ILS Market Outlook 2025 webinar - Oct 31st 2024

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SPEAKERS

Steve Evans, Mike Ramsey, John DeCaro, Marc Stern, Kathleen Faries

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S Steve Evans 00:05

Okay, thank you everyone for joining. We still have people coming into the room now, but we're going to get started as we're just past the hour. So welcome everyone to this Artemis live webinar, which has held in association with our kind partner, Wilmington Trust today, Wilmington Trust has a leading wealth and institutional services offering, and within that, the company is a key service provider in the insurance linked securities market as well in the provision of insurance and reinsurance collateral trusts. Now today, with the help of our panel of experts who are here today to share their insights, we're going to explore the state of the catastrophe bond and insurance linked securities market, and look ahead to what market participants and investors can expect in 2025 we'll discuss what we've seen so far this year, expectations for the end of year catastrophe bond market activity and the renewals in reinsurance, and also where our speakers see opportunities for the market to expand as well. We're also going to speak about what's going to be important in ILS for sponsors, investment managers and allocators, and get our expert how it looks for 2025 as well. So I'm delighted to introduce my very experienced panel today. We've got John dicaro, founding partner and Senior Portfolio Manager from elementum. Advisors, we have Mike Ramsay, Senior Vice President and Client Development Officer at Wilmington Trust. We have Kathleen fairies, CEO of Artex capital solutions. And we have Mark stern Director of Business Development at nephila. Advisors, welcome all of you. Thanks for joining us today. I'll try and keep this as pain pain free as possible for you. So we've got a real great amount of experience with us today, so we're going to try and get some insights from them and share some thoughts with the audience here, rather than introduce everybody in depth, I'm going to let their responses to the questions do the talking, and you'll learn more about them as we go. We've got an hour, so we'll get right into it now. And just to remind those who are watching the Q and A facility is available, you'll be able to type your questions into the Q and A box. Now, we won't go come to those questions until the end of the session, once we've finished our prepared sort of questioning. But if we have the time which we should do, we'll come to as many of the audience questions as possible. So please don't be shy. Please send us your questions. Take this opportunity to ask some industry experts about what they think about the market outlook. So first of all, we're going to sort of look back a little bit before we start to look forward. And I wanted to ask our panelists to share some insights on the year so far from their positions. Ask them what they've seen so far that's been positive or potentially negative within their specialist areas of focus. And it'll also help our audience to get views on the potential ramifications of the recent hurricane activity as well. So I'm going to start with John decari from elementum, so I'd like to begin with you to get an ILS investment manager view on the year so far. What's been notable in elementums world. How have market conditions been through 2024 to date? And perhaps you could also give us your view on the recent hurricanes and their implications for the ILS market.

J John DeCaro 03:20

Great, Steve, first, I'd like to thank you for having me today, and can get right into those questions. We have been seeing a tremendous amount of investor interest in both the cat bond and, to a lesser extent, reinsurance markets, from investors on the heels of performance in 2023 across the asset class, and that has reflected, I think, green shoots coming through, given that the market had been in a little bit of a stagnant phase, given loss experience that has happened three to four years ago. So that was a big positive for us, and I'm sure that investor interest has been circulating across all the different ILS managers as well. We have seen more interest in areas that are effectively, I think, dislocated, and we've seen a lot of volatility in the cat bond market in the first half of the year. That seems to have plateaued in the summer and is leading to a strong fourth quarter in the absence of further hurricane events. Notably, we saw significant spread tightening in the first quarter, followed by tremendous spread widening in the second quarter, as there was heavy new issuance, and then in the aftermath of Helene and Milton, when damage estimates have been more modest than initially feared, we've seen a rebound in cap on pricing. So overall, we're pretty optimistic heading into the fourth quarter.

S Steve Evans 04:57

Great. Thank you, John, the market does seem. Have been fairly resilient over the last few weeks, given the hurricane activity that we've seen, but I guess time will tell with that as well. Now, Mike, going to move on to you now, and perhaps you could highlight some of what you've seen through the year so far in terms of Wilmington Trust, sort of interactions with market participants as a service provider.

M Mike Ramsey 05:20

Sure. Thanks, Steve. I think if also appreciate you putting this together. Very delighted to be here along with everybody. If I look back to the beginning of the year, really, there was a lot of discussions coming in from the prior years around the losses that were experienced in the resulting trap collateral. That was a big topic. I was getting a lot of questions about climate change, how that's going to affect the industry, short term and long term. The economy was big on on everybody's radar. We were getting a lot of questions on inflation and rates and what the Fed policy was going to do, and a lot of that has since sorted itself out. But from our perspective as a service provider, I would say we had a bit of a muted Jan one renewal, and it started to pick up late first quarter. So by April, May, June, the mid year renewal season really picked up for us, and stayed steady, really up through till now even. And I think adding on to what John said, the cap bond market, I think also followed that same trajectory with April, May, June, being the months that had the most issuances of cat bonds. You know, the the Fed made their first rate cut in four years. So I think they're, they're comfortable with where inflation is that finally, and I think rates are, you know, going to maybe be trending that way, but not, not crazy high like it had been in the last four years, it's been pretty stay. I don't think it's going to go too far down from there. We as we got into the hurricane season, there were a couple of big ones, as we mentioned, but the industry seemed to have weathered those storms. Storms, so to speak, pretty well. Cat bonds have already recovered, I think, as you mentioned, so I think optimism is up going into the last part of this year, as we hit renewal season towards the end of the year, I'm looking forward to it, and I think we're going to be in pretty good position and maybe do a little better than with it even last

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Steve Evans 07:12

year. Great. Thanks, Mike. And I'm glad you mentioned the risk free rate there as well, because that's obviously been an additional benefit to investors in this space over the last few year or two, and it does look like that will continue to be something that attracts people to the industry, the floating rate nature of ILS instruments as well. Now we can get a bit more on that. Perhaps move on to mark stern and given your conversations with investors year to date at nephila and your business development role, perhaps you could give us a bit of an overview of investor sentiment through the first nine months.

