AmWINS Group, Inc.

ILS & LONDON PERFORMANCE MANAGEMENT

ILS ALTERNATIVE CAPITAL & LONDON PERFORMANCE MANAGEMENT - Q1 2019

Changes in the alternative capital space and the London marketplace raise the stakes for retailers.

The amount of alternative capital in the global reinsurance industry surpassed $95 billion in 2018 and is on track to reach $100 billion in 2019. Although alternative capital is still less than 20% of the value of traditional reinsurance in the market (approximately $595 billion) however, it is notable that traditional capital growth remained flat during this same time span.

Although ‘alternative capital’ is a broad term, it typically refers to capital from institutional investors (primarily pension funds) that is given to a fund manager in order to assume insurance risk. The objective is to provide investors with “pure” exposure to insurance as an asset class, eliminating the other sources of risk – such as equity market risk and management risk – that exist when investing in (re)insurance companies. This capital is typically invested in financial instruments whose values are driven by insurance loss events and that can be linked to losses, especially property losses caused by natural catastrophes and weather events. They fall under the umbrella of Insurance Linked Securities (ILS) and include collateralized reinsurance, sidecars, aggregate retro products, and catastrophe bonds.

POISED FOR PAUSE?

Although alterative capital expansion continues its upward trend into 2019, there is a difference in how investors are allocating their funds in light of two years of significant losses. Hurricane Michael caused up to $10 billion in damage, and the Camp and Woolsey Fires in California combined for $13 billion, making it the second year fires passed the $10 billion mark.

“We are at an inflection point with the ILS market—a stage we haven’t reached previously with investors seeing existing capital tied up beyond year-end. However, we continue to believe that ILS capital will be a long-term sustainable source or capital for our industry,” says Scott Purviance, CEO of AmWINS Group, Inc.

Those capital restrictions come from elevated losses over the past two years, including adverse development from 2017 losses. With current investors unable to release capital allocated to those claims, the question is whether they are willing to commit additional money. However, even if certain investors choose not to re-invest, we believe other existing and new investors can fill that gap.

(continued on next page)

CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker.

LEGAL DISCLAIMER

ON YOUR TEAM.

(continued from previous page)

"Historically, alternative capital was deployed deeper in the value chain. Today, investors are increasingly moving toward collateralized reinsurance, which allows them to develop relationships with MGAs and deploy capital behind more defined pools of risk," says Ben Sloop, COO of AmWINS.

LONDON PERFORMANCE

Two words are shaping the London market as we enter 2019: performance management. Faced with massive losses over the last few years, high structural costs, and new leadership bringing in a different perspective, Lloyd's is undergoing a focus on performance management that is expected to shrink its 2019 gross written premium by around five percent and, ultimately, generate improvement in underwriting results.

For the retailer, this could create a potential impact as several major syndicates pursue a reduction in capacity. Some syndicates have been left with no choice but to close down some of their loss-producing classes.

"Lloyd's is going to write slightly less and demand more in pricing going into 2019. There will be a pullback going forward on loss-affected accounts," says Purviance.

But even with all this change and uncertainty, London will continue to provide the backbone for worldwide specialty insurance. "Our expectation is that the Lloyd's market will remain hugely relevant across both its retail and E&S businesses. We are hopeful that after this period of retrenching in 2019, we will see a healthier, more vibrant, and entrepreneurial Lloyd's in 2020 and onwards," says Toby Colls, Director at THB Group. "Lloyd's is still the number one E&S lines carrier in the world, and we do not expect this to change either in the short or the long term."

And ultimately, the "short-term pain for long-term gain" strategy should benefit retailers, buyers, and the entire market.

"There will indeed be a change in the structure of many syndicates' portfolios, and we will seek increased writings in some classes and reduced writings in others. However, we strongly believe this will benefit all of our clients who value their long-standing relationships with their London carriers," Colls says.

IMPORTANT PARTNERSHIPS

What the changes in both alternative capital and London mean for retailers is that establishing partnerships with experienced wholesalers is more important than ever. In addition to providing connections to alternative capital, AmWINS has access to over 400 colleagues in the London market and other global regions under the THB brand, as well as direct relationships with global markets that can deliver solutions to retailers.

"The marketplace is very complex, so retailers need a wholesaler who can understand the market and be positioned to make use of available capital," says Sloop. "Particularly as ILS funds move forward in the value chain, we can help access that capital in a more direct and effective fashion."