Soft market hinders data collection, says Russell Group CEO

Risk modelling products haven't been developed in speciality lines as much as other classes such as catastrophe partly because of the lack of data, according to Suki Basi, Russell Group CEO.

"The market is soft so asking for more data is sometimes difficult. You get what you are given and you feel if you can't make a decision, someone else will. There is plenty of that going on," Basi explained.

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Reinsurers are increasingly interested in covering speciality risks. "Insurers are trying to diversify as much as possible and a lot of insurers are stampeding into the specialty classes. But the risks are growing quite large," Basi told Reactions.

As a result, Russell Group is planning on releasing a multi-line speciality risk modelling product. "Despite the economics being bad, with low interest rates and so on, ultimately the exposure is on the rise with these classes, so at some point the market will turn and hopefully by then we will have a multi class product. The industry in these classes has been silo based in areas such as aviation or space, not realising they are all connected, integrated and entangled," Basi said.

Russell Group plans on creating products that analyse events that hold the possibility of affecting multiple classes at the same time. "The Volkswagen emissions scandal is an example of that," Basi said.

Russell Group plans to address the lack of data in speciality classes, but Basi said that others will also be fighting to get into that space. "It is a bit of a space race. We are trying to get as much done as possible," he said.

ILS vehicles could also benefit from data in less modelled business lines so that they have more transparency, and therefore confidence, in diversifying away from property catastrophe risks. "Long tail risks and ILS do not get on. If you look at a long tail class there will always be cherry picking of short term opportunities," said Basi. "Between short tail and long tail risks are the opportunities that [ILS funds] are looking for, but there is a lack of data." ●

ILS investors seek specific line margins

Investor knowledge is key to ensuring they do not pull out of ILS vehicles, according to John Butler, Twelve Capital managing partner and head of sourcing. Some ILS investors have recently pulled out of the market because what they value in investments has changed, he said.

"In the past it was the overall technical margin of reinsurance across a blended portfolio," said Butler. "Today, investors very much monitor the specific lines that are attractive to them and they are looking at how the returns they make from ILS fit in a diversified investment portfolio created broadly across other financial classes. So things like interest rates will affect their appetite."

Despite the very depressed interest rate environment, vehicles such as cat bonds are still viewed as attractive as they are faring better than other areas of investments and also have non-correlated risk. "What is key for us in terms of investor preservation is partnering with people who have been investors in the market for the longer term. Our core investor base is continental European pension funds," said Butler. "They are the people who are bigger investors in our treaty products. These are the type of people who have supported whole cycles of Bermuda start-ups," he said.

These pension funds view ILS as a more targeted way of coming into the same business that they may have previously been involved with in Bermuda, argued Butler.

"The reason they have come back to ILS funds rather than rated reinsurance vehicles is that they can go back to focusing very tightly on areas of particularly short term business that show better profitability in the same way that in the 2000's when investors went to Bermuda to try and create monoline cat companies," he said.

Twelve Capital is closely monitoring trends in primary insurance buying, particularly a recent spike in demand for property and casualty cover. "What we are interested in is how convergence is really affecting the market," explained Butler. "In its early stages, convergence was about bringing investors closer to the reinsurance world. I think going forward it will be about how efficiently you bring together the consumer on one end and the ultimate provider of capital at the other end." ●