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Marc Stern 07:46

Sure, and thanks again, Steve for including us and appreciate being here the as I look as our audience knows that returns of 2023 were very attractive, and that has been, you know, behind the interests of investors as they come to the asset class for 2024 and in the first part of this year, what we saw was additional interest from opportunistic investors thinking through how they can deploy capital that may take full advantage of dislocations in the market. More consultant driven. Larger institutional investors still remain on pause from our perspective and as a broad comment. You know, they have their general concerns about climate change. They have questions about the modeling, since the loss events of recent years put that front and center. But as we move through the first half of the year, you know, what we focused on with our clients, especially, was monitoring the forecast for the hurricane season, which were quite severe, and led to some detailed review of those forecasts, what they mean for modeling, pricing, workload, construction, and, you know, just investing a lot of time with our clients on those topics. This is, from our perspective, one of the most important elements of the relationship with our clients is to ensure they fully understand the portfolios that they invest in, the risk they assume, and to compensate for the risk the return they're earning. And so we invest a lot of energy on that front, so that when there are events as Elaine and Milton came through, we can point to a lot of that work ahead of the season to demonstrate how the portfolios behaved, and they behave in line with expectations to those types of events. So through this point over the year, that's been the nature of our interaction. And I think you know clients from where I sit, working with our clients, they appreciate the deep interaction on the portfolio positioning. And then when we do have events that they fully understand how those portfolios behaved.

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Steve Evans 09:44

Great. Thank you, Mark. And a quick follow up, though, are you finding investors were appreciating sort of how Helene and Milton would fall? Or has this been a bit of a surprise that they perhaps haven't caused quite the impact some may have sort of thought i.

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Marc Stern 09:59

No, I think in our experience, the portfolios that we offer our clients can range from very remote and risk remote to very aggressive, and those will behave very differently, as so long as each of those types of investors is is has the transparency to understand where they're invested and how they're meant to behave, they shouldn't be surprised in our experiences, they worked. You know, we basically have, we're in, we're still in some of those conversations, but I think broadly speaking, we would say we've been very, you know, very engaged. I think the reaction has been, the response has been very positive.

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Steve Evans 10:35

Great. Thank you, Mark, that's helpful explanation. Moving on to Kathleen at architects capital solutions, you've obviously got a really important role in market facilitation and service provision within ILS. And so what sort of trends have you been identifying throughout the course of 2024 so far,

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Kathleen Faries 10:52

I think prop Well, thank you, Steve, and thanks for having us. Appreciate it. I think what you're going to find in my response is really an echo and maybe a validation to a bunch of things that you just heard the rest of the panelists say, but the fact that we sort of touch maybe a broader space, potentially than than maybe some of the investors that are represented here, what I would say is that in 2024 we definitely saw an expansion. I mean, the obvious one is cap ons. I'm just validating that because we do administer quite a bit of that marketplace. So we definitely saw an expansion and a and a growth in terms of interest on the cap on side, but definitely in the sidecar space. So that's a that's a big space for us. We facilitate and administer, we probably touch the majority of the side cars that have been set up in Bermuda. And in addition to that, we're actually seeing new side cars being set up, which is kind of interesting. That's been a trend, really, over the last couple of years now we're starting to see the casualty side come into play on the sidecar side. So definitely an increase in interest and support of side cars, I would say, Cap bonds. And then the other one that we haven't really touched on but but we do support is London Bridge and the Lloyds marketplace. So there certainly has been increasing interest to learn more about how to back Lloyd syndicates. What is the exposure there? How does it work? So you can see that what Lloyds had been doing there to try to gain interest for third party capital of bacloid syndicates, and then facilitating that is starting to take hold a little bit. So I think those are really the trends mga interest. But it's definitely an expansion, I would say would be my theme. Certainly an expanding market is what we're seeing.

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Steve Evans 13:01

Yeah, no, that's a really good point. Catherine, we often get far too focused on cat bonds and collateralized catastrophe reinsurance, when actually there's a lot more going on at the moment. And interesting to hear about the sidecar side too, because that's certainly an area of opportunity, I think, for a different type of investor as well. Are you finding those conversations take a long time to get fulfilled and for structures to actually get completed, or things pretty efficient these days, it's definitely

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Kathleen Faries 13:29

a longer, you know, runway than than just participating behind a transformer or setting up an SPI but, but they are happening, and it does get executed on fairly quickly, as long as we're in the conversation early on. So there's definitely, there's definitely interest and expansion for sure. Great.

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Steve Evans 13:53

Thanks. Kathleen. So now we're going to move on to talk about sort of where we're at today, the current state of play. And obviously we're now at the stage of the year where the Atlantic hurricane season peak, the climatological peak, has been passed. Although, of course, there is still a month to go of November, so anything can still happen, but it's a good time to review the current state of play in ILS and cap bonds with the peak of the US wind season now just passed. So going to start with Mike this time. Perhaps you could give us some thoughts on how you feel the industry is positioned at this time and and what you see in terms of the health of the ILS asset class at this point of the year, and, I guess also what you're seeing in forward demand terms for the Wilmington Trust product offering, as well as that's that's a good indicator, really, for us

