TRADING Risk

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Twelve Capital predicts a cat bond index tracker is imminent

Urs Ramseier chairman and co-founder of ILS fund manager Twelve Capital has predicted that catastrophe bond index trackers or exchange-traded funds (ETF) will soon be released to the market as part of a natural evolution of the asset class.

Speaking at the International Insurance Society's 50th annual seminar on 24 June, Ramseier said that such ETFs or index trackers were "just around the corner".

"You see this in other industries like in fixed income... it's just the normal development of the asset class."

Bermudian start-up Mercury Capital already launched one of the first tracker funds in the ILS sector last year which allows external investors to follow its MiCRIX index of ILW prices.

And in April, Hong Kong advisory firm ILS Advisers launched a Bermuda-based fund-of-funds called ILS Diversified which invests in a mix of eight to 10 funds included in the Eurekahedge ILS Advisers Index.

Ramseier said that the management of ILS portfolios in future would copy portfolio management in other asset classes by being split between the tracker-type "beta plays" and satellites controlled by asset managers.

Also speaking at the IIS conference, the president and executive director of the Association of Bermuda Insurers and Reinsurers (ABIR) Brad Kading predicted that large corporates would partner with investors to form their own sidecars removing even more risks away from the insurance industry.

He said the sidecars would be used in a similar way to captives however third party investors would take on a majority of the risk. Kading said: "My understanding is that several such schemes are in the pipeline and it will only be a matter of time until the first such structures are launched.

"They will look very similar to a captive but with the risk being shared with a third party investor willing to work directly with clients in this way."

Meanwhile the Twelve Capital chairman said that natural catastrophe business remains the ILS sector's "sweet spot" and certain lines of business such as longevity would be almost impossible to transfer to the capital markets.

"Traditional buyers of ILS are pension funds which already have longevity risk and don't want to buy additional risk so that will stay with the reinsurers."

He added that it was difficult to securitise casualty and liability risks, however fellow panellist and CEO of Axis Capital Holdings, Albert Benchimol, said that alternative capital providers might connect to these type of risks through partnerships.

"Maybe you can't commoditise and securitise liability risk easily but that doesn't mean that you can't get partnerships between very strong underwriters and providers of alternative capital."

He cited hedge fund-backed reinsurer Third Point Re and Arch and Highbridge Capital's casualty start-up Watford Re, adding that Hamilton Re - previously SAC Re - was "talking about it".

"There are ways for strong underwriters to access alternative capital for any kind of risk," the Axis Capital chief executive said.