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Investing through the Storms: Are Insurance Linked Securities a good investment through climate change?

Breakout 1A

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Agenda

#1 What are Insurance Linked Strategies (ILS)?

#2 Diversified ILS Funds

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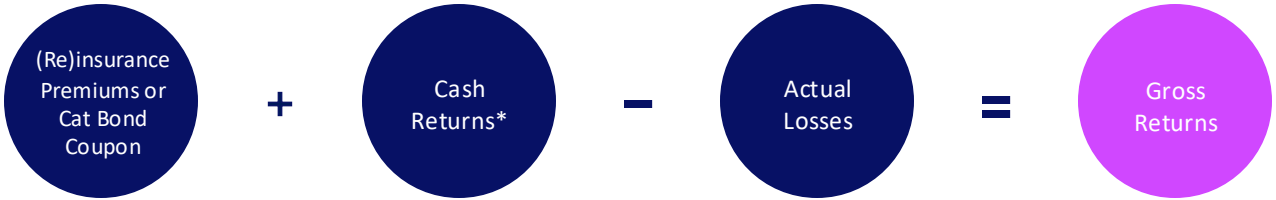
ILS enables investors to access underwriting returns from portfolios generally originated by (re)insurance companies, corporate or government entities which are exposed to insurance events.

Investors earn a coupon, and **drawdowns only occur in the event of defined occurrences,** such as natural catastrophes (e.g. hurricanes, earthquakes, floods etc.)

ILS returns are driven by insurance risk (e.g. natural weather events) rather than economic cycles, **providing great diversification** from traditional markets

ILS Value Chain Example

ILS Economics



*Money Market Fund Returns

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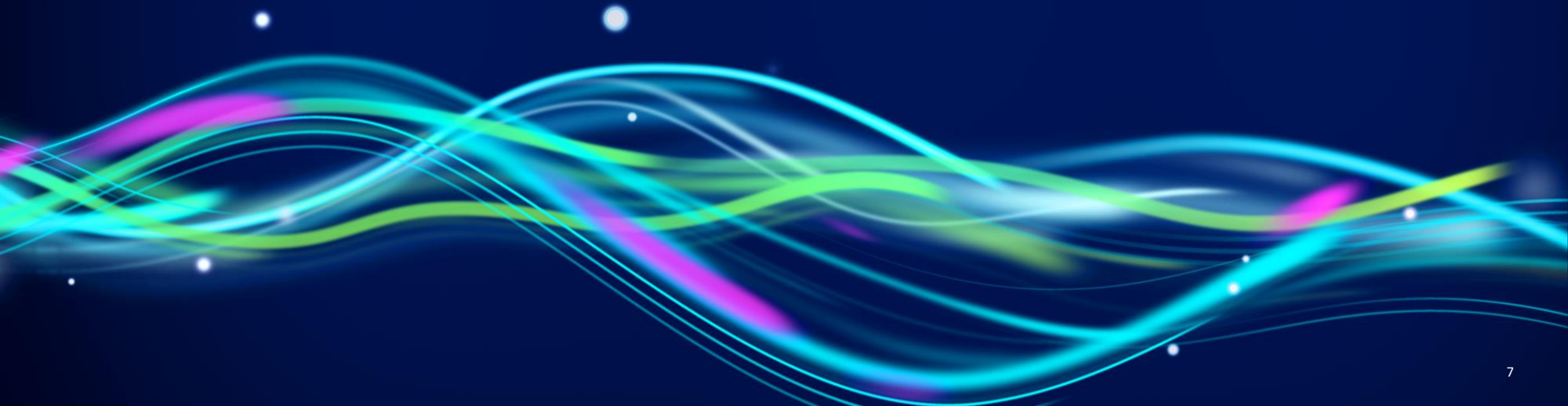
#2 Diversified ILS Funds

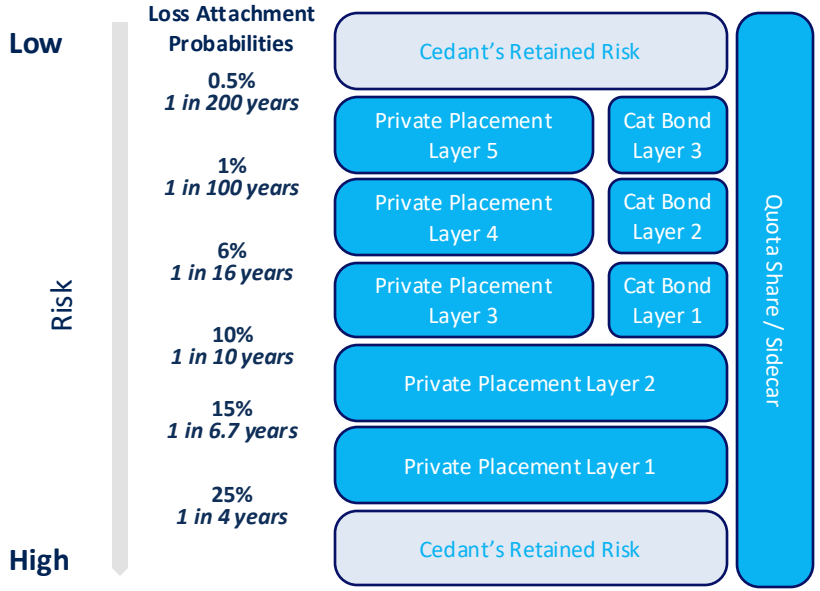


Diversified ILS Funds

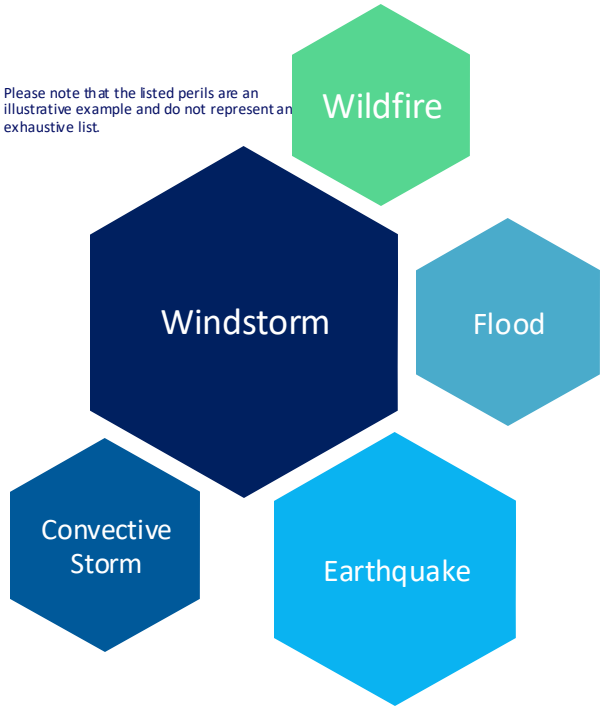
Insurers transfer risk to the ILS market mainly via two instruments:

- **Private Placements:** private reinsurance deals (typically 1-year tenure)
- **Cat Bonds:** tradeable security (typically 3 to 5-years in tenure)

Private placements and cat bonds are **structured in tranches.** This allows **ILS investors** to **elect** from a **range of risk/return profiles** based on their investment objective. Participation in **senior tranches offers** a more **remote default risk**.



Please note that the listed perils are an illustrative example and do not represent an exhaustive list.



Each reinsurance program is different; (re)insurers have different appetite for how much risk they should retain, which structures they wish use to transfer risk, how wide or narrow risk layers should be (hence the probabilities associated to each risk layer attachment & exhaustion point differs for each Program).

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