



International Association for the  
Study of Insurance Economics

# Études et Dossiers

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Layout & Distribution: Valéria Kozakova

# Insurance Risk Securitisation Market Developments: Has the Credit Crisis Strengthened or Weakened the ILS Market?

Wilhelm Zeller

## WE PIONEERED NON-LIFE SECURITISATION. . .

Name	Date	Risks covered	Contract form	Trigger	Capital committed (m.)	Transformer	Rating	Investors
KOVER <sup>1)</sup>	Q1/94	Natural Perils	Quota Share Reinsurance	Indemnity	USD 85	Kover Ltd.	N/A	Insurers, Int'l Banks
K2 <sup>1)</sup>	Q4/96	Natural Perils	Swap/Quota Share	Indemnity	USD 100	-	N/A	Insurers, Int'l Banks
K2+ <sup>1) 2)</sup>	Q4/98	Natural Perils, Aviation	Swap/Quota Share	Indemnity	USD 50	-	N/A	Insurers, Int'l Banks
K3 <sup>1)</sup>	Q2/02	Natural Perils, Aviation	Quota Share Reinsurance	Indemnity	USD 230	Kaith Re Ltd.	N/A	Hedge Funds, Investment Banks
C1 <sup>1)</sup>	Q1/05	Natural Perils, Aviation	Quota Share Reinsurance	Indemnity	USD 225	-	N/A	Hedge Funds
K5	Q1/06	Natural Perils, Aviation, Marine	Quota Share Reinsurance	Indemnity	USD 540	Kaith Re Ltd.	N/A	Hedge/PE Funds, Reinsurers
Eurus	Q3/06	European Wind	Swap Excess of Loss	Parametric	USD 150	Eurus Ltd.	BB	Cat Bond Community
Kepler	Q1/07	Natural Perils	Stop Loss Reinsurance	Indemnity	USD 200	Kaith Re Ltd., Kepler Holdings	BB	Bank Loan Market

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## PROS AND CONS OF ILS

### Pros include:

- "Unlimited" capacity
- Capacity for risks/covers not available in traditional markets (Q/S retrocessions at reasonable expense reimbursement, stop-loss R/I for natural perils, protection against credit risk, etc.)
- Fully collateralised
- Multi-year transactions

### Cons include:

- More expensive than traditional (re)insurance (cat. bonds)
- Basis risk with parametric triggers
- Lack of standardisation (contract wording, SPVs, triggers) → time-consuming, expensive and complicated process of completing a transaction

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