Insurance-Linked Securities Growth Stabilizes; Product Mix in Flux

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2015 Sees Shifting Dynamics Within ILS Market as Catastrophe Bond Issuance Declines, According to Willis Capital Markets & Advisory Report

New York, October 20, 2014 – $650 million of non-life Rule 144A catastrophe bond capacity was issued across three transactions in the third quarter of 2015, taking total market issuance for the first nine months of 2015 to $4.8 billion. This is down 19% compared to the same period in 2014(*), according to the latest ILS report from Willis Capital Markets & Advisory ("WCMA"), part of Willis Group Holdings plc (NYSE: WSH), the global risk advisor, insurance and reinsurance broker.

However, total ILS assets under management continue to grow, albeit at a slower rate than the record breaking pace of recent years.

"The insurance-linked securities market is at an inflection point," Bill Dubinsky, Head of ILS at WCMA, explained. "Despite the continued downward pressure on reinsurance rates, investor appetite remains strong and we've seen net new capital come into the re/insurance arena during 2015. However, the proportion of Rule 144A catastrophe bonds issued compared to other forms of ILS is down as investors have shifted towards more illiquid products, such as private cat bonds and collateralized reinsurance."(**)

The report questions if this development signals a structural shift or just a 'head fake'.

"There are arguments for and against," Dubinsky said. "To an extent, the shift illustrates increased investor confidence as the market matures. Over time, investors have become more comfortable and knowledgeable about reinsurance risk and are now more receptive to move into more illiquid products with greater confidence. However, this shift is also a sign of more immediate changes within the industry as the recent flurry of M&A activity, coupled with changing program design, has put reinsurance needs in a state of flux.

"Whether or not the shift away from 144A catastrophe bonds is permanent or temporary, competitive tension continues to provide ceding companies and investors with ample product choice, both to cede risk and invest," he concluded.

Bermuda emerges as predominant domicile for ILS vehicles

The WCMA report also highlights the emergence of Bermuda as the predominant domicile for new ILS vehicles: in 2011, Bermuda represented 18% percent of the market; it now represents 67% (see below).

Issuance by Domicile

	Q3 2011 LTM	Q3 2015 YTD
Ireland	22%	10%
Cayman Islands	60%	23%
Bermuda	18%	67%

Source: WCMA Transaction Database as of 09/30/2015.

Note: Data excludes private ILS deals

"This is a structural change," Dubinsky said. "Since the start of the market the Cayman Islands has been the leading domicile for cat bonds. Roughly 90 percent of all cat bonds issued since the mid-1990s to 2012 were domiciled in Cayman. However, despite Cayman's new Insurance Law in 2013, Bermuda is emerging as the preferred domicile for new ILS vehicles. We wait and see how this will change with the UK Treasury's stated intention to make London a primary centre for the issuance of cat bonds and other ILS products as well as the initiatives in other jurisdictions."

To access the full report, please click here.

(*) The 19% year-on-year decrease would increase by 1% when adjusted for the 2014 & 2015 Everglades Re deals.

(**) For a full explanation of Rule 144A catastrophe bonds, private catastrophe bonds, collateralised reinsurance and other ILS products, please read the Willis Capital Markets & Advisory ILS glossary.

About Willis Capital Markets & Advisory

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