think the problem is we start to look at models and think that they are predictive, clearly, it's not going to capture all of the variables"**

"The total cat limits purchased in the top ten Asian countries are around 130bn, and this is overwhelmingly traditional reinsurance, and more than 90% is accounted for by Japan," explained Hupper.

"The US and Canadian market combined hits something close to 230bn of cat limit, almost twice as much."

This, Hupper said, illustrates just some of the opportunity that's out there to close the protection gap and that, while these parts of the world combined may have a bigger GDP and multiples of the population of the US and Canada, there's still a real low penetration take up rate.

Speaking from a pure collateralised reinsurance perspective, Coates added, there's very little Asian-only transactions.

"I think most ILS managers are accessing Asian risk using leverage via fronting facilities," he explained.

"In Singapore," added Ram Garg, "MGA framework wasn't really there until a few years ago."



"The market is still at its starting point, but obviously in Hong Kong there are quite a number of MGAs who have been operating for a number of years, so obviously Australia is the biggest market."

Emmerson then shifted towards parametric triggers and potential opportunities within Asia, with Garg noting that parametric solutions have been introduced in the region for quite a number of years.

"There are direct insurers who are offering this product but I'm not sure if there's any ILS capital involved, but there are definitely quite a lot of areas where ILS products are being offered, such as Agriculture and Life. Take-off is not yet significant, however."

Coates remarked that he believes it comes down stability to quantify the risk, and accurately measure the margin to manage the investors investment.

"Parametric is much more clear cut, it's easy to understand and easier to measure the margin."

Aon Associate Director Yi, in response to Emmerson's question around new technology and its transformative potential in the ILS space, recalled his experience working on a microinsurance product designed to help protect the homes of lower income individuals in the aftermath of a cat event.

"Post-Typhoon Mangkhut, this insurance enabled these individuals to recover their lives."

Trans Re's Hupper noted an investment the company made into New Paradigm, a US MGA licensing a network of wind speed indicators across the Gulf and east coast in order to sell parametric products to municipalities, hotels, resorts etc.

"This is a way to cut a lot of cost and open up a whole new market segment and sidesteps a lot of the operational and regulatory risk of insurance, especially in certain US states where there's a lot of litigation."

After a final coffee and networking break, Lawrence Cheng took the stage to deliver a keynote providing insight into the Asian market and the role ILS could play in the region.

Cheng is Managing Director of Underwriting and Co-head of P&C at Peak Re. He was involved in launching Lion Rock Re in 2018, the first Asian reinsurance sidecar.

"Lion Rock Re is one of the most important projects Peak Re has completed to date," noted Cheng. "We are very proud that this industry in this part of the world can execute successfully."

Lawrence Cheng –  
**"Lion Rock Re is one of the most important projects Peak Re has completed to date"**

"The sidecar was launched at the end of 2018, but the project really started in 2016, we've been working on this for three years."

Cheng believes you need only look at the dramatic economic growth of Hong Kong and Shanghai to see the kinds of opportunities for risk identification, mitigation and transfer to the ILS space.

Looking at China more broadly, Cheng noted that the World Bank has projected it to by the end of this year reach a GDP close to that of the US ten years' ago.

"India, with its \$2.94 trillion GDP, is the same size as the UK and France, and is the market that is growing so much faster than anyone else in the world. I'm very confident that it will be in the top four within five years."

These spaces, Cheng said, are beyond what you would consider markets with potential, "they're already there, it's not potential, they have got enough premium for all to participate in, including the ILS space."

In response to a question from the audience asking Cheng what the biggest challenges for investors were when raising capital for Lion Rock Re, he noted model reliability.



"Maybe there's too much emphasis on models, when there should be more emphasis on the data going into the model. Perhaps the problem is not so much 'demystifying ILS', but demystifying risk in Asia."

The fifth and final panel discussion of the day explored some of the challenges inherent to the Asian market and what needs to be done to raise the awareness and acceptance of ILS.

The panel was led by Brendan Plessis, EVP - Head of Emerging Markets at AXA XL, and featured Michael Bennett, Head of Derivatives & Structured Finance at the World Bank Treasury; Yen Chin, Client Director & Sales Leader, Asia Pacific at RMS; and Julius Caesar Parreñas, Coordinator, Asia-Pacific Finance Forum & a Senior Advisor at Mizuho Bank.

Commenting on what the future holds for ILS in Asia and the ways in which modelling agencies can help attract investor interest, RMS' Chin noted the improvement in street level data across places like the Philippines, Indonesia, China, Taiwan and Hong Kong.

"However, the political issue of data sharing is still a challenge."

Chin stated that, as a result of important data not being shared with the market, RMS must continually develop new tools and processes in order to create the kind of high-definition catastrophe modeling that is currently being applied to areas like US wildfire models.

"It's still very difficult, you have a lot of data in institutions like banks, and large companies." added Parreñas.

"The issue is how to get them together in order to provide that data to those who can use them and provide services."

Parreñas went on to note jurisdictions such as the Philippines where there's actually legislation compelling companies to provide data. "So there are cases where you can have these arrangements," he said.

AXA XL's Plessis explained how he's found regulators understanding of what the industry is trying to do, while some are more protectionist and don't.

The World Bank's Pacific Alliance transaction, stated Bennett, is potentially a template for other areas of the world where there could be some pooling or sharing in an issuance.

"This particular issuance is essentially a compilation of five separate cat bonds put together, so there's not a pooling of limits but there was definitely a benefit from the pooling of transaction cost."

In terms of the barriers and opportunities for completing deals, Chin underscored the importance of educating the market, and that two major hurdles exist in regards to players making the first steps and political instability.

"Having worked with the Philippine market for the past seven years, we've seen new governments come in that perhaps has different priorities than the previous one."

"Most importantly, it's a question of how to overcome counterproductive political mindsets and encourage the take up of insurance in Asian markets."

Bennett added that, when you're talking about sovereigns insuring, there's a "big psychological and in some cases more than psychological hurdle" in a government paying money and potentially not getting anything back.

"For instance," Bennet stated, "while governments often like the sound of buying a three year cat bond, the idea that it might not trigger can go over their heads."

Bennett said there is tremendous concern about that in a lot of the region's governments.

Expanding on that point further, Parreñas said it's also important for politicians to see that their constituents appreciate the value of insurance.

"When Typhoon Haiyan hit the Philippines a few years ago, a lot of people actually had microinsurance and immediately got paid to rebuild their houses and businesses."

"This is an example of a situation where a lot of people got to appreciate the importance of insurance, and I think that has to go hand in hand with increasing the coverage in the region."

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