Insurance-Linked Securities

Growth and evolution of alterative capital provides market opportunity.

The insurance-linked securities or "ILS" space emerged in the 1990s as a way for (re) insurers to tap into larger pools of global capital. Similar to how asset classes like consumer debt or corporate loans have evolved, broad-based securitization allows participants to access global investors such as pension funds, sovereign wealth funds and university endowments.

Importantly for institutional investors, the values of ILS assets are linked not to the financial markets, but to insurance loss events, primarily natural catastrophes and weather events. In the insurance marketplace, ILS has become an important source of capital with a broader appetite than many traditional (re)insurers. Because they are tapping into a deeper pool of capital, ILS funds are often able to accept some increased concentration risk as long as expected returns are adequate, making them an especially important source of capital in traditional "hot spots" like south Florida.

Market Growth

The amount of ILS in the global reinsurance industry is approximately $95 billion, which represents approximately 20% of total available reinsurance capacity.[1]

"ILS made up a fairly small percentage of the market until 2012. The period from 2012-2018 was one of substantial growth, as ILS became a mainstream source of CAT capacity. Following the storms of 2017-2018, we've seen the market enter a 'maturation' stage, where some funds either exited the space or faced a reduction in assets under management," says Ben Sloop, Amwins' Chief Operating Officer.

In addition to overall expansion of capacity over the past decade, the way ILS is deployed has evolved. "Initially, ILS would only be deployed in the reinsurance or retro markets in instruments such as collateralized reinsurance, sidecars, aggregate retro products and catastrophe bonds. Today we are starting to see ILS capital moving up in the value chain and playing more directly in the insurance market," says Mark Bernacki, President of Amwins Special Risk Underwriters and Amwins' Alternative Risk Practice Leader.

"ILS has become a mainstream part of property catastrophe cover because of the analytics and modeling capabilities deployed around property loss. However, we are starting to see the exploration of applications of ILS in the casualty space as well," says Holland Walls, Executive Vice President of Alternative Risk, Amwins.

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CONTACT

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

Continued Growth

ILS is poised for continued growth. “Although there has been some maturation in the market, stronger players have continued to grow and thrive, and there are new entrants in the space,” Sloop says. “The ILS market feels well-positioned to begin growing again in 2021 and beyond.”

For retailers, the evolution of ILS means that establishing partnerships with experienced wholesalers is more important than ever. Amwins has continued to build proprietary products utilizing alternative capital, including a recently launched partnership with Bermuda-based Integral ILS Ltd. The program will see Integral assume U.S. catastrophe risk originated from Amwins’ MGAs and will include small commercial, personal lines, middle market and large shared and layered accounts.

“This latest development is another example of how we build new products to support our market partners and bring more product to our retail clients,” Sloop says. “In this rapidly changing market, retailers need a wholesaler that understands the global capital markets, particularly as ILS funds continue to expand their appetite beyond traditional reinsurance. And for our market partners, ILS funds like Integral provide a capital-efficient way for them to expand their underwriting appetite while mitigating their critical cat exposure.”

Source

[1] From various sources – ILS had grown to about $95B YE 2018 but had “stagnated” in 2019. See: **https://www.fitchratings.com/research/insurance/insurance-linked-securities-stagnated-capacity-29-09-2020**. Guy Carpenter does not yet have a YE 2020 capacity figure, but the expectation is only “slightly” higher: **https://www.artemis.bm/news/ils-resilience-reinsurance-capital-grows-renewals-guy-carpenter/**. The total reinsurance capital in the market is just under $500B - $395B or so traditional and $95-100B ILS.