



# Parametrics can boost ILS impact investing

Twelve Capital's managing partner, products and distribution, Nils Ossenbrink

## How do you think investor demand for ILS is evolving?

I always saw from an investor's perspective that the ILS advantage lies in providing a diversifier in a traditional portfolio context. It's not about building complex structures, as often seen in the hedge funds world, to deliver non-correlation. Now with climate change, the demand for alternative risk capital is growing.

## What issues do you think parametric solutions can solve?

The problem as we see it is the ILS industry underestimated the impact of trapped capital collateral in respect of cashflows and performance, and other issues such as incidental business interruption exposure in the context of Covid.

These kinds of surprises are not wanted. Investors don't like uncertainty over payouts. [After an event] they want to know how much is at stake and when you can get your money back. Collateral trapping is doing harm.

But parametrics work from a financial investment management perspective very well, [as you quickly know the size of the claim, based on the physical parameters of an event].

It's not the solution for all problems but it is from our perspective a very interesting structure that deserves to grow.

## What evolution do you see in parametric platforms?

We see a number of people with a tech background coming in with interesting ideas and structures which have the ambition and the potential to disrupt some of the traditional insurance systems.

Some are based on digital assets and leaving out the middleman so the price is efficient and transparent. From a financial investor's perspective this is ideal.

We are following these developments very closely and support change through these kinds of platforms, clearly not acting as a passive party.

## Do you have any target for your allocation to parametric deals?

We invest around 5% of our cat bond portfolio in parametric deals at present. But we don't have a specific target for the allocation, since there is a question of availability of deals. The [deal] count is relatively low – it is a question of demand.

We have seen deals we didn't like... if the basics such as modelling quality are not there, the solution doesn't make sense. But if they are, the parametric deals are a very compelling solution.

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## How do you define what makes an ILS deal an example of impact investing?

The idea is that this impact is dependent on providing coverage to populations which are most likely facing a massive protection gap between the cost of potential disasters and insurance coverage.

ILS can help close this protection gap. However, it is critical that the standards for making an impact are being met.

The governance structures in these regions are probably not as developed and there is more complexity in identifying losses – there's a requirement to come up with outcomes that are easy to determine.

It must be clear that the ILS assets are getting to the right source if there is a payout – we need to avoid the risk that the money is funneled to other channels. It's critical to have proper organisations in between the risk-transfer chains and that the whole process is reliable – the less complex a transaction, the easier it can be dealt with.

We are evaluating the market and are in discussions with market participants on how to come up with solutions. If these are combined with an insurance structure that is clear, transparent and cannot be disputed, then it avoids other challenges such as poor farmers arguing with insurers over a payout.

## What are your ambitions for your impact investing activities?

The ideal would be setting up a dedicated fund which does our impact investing.

However, given the status of the market and investors' requirements, it would be too ambitious to come up already with a fixed timeline or numbers. The issue is finding the right investment and partners. In this space it is also even more important to have the proper set-up and to be fully aligned with the principles of impact investing.

Generally, it is key that these kinds of vehicles are not seen as a philanthropic product. For the majority of the investors, the expectations are in line with traditional ILS products, i.e. it should be targeting similar levels of return. There are other investors which will accept somewhat lower returns [for the impact benefits] but it's still very clear it's an investment.

If you want to have a sustainable setup and model it must make sense for both sides.

It's not a fast-track product; you cannot expect the industry to change immediately, which makes it hard to specify targets.