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Mike Ramsey 14:43

Sure. Well, at the risk of sounding overly optimistic, I think the ILS asset class is in very good condition right now, especially considering some of the models we were seeing even a month ago before Milton was to hit, they were looking pretty scary. One point, but turned out to be a lesson originally feared, and it seems like the markets recovered pretty quickly. You know, from what I'm hearing talking to our clients, performance this year across the board looks to be up. Cap bonds have already recovered, as we discussed from, you know, a slight dip during Milton funds that, without exposure to any of the lower layers or exclusive to high risk, will post positive returns this year. I'm hearing this from pretty much all of our clients. Investor appetite is, as we've discussed, seems to be trending toward cat bonds. It favors bonds. I think cat bonds are up to 40% of the market now. Market now, so they're definitely growing as we're saying. It's a pretty common theme some here and some investors are still questioning the models pricing impact of climate change. These are all all discussions people are having, and what really the new normal is going to be, and forward demand for our products. But what we do on the trustee side, we're pretty bullish on all of them. I think cap bonds, whether it be the indenture trustee, paying agent or reinsurance trustee, all of those, we're bullish on our traditional business. With the side cars collateralized Re and retro is still pretty strong, and I think that's going to stay, stay where it's at so 2025 we're pretty optimistic that we're going to be in pretty good shape and grow business a little bit, probably more on the cap bond side, and then little bit on the others.

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Steve Evans 16:34

Great. Thanks, Mike. And that gives us a good idea of the mix of business as well that you're seeing. Now, back to you, Kathleen, we've seen reports and news on increased activity in some of the areas of the ILS market, and you've mentioned this just now in your comments. But are you experiencing growth and inquiries? And I guess what? What are the most notable areas of interest and where you see activity increasing?

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Kathleen Faries 16:57

Yeah. And I think the the MGA space is kind of interesting. I mean, I think both from, you know, I guess the theme for me, as I started to prepare for this was really sort of this enablement and expansion. So in order for the casualty space to sort of be enabled, you know, you need a couple things to happen. You got to have the distribution, and you've got to have the investor set that's interested in that, and then sort of sitting in the middle, you got to have all these enablers and facilitators. So fronting companies, obviously, is a big part of that. So, you know, I think we're seeing, you know, an expansion of interest there. The other thing that's super interesting that's starting to bubble up now, and I think Steve, you, you actually had it in your one of your articles, what is this sort of early exit optionality? So, you know, all these things that are coming together to sort of enable the ability for us to expand as a market, I think is interesting. And so we're seeing that all those conversations and discussions, that's what's so fascinating with the space that we're in, that even if it doesn't get executed on, we actually get to be a part of those early discussions. So there certainly is a lot of discussion around what else you know? What else can we do, other than property cat? What does that look like? How can we do that? How can we execute on that? But you do need all these parties to facilitate and enable, and that does seem to be more available now. There's more interest in that. So that's super interesting. You know, the again, side cars in general. What else can we do with a sidecar? Can an mga utilize a sidecar? What can we do in the casualty space? How do we expand on that? Those are conversations that are definitely being had. Cyber seems to be a bit quieter at the moment. I mean, I know on the 144 a side, there's discussions there, and certainly a pipeline, but that seems to be a little more muted. And now this casualty space seems to be at least something that people are talking about more so. So I would just add that to the original comments i i made

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Steve Evans 19:22

no thank you, Kathleen, yeah, I think you pointed out to a really interesting development, and it actually takes me back sort of 1015, years, when people first started to discover that they could use fronting for their collateral insurance to really enable their funds to do more but also provide better service to investors. And that's the sort of the value chain really coming together around longer tailed risks now, with things like the exit option that's been applied, which, for those who don't know, is a kind of legacy Novation that's agreed up front on an investment opportunity, so gives investors some certainty. Over, over, liquidity, etc. These are really important trends. Thank you, Kathleen. So moving on to mark your expertise, obviously on the investor relations side, mainly. And what's been notable in discussions lately and around, I guess the recent catastrophe event activity, are investors really appreciative of the reset that's been seen in reinsurance? And I guess this is something you spend time trying to make sure they understand when they come into your strategies. And also, do they do they get the fact that we're in an environment of more stringent contract terms and higher pricing as well?

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Marc Stern 20:40

Yeah, yeah. I think, I mean, investors absolutely appreciate where we are in the cycle. They appreciate where we are in pricing. And that what that means in terms of terms and conditions, for sure, and it's reflected, I think, too, in the performance even of the portfolios this year, right, as has been mentioned, the events of the year were, were, you know, quite notable, but same time, well within the earnings of virtually all the portfolios on our platform. And so in some ways, some of our conversations have indicated this is a validating it's been a validating exercise to see these the nature of these events, and understand how they work through the portfolios, and understand a sole profitable year. That's most important, because also, we're seeing some of a different complexion to investor interest recently, compared to, say, five or six years ago, where, given where we are in the pricing cycle, we're seeing more opportunistic investors, uh, approaching the asset class, looking for ways to, you know, extract value from the asset class, and those would be much more focused on where the value is, how the portfolios are positioned towards that value. And as mentioned, even the exit factor right? Because they an opportunistic investor maybe has a short term horizon, and they want to understand what their exit looks like, even if there were an event. So we're very focused on servicing that type of inquiry, whether that's in capital efficiency, bespoke portfolio construction and thinking of very carefully and offering solutions for the exit. Now, the other side of the capital equation being the more strategic institutional investors. There's still more on pause. I think, even with the very successful, profitable year 23 still profitable year 24 there's, there's a certain pause and hesitation. So for us, the conversations have been focused, I think this year more and I think going forward, still continue to be focused on, on a more opportunistic minded investor.

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Steve Evans 22:37

Do you have a gut feel for what's holding back those larger institutions. Still, is it a concern that things could return to the softening that we saw maybe a decade ago?

