

The challenge of comparing ILS products

The best of both worlds: Asset management vs reinsurance

ILS investing – Challenges and solutions

An annual review of ILS , Swiss Re Centre for Global Dialogue

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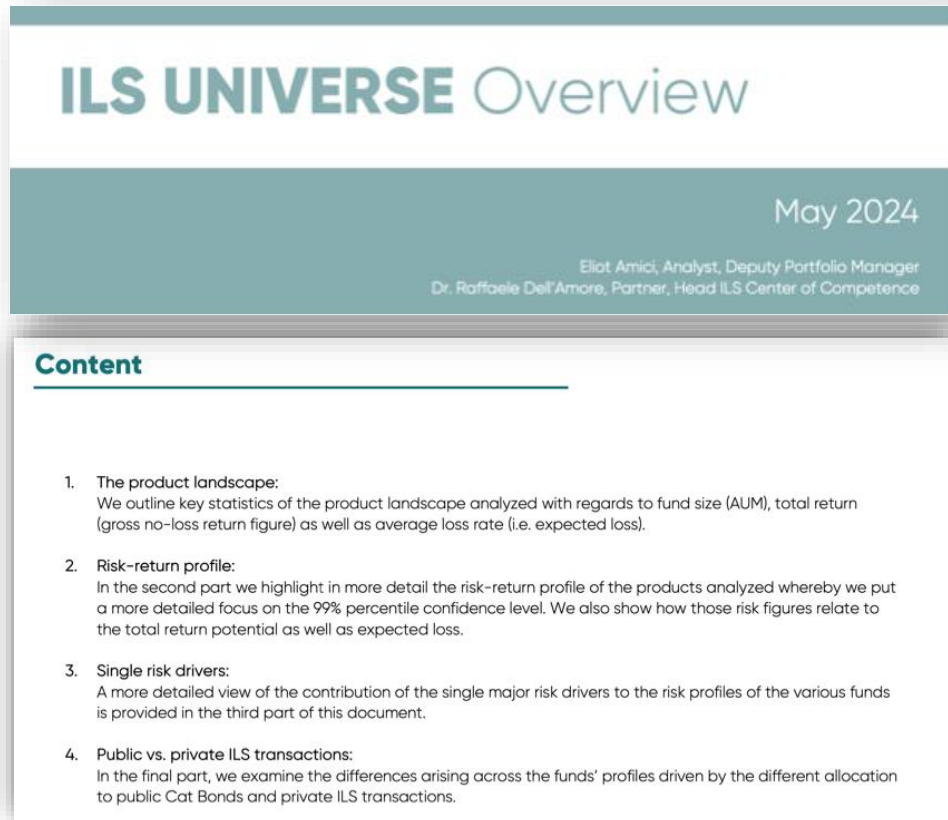
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Marketing Material



Spoiler alert: ILS UNIVERSE Overview (2nd edition) will be published in Q1 2025



What you can find inside:

Market size and scope:

Data from 52 ILS products, encompassing USD 27bn in managed assets.

Risk-return profiles:

Detailed examination of risk and return profiles, incl. ELs and no-loss returns.

Diverse product offerings:

Comparison of cat bonds and private ILS transactions incl. their unique risk-return dynamics.

Risk drivers:

Identification of primary risk contributors like Wind USA and Earthquake USA.

Why we made this:

Transparency and comparability:

To provide clear, objective data that helps investors assess and compare ILS products.

Tailored insights:

To help investors understand the complex ILS market and make well-informed choices.

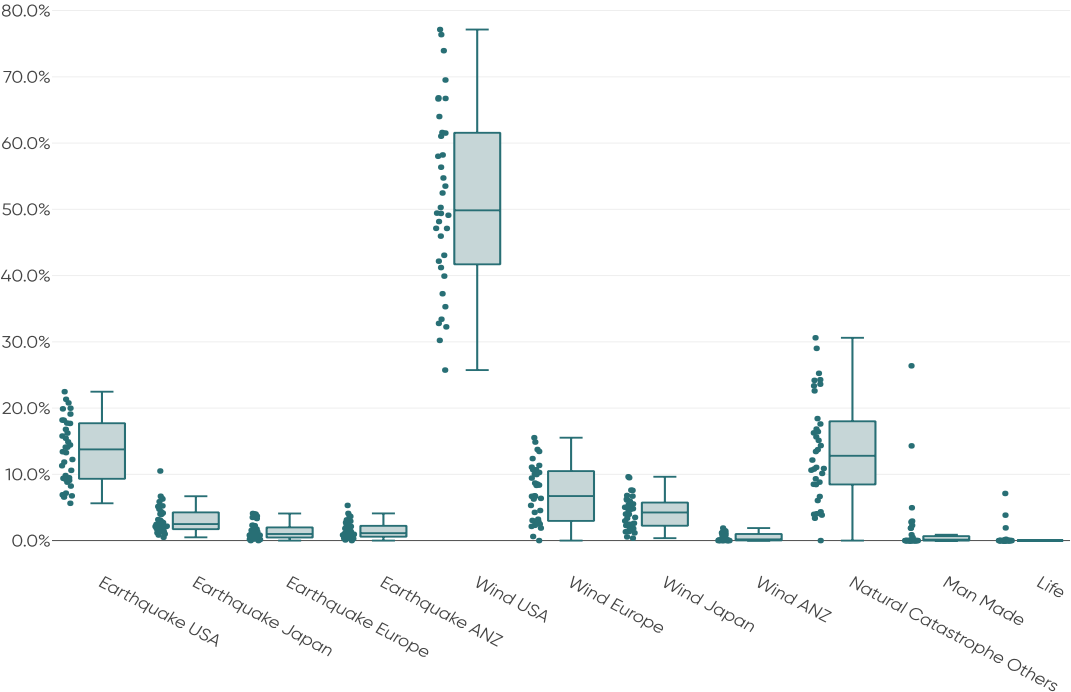
Strategic allocation:

