

Alternative Risk Management: Continuing Innovation in (Re)Insurance Risk Transfer

CAS Seminar on Reinsurance

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Boston, MA



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Moderator:

Alex Korb, Manager, Verisk Analytics

Panelists:

William Dubinsky - Managing Director, Willis

Larry McClure - Senior Actuary, Travelers

Beat Holliger - Head of MRCM, Munich Re
Capital Markets

Panel Discussion Agenda

- Setting the Stage – 6 Basics
- Non-life Insurance Linked Security (ILS) Structures
- Innovation & Future Outlook
- Audience Question & Answer

Setting the Stage: 6 Basics

ITEM	MYTH	REALITY
1. ILS scope	ILS and related solutions really only equal cat bonds	The scope of ILS and related solutions is much greater than cat bonds; cat bonds represent a minority of insurance assets under management for capital markets investors
2. Cat bond importance	Not very important . . . the total cat bond market capacity of approximately 13 billion is still small relative to the notional limit placed in the broader re/insurance markets	Important in dampening the rate cycle . . . for US hurricane risk, cat bonds and related capital markets capacity provide half of retrocessional capacity, which in turn impacts pricing in the broader re/insurance markets
3. Relative pricing	Cat bonds are always more expensive both on a loaded and unloaded basis	Even ignoring collateralization, diversification and multi-year fixed pricing, cat bonds are often less expensive for certain programs exposed to peak risks

Setting the Stage: 6 Basics

ITEM	MYTH	REALITY
4. Triggers	Investors will only accept non-indemnity triggers, which create substantial basis risk for the sponsor	Most cat bonds supporting personal lines business in the US use an indemnity / ultimate net loss trigger
5. Investor composition	Generalist institutional investors make up the bulk of the investors	More than half of the current investors are insurance risk specialists themselves backed by generalist institutional investors
6. Cat bonds vs. collateralized re	Cat bonds and collateralized re represent distinct pools of investors	Cat bonds and collateralized re represent distinct products distributed to an overlapping group of investors

Worldwide Natural Catastrophes - 1950-2011

Overall and insured losses with trend