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Marc Stern 22:49

I don't I think it's less that's that issue. More, maybe a loosely formed concerns around climate change, modeling the risk, pricing for risk, understanding the exposure in their portfolio. I think Don and others who are in our industry, I'm sure, spend a lot of time on those topics. But that doesn't mean it satisfies every one of those investors need to kind of build conviction and then, and frankly, they may need a few years of positive performance to draw them towards the asset class in size. So, I mean, there's a reason pricing looks to remain, you know, near very elevated levels, and that's because there isn't, there isn't a large flow of capital driven by those types of investors as yet.

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Steve Evans 23:38

Sure. Thank you, Mark. And I guess on top of that lack of a new flow of capital, we're also seeing above average catastrophe losses again this year looks like could get close to last year, or even above at this stage, I think. Now, moving on to John, it would be interesting to hear your thoughts on the positioning of ILS strategies at this point in the year, given it's not been a catastrophe free year by any means, but returns certainly look to be attractive. How do you see the rest of the year playing out for investors?

J John DeCaro 24:08

So I would like to add on to something that Mark had said at the conclusion of that last question in this would validate, I think, the remarks about seeing more opportunistic capital coming in, and where we're seeing two particular reasons why some of the core allocators may be potentially on hold. One is that there was a significant increase after Ian, quite frankly, where investors are now sitting at the high end of their allocation to ILS and so for portfolio balancing reasons, wouldn't necessarily want to be able to commit additional capital, or may even be taking some capital off the table to maintain their portfolio weighting. So I think that is one supporting factor that. Would provide a little bit of a floor under how far cap pricing could go and keep the market reasonably attractive. I think the other issue that Mark touched on as well is that of climate change. And this isn't something that we've heard specifically, but if you look at the fact that there were two significant landfall and hurricanes in Florida within about 13 days of one another on the heels of hurricane Ian in 2022 that is bound to raise the question in a lot of investors minds about, are we now into a period of heightened landfall activity, and is that being priced appropriately? Et cetera. So I think those are questions that at the end of the day, will probably keep the pricing environment firmer for longer, notwithstanding the fact that we did have a relatively light loss year from an insured loss perspective, within the cap bond and collateralize your insurance base. But to answer your specific question, where do we see positioning right now? Fundamentally, I think there is excess cash in the cap bond market that has built up from a couple of factors. One is a number of investors held higher than usual cash balances heading into what was perceived to be an active hurricane season. Secondly, there's been significant cash accumulating from coupon payments, as well as from maturities. It appears that, in our estimation, there is more cash on the sidelines than there is potential issuance for the fourth quarter. And so we are seeing a strong bit in the market for product, and we anticipate that in the absence of any catastrophe events between now and the end of the year, returns in the fourth quarter will be very strong. And in fact, we are on track. If you look at the Swiss retail return index for the second highest year on record, potentially surpassing 15 plus percent that was earned in 2007

S Steve Evans 27:12

Yeah, it's a pretty impressive track record at the moment, an interesting what you say about the cash on the sidelines as well, because obviously That's potentially going to pressure pricing a little bit, but also suggest an opportunity for any sponsors that are just considering cap bonds at this point in time, now might be a very good time to bring those deals. So now we'll we'll move on, and actually, just before we move on, I'm going to remind our attendees that you can put questions into the Q and A tool if you have anything that you'd like to ask us, we have a few building up already for the end of the end of this session. We'll get to them later on. But now I'm going to ask our panelists to give us their views on the forward opportunity where they see the market setting itself up for for the end of the year, the renewals and and into the new year as well. And John going to continue with you here, if that's all right, perhaps you could give us your view as to how you foresee the run up to the end of the year, going for cat bonds and other ILS strategies as well, and your current expectations for renewals, all things remaining stable until that point of the year,

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John DeCaro 28:19

the end of the year should deliver relatively strong returns for the cat bond market, based on the considerations that I mentioned in my previous response. You know, fundamentally, the fourth quarter is an interesting year in that the seasonality of bond prices starts to get taken out so you don't have as strong price returns as you would in the third quarter. Having said that, we believe that because of the amount of cash relative to the amount of new issuance, combined with investor preference for holding securities rather than selling out of them, leading to a limited supply of bonds in the secondary market, that bond prices will rally in the fourth quarter, and we should see a strong performance, no particular impact in the reinsurance market, as the majority of reinsurance contracts have effectively earned their their premium once we get to The end of hurricane season, with respect to renewals, my perspective is that the impact of Milton, following Helene and Debbie, is one where that will have more of material impact on the primary insurers given The losses that have been retained from multiple smaller events that would then lead to a greater impact on reinsurance pricing heading into the June one renewals, I believe that the one one renewals will be relatively stable, but you have a different set of reinsurance buyers. Renewing at one, one that did not have the same loss impact from for me, hurricanes so far this year, so I think we'll see more of an impact be pushed out into the six one renewals, and it remains to be seen how capital will flow into that market, given the impacts of these hurricanes,

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Steve Evans 30:23

do you think there could be any effect on the European renewals from the recent severe weather we've seen across the region? Just yesterday in Spain was pretty catastrophic flooding, and we've seen this across Italy and parts of Central Europe as well.

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John DeCaro 30:39

I would be hesitant to take a view on that, other than to note that an increase in loss activity, loss activity generally, will have repercussions in terms of pricing and payback, but that is not a market that we follow that closely, so I don't have Sure Great perspective.

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Steve Evans 31:02

Okay, no, that's great. Thanks. John Mike, moving on to you. What's important at this time of the year for you and the Wilmington Trust team? I mean, the cap on pipeline is expected to be busy, and renewal season negotiations are underway. What are your expectations for business flows on your side?

