# TRADING Risk

# NEW YORK
# REGAINING MOMENTUM

## 3 OCTOBER 2019

**08:15 – 15:30 | CONVENE, 75 ROCKEFELLER PLAZA, NEW YORK, 10019**

**#TradingRiskNY**

2019 has been a year of reckoning for reinsurance investors. Join us at *Trading Risk* New York to discuss how the ILS industry is shaping the changing market dynamic.

**Subscriber rate: $865**

**Non-subscriber rate: $965**

**Group bookings (3): $2,395**

**Service providers: $1,195**

General enquiries: events@insuranceinsider.com | +44 (20) 7397 0607

Sponsorship opportunities: Ben.Bracken@insuranceinsider.com | +44 (0)20 7779 8754

Subscribers should contact events@insuranceinsider.com for a promotional code to guarantee their discount

**BOOK NOW: events.trading-risk.com/TRNY**

# ILS collateral structures evolving into version 2.0, says Aon's Schultz

Emmanuel Kenning

Capital is returning to the ILS industry after recent losses and the market will grow in the coming quarters, Paul Schultz CEO of Aon Securities has predicted.

Schultz told the audience in his speech at the firm's 2019 ILS event yesterday that Aon had seen signs of fresh capital coming through during the second quarter, and that the expectation is of more in the next two quarters.

He said: "At some point we will resume the trajectory of prior to the disruption of the last couple of years."

The main winners of late have been larger funds, said Schultz, pointing out that the top 15 grew by 9 percent between Q4 2017 and Q4 2018, and represent around 80 percent of the market.

"We don't expect that concentration to change going forward. We feel that the larger funds are going to get larger and the smaller funds are going to struggle a bit to grow," said Schultz.

However, he clarified that smaller firms will still increase in size – just not at the same rate as their larger counterparts.

In his view, the investor base has changed what they want to write and how they want to do it.

Part of the growth he forecast for the industry will come from accessing capital differently. Trapped capital, he said, had led to a lot of thinking.

"We believe that there are efficiencies that can be gained here that are helpful to cedants and... managers."

He called on the audience to help find ways to trade more efficiently while providing the same level of protection.

"It feels like we are in the version 1.0 state in the world of collateral, but we can certainly move to version 2.0 over time," said Schultz, adding that it will be a matter of evolution rather than a single leap forward.

These alternatives could include more use of loss portfolio transfers, offering more frequent opportunities to revise trapped collateral calculations and possibly releasing capital, or adjusting trapped collateral calculations by peril or across multiple years.

Growth opportunities come from working with governmental organisations and reaching into new territories, cyber and non-damage business interruption.

Schultz said the firm was also seeing more opportunities from corporates.

"We are having far more discussions with corporate clients about what they want to do and the types of risks they can bring to the market, and we feel like we are making tremendous progress on that," he said.

**"It feels like we are in the version 1.0 state in the world of collateral, but we can certainly move to version 2.0 over time"**

Turning to Florida, he noted that the cost around peak perils continues to be refined.

At a *Trading Risk* event in April Schultz had said the expected multiple of spread premium to risk level or expected loss on Florida cat bonds had moved up to around 2.8x as of the end of February. It had been 2.4x immediately before hurricanes Harvey, Irma and Maria in 2017.

He pointed out that today it is slightly over three.

"It is pretty significant movement," he summed up.

Schultz also highlighted that in prior years every new bond issued would have increased in capacity whereas in the current market around half the transactions had been downsized from initial expectations.

"We have had a bit of learning as we have gone through this market about where the capacity is and what clients are willing to pay."

Schultz stated that after two years of losses there were more "thoughtful" transactions coming to the market on behalf of clients with investors "looking at the world with a new filter".

"It is a sign of continuing maturity in the market," he continued, stressing that cedants and clients were not walking away.