ILS market slows further in Q1 2019 following reductions in Q4 2018 as yields continue to drift higher

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LONDON, May 07, 2019 (GLOBE NEWSWIRE) -- Growth of the Insurance-linked securities (ILS) market continued to slow in the first quarter of 2019 following the reduction seen in Q4 2018. Slightly more than $1.1 billion was raised through non-life catastrophe bond issues, compared with an average of $1.8 million over the most recent six first quarters, the lowest during the period, and around one-third of the record-breaking activity observed in Q1 2018, according to the new *ILS Market Update* from Willis Re, the reinsurance division of Willis Towers Watson, the leading global advisory broking and solutions company (NASDAQ:WLTW).

Windstorm losses were the peril most commonly protected, with $450 million of capacity dedicated to pure US wind peril, and $550 million to peak multi-peril coverage. An additional c. $50 million of diversifying multi-peril protection was issued, including a first: frequency protection against weather-related perils. Another innovation was the first-ever issue of a £75 million bond dedicated to terrorism reinsurance. Weighted average last-12-month risk premium for non-US wind-exposed bonds jumped 2.2 points to 6.5% in Q1 2019, while for US wind-exposed instruments it rose 0.3 points to 6.1%. Seasonality has contributed to market heaviness, whilst loss-affected bonds continued to be marked lower.

Recent cases of loss creep have put actuarial models to the test. Investors unfamiliar with loss creep now have a better understanding, and in future are likely to look closely at issuers' records of timely and transparent loss reporting when making allocations. Given investors' need for regular valuations, current modelling methods are being critically assessed. More consistent valuation approaches may spur substantial growth in ILS capacity, as it would increase end-investors' confidence in their evaluation of potential managers and support new allocations to the asset class.

William Dubinsky, Managing Director & Head of ILS at Willis Towers Watson Securities, said: "We don't believe the slowdown in issues we saw in the final quarter of 2018 and again in Q1 reflects any long term change in appetite for ILS risk from the capital markets, but understandably some investors are looking harder at the mechanics. Data quality and accurate modelling are seen as essential and are under scrutiny, from the initial pricing throughout the life of a transaction. As ever, transparency is crucial, especially in post-loss reporting, which is becoming an important differentiator for cedants. Of course, transparency will still not eliminate reserve volatility, which is simply inherent to a business where every new event differs from its predecessors."

He continued: "Enhanced understanding on all sides, including with cedants, has had a flow-through impact on collateral release arrangements, which are negotiated with a better awareness of the economically realistic potential outcomes. The industry has realized it needed to raise its game, and that effort is under way. Its success will be critical to maintain and restore long-term trust relationships between investors and cedants."

The complete report is available for download here.

About Willis Re
One of the world's leading reinsurance brokers, Willis Re is known for its world-class analytics capabilities, which it combines with its reinsurance expertise in a seamless, integrated offering that can help clients increase the value of their businesses. Willis Re serves the risk management and risk transfer needs of a diverse, global client base that includes all of the world's top insurance and reinsurance carriers as well as national catastrophe schemes in many countries around the world. The broker's global team of experts offers services and advice that can help clients make better reinsurance decisions and negotiate optimum terms. For more information, visit willisre.com.

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