M Mike Ramsey 31:21

Well, I think, I think most service providers could agree that for us anyway, to keep it simple, this time of year, it's just really important for us to stay close to our clients. It helps us monitor the business flows and potential, anticipate what the renewal season is going to look like. As as trustee, we typically come into the deal, towards the end of the cycle. But you know, it's no less important to get that account set up quickly and get the deal closed. So I kind of look at us as a back office. We act kind of as a back office to our clients, and how we perform really reflects on how, you know, reflects on them to their clients. So it's important for us to make sure that we anticipate what's coming in and be able to handle that as well as maintain what we currently have. You know, I mean, as far as as far as expectations of business flows, we've touched on it a lot, but we are starting to really ramp up the cat bond side of the business. We're focusing on that for next year, we expect traditional reinsurance markets also be pretty solid for us. It's been a real solid one for years, and we think that'll maintain the course it's been on. And lastly, I'd like to say, just from our perspective, M and T Bank is our parent, but they are also now starting to really focus on the reinsurance market in general for traditional bank products. You know, I was just, we were in Bermuda last week with our bankers, and so I think by doing that, we're able to offer a full service suite to the whole reinsurance industry here as a bank as a whole, which I think is exciting for us. So we're, we're looking forward to the the next year on really, all of those topics.

S Steve Evans 33:02

Yeah, I think as any service provider, or somebody who sits on the outside of the business, such as ourselves, it feels like the industry is permanently busy these days. So I'm sure it feels much the same to you as well, Mike and the people there, Mark, can we move back to you get your perspective again, on the investor side of things. So I mean, investor conversations are typically underway, sort of in in well in advance of any deployments. But how do you feel about sort of the potential for new capital flows towards the end of this year? Is it, is it looking more positive than last year or much the same, and when do all these sort of important allocation decisions have to be made by and how do you work alongside the portfolio team at the filler to make sure you can deliver the opportunities that investors are looking for

M Marc Stern 33:53

sure? So yeah, we're very active at this time of year and trying to bring investor decisions to a point, usually by around the first of December, so we can coordinate the capacity with the deployment. We it's very iterative. Our our underwriting team is always sort of monitoring the opportunity set and the value between different segments of the market, how we could deploy capital into different strategies, and what we can offer to investors. So we want to refresh and we do refresh that very frequently to try and pin down mandates that are achievable and match the capital to the opportunity we're seeing. You know, there are markets where that's goes the other way. I mean, we look back, you know, before 2017, and 15 and 16, we returned, I mean, north of a billion dollars when the market was soft. So, I mean, we get situations where it goes the other way. It goes the other way. We're not in that situation now. So I think there's plenty of opportunity in the market. The allocators we're spending the most time with, as I mentioned before, opportunistic. And by that I mean endowment, foundation, teams, fun to fund teams. You. The multi strat platforms, even private markets, private private capital. And these are all investors who seek out asset classes that are in a, you know, high point in the pricing cycle. So they're they're all quite intrigued. They're looking at getting up to speed quickly. We have some of those allocators that joined us last year the year before that, are evaluating whether to size up and how to appropriately size their allocation. So it's an active time. We also have to invest consistently, a considerable amount of time with the consultant community who drive the institutional pension style investors generally, and they're very interested in monitoring the asset class closely and understanding how to present it best to their clients, although, again, I think the feedback we get from them is that their clients generally would stay on the are more on the sidelines than than the other types of capital. So we're we're optimistic. We see quite a bit of opportunity in the market. We're matching that to the right type of allocator and the right strategies for those allocators. And so we'll see where we land for the end of the year and for further into 25 but I think we're going to, we're going to see some, some new capital coming in, not, I would say, the proverbial wall of capital, but some new capital coming

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Steve Evans 36:19

in. Great. Thank you, Mark. It does feel also like the industry is has learned one lesson from a wall of capital coming in five or six years ago. And I think people, people seem to be a little more sort of disciplined around capital raises and making sure that the opportunity is always there to deploy to the decent risk return for the investors as well, which is great to see Kathleen. I'm assuming that the Artex team is also extremely busy through the final weeks of the year, helping ILS fund managers and investors and getting their structures set up and ready to go for the new year. But also, obviously, you've got renewals and you've got the cat bond pipeline as well. What are your key considerations for market participants, what should they be thinking about at this time of year in the run up to year end? It's going

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Kathleen Faries 37:08

to be similar to what Mike said. I mean, we do if there's anybody that's considering accessing the market that maybe hasn't accessed the market to date, and you're not sure how to do that, or what's the best way to do it, call us early. That's that's basically the message, because, you know, we do have a very experienced advisory team, which sometimes people don't realize we're not really just about facilitation. We're here to help people figure out what is the most efficient and best way to access the risk so, so call us early. Get us involved early. We can, we can help you through that decision and let you know what's the most efficient way to get set up to access the market. So I guess that would be one thing. The other thing is just again. You know, we have an integrated solution. So it's, you know, it's the fun side. So if you need to set up a fund, we can help you do that, as well as the reinsurance vehicle side and actuarial and everything that goes along with that. So the the main message, though, would be, if you're not in the market yet, or you don't know how you're going to access you need to be working on it right now. Yeah,

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Steve Evans 38:24

yeah, it's always good to build these relationships long in advance, really, in an ideal world, but certainly they push. They should get their meetings in your diary sooner than later. So final reminder for the audience of Q and A, if you want to put a question in, we've got one more round of questions to go, and then we'll start to go through some of the audience's questions. So finally, I want our expert panel to think big, share their ideas for what's going to be important in 2025 and also where you see opportunities for students and sponsors, and also what they think more broadly, of the ILS market set up for 2025 I'm going to come back to you to start this round. Kathleen. Now we've known each other for a long time. It's been a pleasure. Of course, I've always valued your opinions. We've had some great discussions and debates about the market. What's your view for 2025 Where do you see, sort of opportunities, but also potentially exciting initiatives in the market?