To showcase the benefits of diversifying across different ILS segments, addressing individual investment needs.

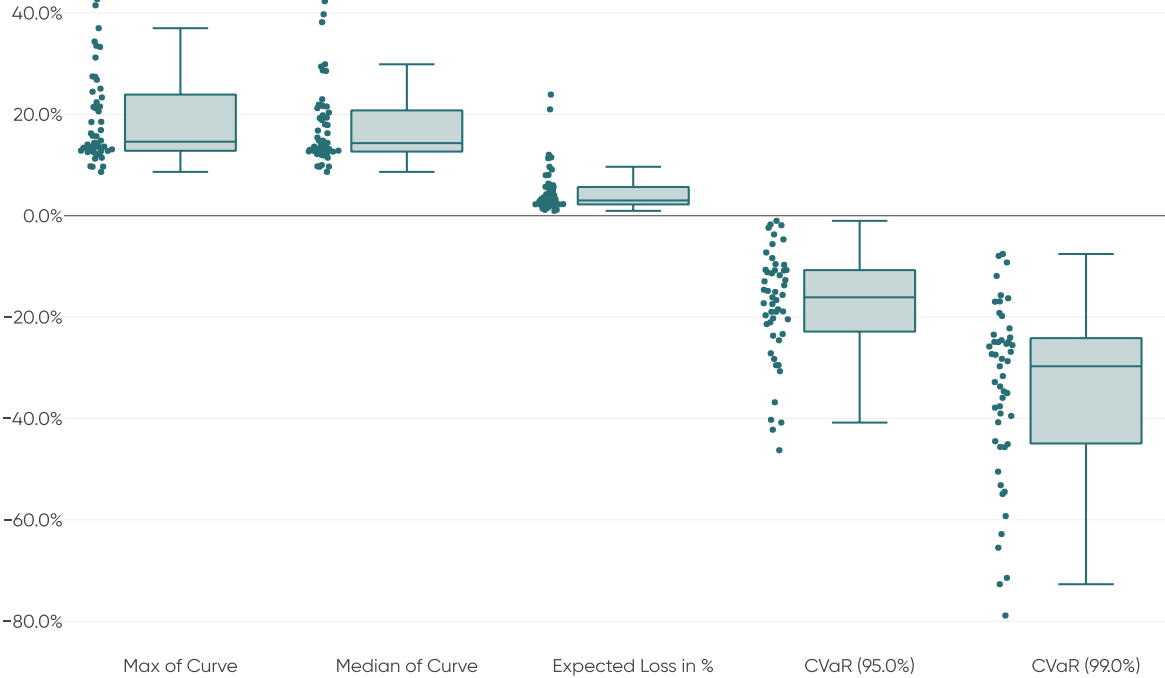




Contribution to an ILS fund's expected loss per peril



Dispersion of key risk/return metrics



What do investors expect from an ILS investment?



Institutional investors' general expectations



- Solid and comprehensible track record
- Representative of the investment strategy and process
- Consistent with the risk taken, and repeatable/scalable



- Timely and accurate client communication
- Transparency regarding performance drivers, loss events etc.



- Competence and integrity results in trust
- Alignment of interest between investor and ILS manager
- Fair redemption options
- Capital-efficient, intuitive and simple implementation

What do investors expect from an ILS investment?



Key aspects to address investors' expectations



- Investment strategy and accessible market
- Investment process
- Risk management



- Accessibility to leadership / decision-making personnel
- Frequent, timely and consistent reporting
- Communication of lessons learned / progress made



- People / team
- Experience & expertise
- Solid operational setup and fair fund terms

Past performance is no guarantee for future returns.... but an indication?



