

OPPORTUNITIES FOR GROWTH

Nancy Neumann and Robert Thorson of BNY Mellon talk to *Captive Review* about emerging trends and the future of the ILS market

Captive Review (CR): What trends are you seeing in the ILS market?

Nancy Neumann (NN): We have seen an increase in the popularity of cat-bonds. In addition, we have also seen a very large increase in collateralized reinsurance. There have been a lot of new entrants to this market, significantly around third-party platforms. A number of partnerships have also arisen from this trend and there has been a large increase in transaction volume throughout 2015.

Robert Thorson (RT): A new trend is traditional reinsurance companies partnering with traditional asset managers to create reinsurance platforms. This enables each party that has an economic interest in the platform to provide their expertise to that platform. For example, a traditional reinsurer can provide underwriting expertise and the asset manager can obviously perform the asset management role. This also results in different types of collateral assets emerging, such as commercial mortgage loans, bank loans and private equity interests.

CR: Why is collateral so important to ILS transactions?

RT: Collateral is used to secure reinsurance liabilities. Investments in the ILS market are made by specialist investors such as hedge funds and ILS managers. These investors are not traditional reinsurers, they are the convergence of the two groups of players with different motivations.

We have also seen growth of alternative capital within the reinsurance markets. Based on research by GC Securities, in 2008 collateral reinsurance was less than \$2bn of the market. In 2014, it reached \$30bn. That is a compounded annual growth rate of 57% as it relates specifically to collateralized reinsurance, which is a tremendous amount of growth.



Written by
Robert Thorson

Robert Thorson is a senior sales executive at BNY Mellon focused on the ILS, Collateral Trust and CAT Bond business. Bob is accountable for identifying and cultivating new business opportunities as well as maintaining existing relationships throughout the reinsurance, insurance, and broker dealer industry.



Written by
Nancy Neumann

Nancy Neumann is a senior relationship manager for corporate and insurance companies within BNY Mellon's Corporate Trust Sales and Relationship Management division. Her portfolio includes insurance, reinsurance and corporate clients. Prior to this role, Nancy was a client service manager in the Insurance Trust Division.

NN: As the market itself grows, you have larger placements between clients. They are looking beyond the traditional fixed-income investments. Insurers partnering with investment managers are looking at large portfolios of assets. They therefore need to see how to best invest and manage these assets and traditional, fixed-income investments are not necessarily appropriate in this regard. As a result, they are leveraging the expertise of an investment manager to expand beyond traditional, fixed-income investments, to support the risk surrounding these portfolios.

With the push to third-party capital structures, the investors that are involved are sophisticated investors. Reinsurance is

not something that they are looking at as a one-time investment. They understand this asset classes and they are looking at reinsurance and collateralized-re as a permanent type of asset class that they will invest in. They are comfortable with the ILS product and the collateral that is supporting the structures in place. This growth seen in 2008-2014 means that reinsurers must look toward alternative investments. They will invest only so much in treasuries and money markets. This growth is pushing the demand for more innovative ways to invest.

CR: Do you believe the popularity of illiquid assets is a temporary trend or a permanent shift?

RT: We see this as a permanent shift. The continued popularity of illiquid assets creates demand for service providers who can administer sophisticated collateral. As a collateral trustee, BNY Mellon is one such service provider. We understand these assets and have the global footprint to support them.

CR: Where will the ILS market go from here?

NN: Because there are so many new players in this space, existing reinsurers will have to be innovative in how they offer solutions in order to stay relevant. They have to distinguish themselves from other reinsurance providers of reinsurance capital. In these new partnerships that are being formed between investment managers and traditional reinsurers, each party is looking to leverage its strengths. They are aiming to produce a product that is unique. It is extremely competitive and alternative reinsurance providers are looking to be as efficient as possible in the pursuit of delivering this unique product.



We are also seeing clients looking for different types of risk and are looking into different regions. As more third-party capital is coming into the market, they are expanding where they traditionally do business. They are also considering using different types of currencies to support different types of risk in different regions.

RT: As more capital comes into this marketplace, it has to be put to work. New types of risk have to be considered, as well as a more global approach. Moving forward, we expect to see a broadening of the reinsurance market in terms of the underlying risk that is underwritten.

CR: How do you support sponsors of ILS?

RT: We provide the paying agent, custody and collateral trustee services to the reinsurance market. We are uniquely positioned to support the ILS market given the bank's global footprint and ability to administer non-traditional assets such as

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bank loans, commercial mortgage loans, private equity interests and multi-currency assets.

NN: BNY Mellon currently has dedicated teams that are servicing non-traditional assets, with the capacity to service a broad range of asset types. We are able to leverage our expertise and resources from around the world to support ILS trust structures.

As new entrants come into this market, they look to us not only as a trustee, but as an expert in helping them address the hurdles of holding non-traditional assets in trust. In this way, we have seen our role evolve in the market. We are working with clients from the beginning and helping them to develop and fine tune the collateral trust structures.

We have been able to remain relevant in this market as a corporate trust provider, because of our long-standing partnerships, expertise and dedication to the market.