K

Kathleen Faries 39:27

Yeah, I think I'm very optimistic, which I'm not always, as Steve would know, but, but I think a lot of the themes that I already kind of touched on are starting to become what I think, more ingrained and embedded in the in the industry. So a couple things. So we talked about, kind of the the enablement, so the distribution growing, so on the MGA side, fronting companies. So the. Enablement and facilitation of getting that risk to capital markets. The other big thing that I know you're keen on to Steve is just data and data insight. So clearly you know that whole space around being able to get real time data to investors around the casualty side. Just as an example, which is pretty complex, the fact that we've got this kind of computing power that we have now, we've got AI, we've got other things that are going to start to really enable people to understand other lines of business, probably more effectively and get get a little bit more comfortable with that. The other thing, though, I do want to mention, and, and just sort of speaking on behalf of the investors that we talked to, you know, the stability of the reinsurance market is really critical, so we really do have to see, you know, investors continue to have confidence around the market stability, sustainability, you know, they need to see that they can make a profit in this asset class over the long term, right? They understand there's going to be losses. They are in a, you know, a peak peril. But you know, I would like us to think more about, or less about a hard market condition, and more about this is the current reset in terms of what you know, how we're going to get paid adequately for the risk that people are taking over the long term. So, so I think, if we have, you know, we have a lot of things that I think are going to enable growth, investor confidence. We just got to make sure that we can sustain it, you know, for the next, you know, three, four or five years. But super, super optimistic. I think things are looking pretty interesting, certainly for 2025,

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Steve Evans 41:58

great. Thank you. Kathleen mark, going to come to you now. Now you partially answered my question here in the last round. I think I was going to ask you about, how do you feel about this sort of forward investor interest in the space and but perhaps you could sort of carry on, on, on Kathleen sort of theme there about investor confidence, and the fact that market needs to continue to instill that, because investors do want to know that the asset class is here for the long term for them, and that they can, they can generate returns from it over the long term. And then any other ideas you'd like to leave our audience with as well?

M

Marc Stern 42:37

Sure, thanks, Steve. I think that the themes that we see being most important in 2025 while there's, I think, great value in the market, it's not consistent across the whole market. You know, we've been a lot of discussion about interest in the cap on market, particularly, and the abundance of capital and the investor desire for liquidity, right? And looking at a track record that's performed nicely for extended period of time. However, that also creates, then, a bit of a value gap, if you will, between the pricing you can earn as an investor by taking risk in the bond market versus elsewhere. It's somewhat crowded here, less crowded elsewhere. So we've spent a lot of our time teasing that apart and quantifying the value differential and presenting that to investors so they can make a choice if they need liquidity and want liquidity. Great, we're happy to manage that mandate for you. But if you recognize the value gap, and that's appropriate, and you're willing to be paid for and take less liquidity in your investment, we can quantify what you can earn on that approach. So I think the value gap is going to be very important to investors, to dictate where they allocate capital. We're still seeing quite a wide gap at this season this year, other themes that investors are very focused on. Capital efficiency is a big one, and one that we focus on considerably, transparency to Kathleen's point clarity on what the risk you own, confidence in the pricing of that risk and understanding how your portfolio will behave if certain events materialize. So transparency is a big theme for investors, and then it's been mentioned also that post event collateral trapping, so obviously a massive topic and very important to investors, and another one that we spend a lot of time focusing on. So we can offer, you know, different ways to provide a solution for that x, and I know that's a big theme across across the industry right now, so I think those are big topics. I think they'll continue to to be going forward. And for us, when we engage with our investors, we try to address, you know, meet them where they are, and address the topics that are front of mind as they make decisions on their allocations. Great.

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Steve Evans 44:39

Thank you, Mark. I think you're right definitely on capital efficiency and exit and liquidity, these are going to be really key things that the industry is now learning to put new solutions in place for as well. So I think that bodes well for investors and for potentially opening the asset class up to different types of investors too. Mike. Coming to you still a few weeks out from the end of the year, but perhaps you can give us your ILS outlook for 2025 and and also maybe highlight any areas for innovation you feel the market could accelerate into next year.

M

Mike Ramsey 45:14

To reiterate, I think the outlook for next year is favorable for ILS particular. You know, ils industry in as in general, has been a vital link between investors and insurance companies for 30 years now, and it's proven to be resilient. There's been some, some good years, some bad years, but every time it's come back and it's proven that it's, it's a it's a necessary industry. And I think the the press that comes from some of these large events actually helps it. John had mentioned the money on the sidelines. I think that's really the key here. We need to at least. What I'm hearing is the always raising new capital, trying to keep the, you know, the the new investors coming back to this or coming to this industry, rather than the current investors who are familiar with it. There's, I think there's a lot of potential for new money. Just need to educate them on, you know, what's out there, and I think a lot of the panelists have done a great job of doing that. As far as innovation, Kathleen touched on the AI, I think that's big. There's blockchain and AI are both already beginning in this space to help streamline things. I've heard talk of refining cap models and taking new underwriting approaches with climate change and how that's going to go, but I think those are all things that need to be looked at.