Comprehensible, repeatable and scalable track record



Challenges

- Solid and comprehensible track record
- Representative of the investment strategy and process
- Consistent with the risk taken, and repeatable/scalable in future

- No investable ILS benchmark
→ no “clear” definition/ confinement of an investable universe
- No “one-fit-all” risk measure
→ Defining a consistent peer-group entails various aspects
- Risk modelling vs valuation
→ Different risk models with different risk assumptions, own risk view
→ No standardized valuation approach (not even in cat bonds)

Past performance is no guarantee for future returns.... but an indication?



Comprehensible, repeatable and scalable track record



Solution-oriented approaches

- Investment strategy and accessible market
- Investment process
- Risk management

- Agree with managers on a reasonable data tracking framework with appropriate granularity, develop over time driven by clients' needs
- “Underwriting” vs “Fund Management” – clear definition of roles and responsibilities
- Understand different modelling assumption and monitor over time
- Own risk view, consistent assumption between risk modelling & valuation



Communication and transparency



Challenges

- Timely and accurate client communication
- Transparency regarding performance drivers, loss events etc.

- Is what we see in the back mirror representative of the future? Is it helpful for anticipating what the manager will do?
- Balance relevant vs non-relevant information
- “Not all ILS managers might be fully aware of what is important/ relevant for a capital market investor”

Communication and transparency



Solution-oriented approaches

- Accessibility to leadership / decision-making personnel
- Frequent, timely and consistent reporting
- Communication of lessons learned / progress made

- Time-sensitive discussion with key personnel in crucial situations, e.g. insurance events, renewals, issuance activity
- Standardized reporting at portfolio and product level. Planned portfolio vs backwards looking and compare to resulting portfolio.
- “Transparency doesn't mean sharing every detail. Transparency means providing the context for the decisions made.” (Simon Synek)

Investor = Client or Partner ? Investment = Capital or Capacity?



Challenges

- Competence and integrity results in trust
- Alignment of interest between investor and ILS manager
- Fair redemption options
- Capital-efficient, easy implementation

Different business models come with different advantages and challenges:

- ILS manager is a fully independent company
 - ILS manager is part of a sizeable institutional Asset Manager
 - ILS manager is part of a (sizeable) traditional reinsurance company
- What is the motivation of the business ?

Investor = Client or Partner ? Investment = Capital or Capacity?



Solution-oriented approaches

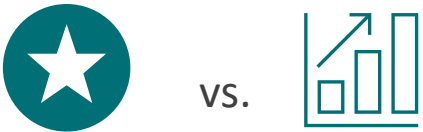
- Competence and integrity results in trust
- Alignment of interest between investor and ILS manager
- Fair redemption options
- Capital-efficient, simple and intuitive implementation

- In asset management, trust is paramount!
- Say What You Do and Do What You Say
- “Do they like the money, or do they like what they do?” (Warren Buffet)

Summary and conclusion



Traditional reinsurance business and ILS asset management are “Same Same But Different”



Qualitative aspects of the product need to relate to the quantitative data



Measure changes over time and relate those to similar products exposed to similar market segments



Successful ILS managers and their products...

- ... are acknowledging those challenges
- ... focus on the requirements and expectations of capital market investors
- ... make constant progress towards the needs of their investor base

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Appendix



The key aspects that investors look for in ILS



- **Diversification**
ILS offers a causally independent risk premium to (more) traditional asset classes.
- **Low interest rate duration risk**
The various ILS transaction types are structured as floating-rate notes and have a typical legal term of 12 months.
- **No direct counterparty / credit risk**
The various ILS transaction forms are typically fully collateralised and/or capital is ring-fenced/ off-balance sheet.
- **Well quantifiable and attributable risk premium**
Risk drivers are clearly identifiable.
- **Low volatility with steady return pattern**
The risk premium is paid out regularly in the form of coupon payments or earned seasonally-adjusted over the risk period.
- **Regular valuation based on fair value principles**
Transparency and timeliness, on-going monitoring of evolution of investments, in consistency with underwriting.

The multi-manager / multi-product approach



Diversification of manager and strategy risk

- Diversifying across different managers and across different funds and strategies.
- Tracking error risk to the target return is thus minimised.

Specialisation

- ILS is a heterogeneous investment universe with a multitude of niches, sub-markets and implementation.
- No manager can cover the entire universe integrally. Each manager has its strengths and weaknesses.
- A fund-of-fund solution can specifically benefit from the specialisations of the individual managers and achieve a more capital efficient allocation through complementary portfolio construction.

Diversification of operational manager risk

- The impact of key person risk, strategic missteps, poor execution, criminal intent, or distractions is minimised.

Flexibility

- A multi-manager portfolio has a higher degree of freedom in the design of the overall portfolio.
- This means that pension funds can also avoid dependencies on individual managers.

Costs

- The secondary fee level (fund-of-fund manager) is addressed by the fact that SIGLO is viewed by the managers as one client representing the respective end investors advised by SIGLO.
- As such, SIGLO is well-positioned to negotiate fee discounts with ILS managers, on behalf of our clients, which partially compensate and thus offset the additional fee level.



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