

1.2 INTERVIEW

Growth potential and resilience of ILS as an alternative capital

Interviewer



Mathew Croft,
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Interviewee



Kirill Savrassov,
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SUMMARY

- *Insurance linked securities as an uncorrelated and trustworthy investment*
- *Digital integration and ILS*
- *Investigating ILS and its role in regional and geo-strategic developments*
- *The relationship between ILS, parametric sovereign bonds and disaster solutions*

Mathew Croft: In terms of the growth potential and resilience of ILS as an alternative capital, what are your comments?

Kirill Savrassov: Through the Covid markets turbulence, Insurance-Linked Securities (ILS) as an asset class, once again proved to be both uncorrelated and trustworthy investments, being one of a very few classes globally that was not directly hit by the turmoil in the stock markets. The only observation seen in spring and early summer 2020 was a slight pull out of funds based on the investors' urgent need for liquidity, so few exits from ILS wasn't about the asset class but based on a simple need of money at the moment – a great proof of investments worthiness.

As for short to mid- term potential ILS probably going to be an area that will have a surge in new investors and allocations within existing portfolios due to several independent factors like (re)insurance market hardening (so coupon increase in ILS), trend to government bonds yields decline (so other usual diversifiers become less attractive), ECG principles' compliance and, of course, that proved and tested uncorrelation we have seen recently being same through financial crises in the past several decades.

Mat: In terms of the new perils or territories that have arisen, perhaps as a result of the new market cycle that is just about to happen, do you have any comments?

Kirill: Any new perils or territories are something that serves extremely well for investors who are already allocating into ILS

because they extrapolate on the quite unique intra-class diversification opportunity.

For instance, at the moment if you look at the Industry Loss Warranties (ILW) segment, it is a great instrument but mainly exposed to US wind perils, so for sure any new addition of geographical exposure definitely shall be warm welcomed by investors and act as a further cementing factor for those asset managers who have already allocated and enjoying this instrument. The room for growth within other well-known and modelled perils like earthquakes, for example, is also huge for the same reason.

Additionally, some new perils, like Cyber are at the gates to join ILS space with now question on when, not if.

Potential development of pandemic bonds is another opportunity, although it will require some fine-tuning and lessons to be learnt from 2020 to have some form of governments/private markets cooperation.

Mat: What are your thoughts on ILS and ESG intersection?

Kirill: ILS and ESG are two things that have been borne for each other. Through relatively slow but steady digestion ILS clearly demonstrate natural reliance towards environmental, social and governance factors.

If you follow the current investor stock, you can see that the current ESG investing is something that is on the board of each and every large corporation and I think that ILS represents a brilliant opportunity for

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them to combine a unique uncorrelated asset class with corporate endeavours to follow ECG principles in investments.

This doesn't just concern just ILS but all sorts of parametric solutions in insurance as by its nature, these instruments have a role to play in increase of macroeconomic stability and resilience, especially in developing countries around the globe.

That is why many major international organisations such as the United Nations, the World Bank and other global international financial institutions have all reiterated how important it is to follow ECG principles while investing. ILS is a unique opportunity in this regard.

Mat: Do you have any other thoughts on ILS?

I am confident that due to its transparency and reliability ILS has a significant role to play in some regional and geo-strategic developments. Take Chinese Belt & Road Initiative, for example.

With tens of billions invested into logistics and critical infrastructure of BRI transit countries and underdeveloped local insurance markets all stakeholders face continuous thread of economically devastating natural catastrophes therefore the risk of entire transport corridor(s) disruption in a situation when many of those nations see the BRI as means to boost their trade and development.

For example after leaving North West China several key transport corridors are going through one of the most earthquake exposed territories of Eurasia if not the world. It is not a theory – historical track record of those speaks for itself.

That is why in their search for appropriate sovereign disaster risk transfer solutions, regional governments need to choose an effective alternative instrument to have an access to emergency funds. ILS in the form of parametric sovereign catastrophe bonds seems to be a brilliant solution for this. Especially as other parts of the world already have it tried and tested.

Such a choice is a triple win solution for everybody: China as investor into infrastructure, local governments in need of emergency cash in case of large natural catastrophe and private capital market investors who will be working with a transparent, well-established instrument with clearly defined risk-reward pricing. I am sure that it can be very interesting for investors who already allocating to ILS plus newcomers from surging places like South-East Asia being a booster of the development of that asset class there.

Mat: In terms of investors in Europe investing in this asset class, what advances would this play within their portfolio as opposed to an alternative?

Kirill: Pure diversification. Unique uncorrelation. Healthy interest improve following underlying (reinsurance) market hardening – all in light of other alternatives' weakening trend.

Mat: Thank you for sharing your thoughts on this topic.