But from my perspective on the banking side, the big one for us is API right now, I get a lot of questions on that, and it's a focus of our bank. We've been investing in technology. It's been the biggest expenditure in our bank for the last several years to get us where we want to be there. So API, I think, for banking in this industry, our other service providers I know are getting the same questions, and they're focusing on that as well, but that's our hope for next year to get API where we want it to be. You know, really help our clients with their data, to help their data sharing among their other service providers, too. So I think that's what I would say. The outlook is, it still looks great, and there's always room for innovation and technology, but when you're dealing with banks, insurance companies, there's a lot of regulatory oversight, and a lot of times we can be a little bit slower getting those into place, but we definitely know it's important, and are working

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Steve Evans 47:32

on it. Great. Thank you. Mike, yeah, I was gonna so maybe out there that there's a lot of legacy still, too that needs to be unpicked in this industry, but it is slowly getting there, and that's great to hear that this is a focus for you guys at Wilmington Trust as well. So finally, John, given your long standing experience in the ILS asset class, love to get your broad views on what our audience should look out for in 2025 what are the opportunities do you think for managers, students and investors, and what excites you about the potential for ILS into 2025 and beyond?

J

John DeCaro 48:06

I'm excited about the outlook for blue skies and calm seas every year, Hope springs eternal. But seriously, we are optimistic about the continued growth of the use of the capital markets and the cat bond market on behalf of a number of different seasons to actually go and use those products as part of their reinsurance buying structures. And the market today sits at over 100 100 specific issuers. We've seen double digit numbers of new sponsors for the second year in a row, and there is a breadth of transaction sponsor type that we haven't really seen in quite some time. So we're really seeing, after almost 30 years of the cap bond market, it finally be come adopted to be a just a core part of someone's protection buying strategy, and not a niche asset class. And on the investor side, capital provider side, we're seeing like a full scale awareness of what the asset class actually is. So there really isn't a lot of education about ILS anymore. It's more of a function of describing how a particular manager strategies actually work. So we see continued growth in the supply of investable product. That really means that the cat bond market has become a core asset class instead of some sort of a niche, and that truly is something that's very exciting to us, because it is a, you know, a core alternative asset class now.

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Steve Evans 49:51

Great. Thank you, John, here we all, we all look forward to blue skies, particularly here in the UK, where it's fairly gray today. So, right. Thank you. All that's kind of come to the end of our prepared questions, and we've got a bunch of questions that have come in from the audience. So let's try and pick off a few of these and at least answer a few within the hour, the time we have left within the hour. So first of all, we've got two questions that actually go together quite well around sort of parametric risk transfer, and also regional capitals. And I guess maybe I'll direct this to John and to mark. Are these structures that you're interested in? Obviously, I know nephila has written parametric for a long time, and I'm sure elementum you do as well, John. But are the these things you'd like to see more coming to the ILS market. I

J

John DeCaro 50:44

think the parametric structures are unique in that there is an element where the parametric mechanism can be constructed in a way that favors the transaction sponsor. And we do significant due diligence on every investment, and to the extent that we find structures that meet our underwriting criteria, we're happy to invest in them. We certainly would like to see more product than less. And we are agnostic to the type of trigger mechanism, but we do apply rigorous due diligence to the parametric nature, and if it benefits a transaction sponsor by having a parametric structure, then we would be glad to take a look at that

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Steve Evans 51:32

mark. Anything to add from the Phyllis? Sorry.

M

Marc Stern 51:37

Well, we we obviously examine all the opportunities we see pretty closely. We put a lot of energy into assessing, actually, the specific qualities of the sponsors that that, whether they're coming with indemnity or or some other structure. And in some instances, we might find a sponsor that does quite well under an indemnity pricing model, and others that might go in a different direction. So we're we also are agnostic to structure. We just want to make sure we fully evaluate the risk entailed in the contract. And you know, we have our own very aggressive approach to understanding what it's embedded in the different structures that we look at. And if the price is right, you know, we're happy to do a trade. So, we're open, we're open for business, and we're happy to see different structures. Yeah,

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Steve Evans 52:27

I think this is a message I get loud and clear from most of the managers in the space that they would always love to see more in the way of parametric but often these deals don't, don't always find their way into either into the ILS market, or they don't get there in sufficient size to be economical for the sponsors, but we have seen a number of CAP bonds so far this year, and that that bodes well, I think, for a continued flow of that type of risk. And personally, I do feel that the ILS market has a role to play on the regional cat pools. I think they need access to efficient capital, and as they scale up, the ILS market may become increasingly valid as a source of risk transfer for them. We've got a question about the the entry of sort of legacy players into the ILS market on the and this is probably specifically referring to things like the there was a transaction by a legacy specialist, which was like a full take out of a portfolio from a collateralized player. And then there was this forward exit option that allows an investor to be sort of more certain about exit and liquidity. Now the question is, do you think these features are going to become more common in ILS? And I guess this is, will they become more common, more broadly than just in Long Tail casualty risk. Would anybody like to have a go at that?

K

Kathleen Faries 53:51

I think, I'm not sure yet, but I think the hope is that it does right? I mean, I think again, enabling investors to have a little more certainty, you know what? What we're finding is, there's the ability to get the capital back and so there's the, you know, the the ability to then deploy that capital is critical. But, you know, I think asset managers, I'm going to speak on your behalf here, John and and Mark. But you know, there's a lot of time and effort that goes into when you are trapped in a contract, trying to resolve that as quickly as you can. So whereas portfolio managers really would prefer to be focused on the forward, you know, yield having to put time and energy into how do we get out of these contracts and and actually exit, I think, is, is a problem for the industry. So I think just the ability, you know, once we get good structure there, and we've seen some trades happen, and maybe we've got a bit of a track record, my, my, uh. You know, I would think that there'd be more players now looking at and interested in how they can support that, so that that's the hope. I think it's early days, right?

