



TRADING Risk

Insight and Intelligence on (Re)insurance Convergence with the Capital Markets

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ILS ties prove their worth in post-Hurricane Irma era

(Re)insurers with established relationships within the ILS space are at an advantage in the current post-loss environment, according to Joe Ferraro, partner at Willkie Farr & Gallagher.

"I think the main theme in late 2017, early 2018... was that those with their structure up and running had an advantage because all they had to do was create a new cell [to raise capital]," he said at the *Trading Risk* ILS conference last month.

"They had already formed the investor partnerships which are critical to this space, so that investors knew their track record, they had a level of trust and they knew who they were dealing with," he added.

A notable number of new sidecars have been established since last year's catastrophes.

"There were quite a few toe-dipping exercises where new Lloyd's managing

agencies and syndicates and sponsors came to the market, forming sidecars and other structures that allowed them to start



"There were quite a few toe-dipping exercises"
Joe Ferraro

to develop these investment partnerships with capacity through ILS," said Ferraro.

Some large investors participated in almost every structure available in the renewal, he noted.

Equity-based sidecars and cat bonds won out as the preferred option for (re)insurers to seek new ILS capital in

2017-18, with fewer market-facing sidecars or funds set up.

Contingent or "just-in-time" capital drawdown structures also worked for sponsors.

Moving past the 2017 losses, cedants will need to be pragmatic and not hold out for trapped capital if it is not needed in order to continue to attract investor capital, the Willkie Farr partner said.

Reinsurers are also increasingly reporting performance figures to investors on a monthly, rather than quarterly, basis.

The UK's success as an ILS platform would depend on its political and economic stability and whether Brexit results in Solvency II equivalency, he continued.

"What we are seeing at the moment is PRA staff very willing to engage and understand the structures and what ILS participants are trying to do," he said.