J

John DeCaro 55:12

I would like to add that I think this is less likely to be a solution from our perspective, in that we have seen since the loss activity from 17 to 22 a lot of changes in terms of the language, with respect to commutation provisions and just things that are being done to negotiate contracts in advance when we're when we're putting a reinsurance contract in place, and one of the things that we're also seeing is restructuring our mandates and fund vehicles to have different types of liquidity. And I think this is a change that may be somewhat wholesale across the industry relative to the Legacy Fund vehicles that were more likely to be trapping capital. And then lastly, I think, with respect to some of these legacy players that are coming in, it's a function of price and investors that we see. We've presented opportunities to them to unwind trapped capital positions, and they effectively have not liked the pricing that they've been offered for that. So fundamentally, I think these liquidity solution providers are probably more opportunistic in nature and really looking to, you know, provide capital at a higher cost than the end investor may want to play. So I am not that optimistic about this being a growth theme, at least from our standpoint at elementum,

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Steve Evans 56:56

great. Thank you, John, maybe

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Marc Stern 56:57

Sure.

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Steve Evans 56:59

Go ahead. Mark, Sorry, Steve,

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Marc Stern 57:01

I was just gonna have a small comment. We agree that the condition, the term conditions, have moved in right direction to reduce the issue, but it hasn't gone away. And I think one of the things that we're very proud of is we've been able to using different elements of our internal platform offer this sort of clear line of sight to exit and exit solutions to solve exactly what we're talking about for our clients, it's been pretty well received. So it's not easy. It's it's something I'm sure everybody wish we had 10 years ago, but I think it's an important element of value for investors to have that clear line of sight, and it makes it even more importantly, it makes a big difference for investors who may be shorter term in their horizon to the asset class, which is a little more where we are today than we were in just in past and and so it's an important element of the of the package. And so I do think I would be surprised if it doesn't, you know, become a little more important across the industry, but it's certainly in my current experience, pretty important value element for our clients.

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Steve Evans 58:08

Great. Thank you, Mark. So I think we've got time for one final question, and we've had a few, a few different versions of a similar question. It's all around Milton and loss estimates. So I guess it just be interesting to hear from the panel, how are investors reacting to, sort of the range of estimates that come out and the different types of estimates, and is there sort of a recognition of the inherent, inherent uncertainty in the cap business, and how this can drive that kind of situation? Or are there, are there more fundamental questions coming through. Maybe John, if you have a view,

J

John DeCaro 58:43

sure, I think it's important to note that it's only been three weeks since Hurricane Milton made landfall, and basically a month since Helene. And the nature of natural catastrophes is that the claims assessment and adjusting process takes time, and it is fundamentally the losses are, you know, measured based on a ground up accumulation of what the actual damage that has been caused by an event actually is. So I think that investors generally understand that this is, you know, a relatively mature asset class, and it is not the kind of investment product where you can press a button and expect to get an answer. Clearly, I think there is a little bit of a disconnect between what some of the modeling firms have estimated their losses are from Milton compared to what PCs came out with this past Friday. And I do think there's a reasonable explanation for that. The modeling firms are not building tools to track the losses after they occur. There. Designed to come up with the probability of losses to layers of insurance and reinsurance over a very long period of time. And I think they do a very good job with that task. I think one has to remember that what they're doing post event is effectively trying to recreate a one field that is very difficult to do, and then take that, run that through their model and come up with some some level of loss estimates. So I think you really have to understand kind of the difference between where someone like a PCs or individual insurance companies are coming from when they're estimating their actual losses compared with the mechanism that the modeling firms are using to come out with theirs, and it is completely understandable that investors would want to have answers to how much have they lost from a given event as quickly as possible. We want to know that too at elementum, but that's just not the nature of the way the insurance industry works.

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Steve Evans 1:00:59

Great. Thank you, John, that's a very helpful answer. Anybody else like to pine on that?

M

Marc Stern 1:01:05

I'll just briefly add, I think, John, you're right about the way you characterize the general picture as far as the nature of the exact question. And we can't defend everybody's different estimates. We just work really hard on our own estimate. And in addition to modeling results, we do a lot of data collection and direct estimation of our own, and then we try to hold ourselves to that. So all we can do with our clients is say, this is where we think things are going to land, and this is why. And then you can hold us to that six months later, a year later. So we do that each time as an event. So it's hard. I agree, Don and it's complicated, but, and I agree investors need to understand, it's not a push up a button, but I but I think it's worth recognizing that, you know, there's a lot of players in the market. The only one you can control is yourself, so we just try to do a good job on our own, on our own merits.

S

Steve Evans 1:01:55

Yeah, I think that's the one thing that nobody really gets to see in the industry, are the internal estimates that people are pushing out to their constituents, their investors, their students and whoever which, that's going on all the time, and while there's always third party sources we can look at the truth really is very deep within companies who are actually paying losses most of the time. We have run up against our time today. So I'm going to draw this to a close. Want to say an enormous thank you to our panelists, Kathleen, Mike, Mark and John. Thank you very much to Mike and Wilmington, trust for sponsoring this event. We really appreciate their support. Thank you to everybody who attended, and I'm sorry we didn't get to all of your questions. We do have another live webinar coming up on November the 21st that one's in partnership with our techs, and that will be about originators and side cars for mgas. So that's going to touch on some of the points we've discussed here today, and go into a bit more depth about that. So thank you all again, I'm going to draw this to a close. The replay will be available to people who couldn't get in, or to people who maybe only saw part of this, you will get an email about that, and then, due course, will also publish it on our Youtube as well. Thanks all for your time today. Appreciate your participation.

K

Kathleen Faries 1:03:11

Thanks everybody. Thanks to you.

M

Mike Ramsey 1:03:14

Thanks all. Thanks to.