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Artemis Monte Carlo Rendezvous Executive Roundtable 2026

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FOREWORD

The Artemis Monte Carlo Rendezvous Executive Roundtable featured leading insurance-linked securities (ILS) and re/insurance market experts for a wide-ranging discussion on investor sentiment, market conditions, pricing discipline and emerging opportunities across the ILS landscape.

Held in September 2026, in partnership with SCOR Investment Partners and Vantage Risk, our sixth ILS-focused roundtable at the annual Monte Carlo reinsurance industry meeting brought together nine market leaders to share their insights and debate the issues shaping the asset class.

Discussions explored evolving investor appetite and sophistication, alongside the importance of continued education and stable pricing as ILS attracts growing interest and continues to mature.

The outlook for catastrophe bonds remained positive, with participants highlighting a healthy pipeline for the remainder of 2026 and into early 2027. Momentum was also viewed as strong across private ILS and blended strategies, underpinned by attractive risk-adjusted returns, diversification, and several years of strong performance.

However, as the reinsurance market continues to soften, maintaining underwriting and structural discipline is becoming increasingly important. Participants emphasised the need to remain focused on terms, attachment points and rate adequacy, while questioning whether spreads will stabilise before falling to levels that no longer adequately compensate investors.

The discussion also considered opportunities to expand ILS into other areas, including casualty, as well as the potential presented by data centre-related risks. Alongside these opportunities, participants examined what could disrupt the market's positive trajectory or undermine investor confidence in catastrophe bonds and other ILS structures, even as investor familiarity with and understanding of the asset class continue to deepen.

While acknowledging the inherent challenges of predicting market direction, participants anticipated a constructive environment for ILS investors in 2027.

Steve Evans

Owner and Editor in Chief, Artemis



**TOP ROW (LEFT TO RIGHT)**

Fergus Reynolds, Cedar Trace
Stephen A. Velotti, Pillar Capital Management
Guillaume Courtet, Schrodgers Capital
John Modin, Mt. Logan Capital Management
Chris McKeown, Vantage Risk
Steve Evans, Artemis & Reinsurance News

BOTTOM ROW (LEFT TO RIGHT)

Kate Tongue, Argenta Group
Andre Perez, Nascent Group
Sidney Rostan, SCOR Investment Partners
Kathleen Faries, Artex Capital Solutions



PARTICIPANT INDEX

Steve Evans, Owner and Editor in Chief, Artemis & Reinsurance News

Sidney Rostan, Head of Insurance-Linked Securities, SCOR Investment Partners

Chris McKeown, Chief Executive, Reinsurance, ILS, and Innovation, Vantage Risk

Kate Tongue, Executive Director, Argenta Group

Fergus Reynolds, Head of ILS, Cedar Trace

John Modin, CEO, Mt. Logan Capital Management

Kathleen Faries, CEO, Artex Capital Solutions

Andre Perez, Founder & CEO Bermuda, Nascent Group

Stephen A. Velotti, CEO, Pillar Capital Management

Guillaume Courtet, Head of Portfolio Management ILS, Schroders Capital



STEVE
EVANS

SIDNEY
ROSTAN

How would you characterise investor appetite and sentiment towards ILS today, and how do you expect these to evolve into 2027?

The feeling today is positive. We continue to see strong investor interest across the board. If we look at the cat bond market activity, we are breaking record after record again this year. Spreads have come down, but we have posted exceptional returns in the last three years and investors are happy about that.

The current total return of the cat bond market stands at around 9%, which stays attractive. And from a relative value standpoint, cat bonds still stand out compared with many other asset classes. Their floating-rate nature protects them from rate volatility. The spread levels still look attractive compared to other spread products, such as U.S. high-yield bonds, which are close to their all-time lows. As a result, even if cat bond spreads have come down in absolute terms, the relative value proposition remains compelling.

On the private ILS side, we also still view rate-on-lines as adequate. The market remains healthy regarding structural features and terms and conditions. And the performance has also been strong in the last three years. This contributes to a positive sentiment across the broader ILS market.

Moreover, when we factor in the market volatility we've seen since the beginning of the year, the geopolitical uncertainty, concerns around inflation, rising interest rates and the related fixed income portfolio impacts, ILS continues to demonstrate its resilience as a diversifying asset class. In summary, the two main arguments for the ILS investment case remain intact these days: attractive risk-adjusted returns and low correlation.



CHRIS
MCKEOWN

I agree with Sidney. Investor appetite and sentiment around the strategy is sound and strong. It's all a question of allocation when you sit down with investors, and what amount of their assets do they want to put at risk to what can be a volatile line of business. It is strong and sustainable; someday we'll stop calling it alternative capital and we'll be calling it absolute capital. At \$144 billion across cat bonds and private ILS, either managed by independent managers or in conjunction with a rated carrier, is a pretty significant proportion of the capital that gets deployed in this space. And I think it will only grow given investor sentiment.

KATE
TONGUE

I think it's still really strong. We have a lot of interest from alternative asset providers, hedge funds, ILS players, but also traditional mutual insurers. Recent market performance has undoubtedly contributed to growing confidence in the asset class, and investors are increasingly viewing insurance as a strategic long-term allocation. In saying this, it feels a little more measured this year, whereas last year we saw significant amounts of capital trying to get in, and they just didn't get through. But the demand is definitely still there. What we're seeing is investors taking a more measured approach and wanting a clearer understanding of how returns will be generated as market conditions become more competitive.

Chris McKeown –
**Investor appetite
and sentiment
around the strategy
is sound and strong**

FERGUS
REYNOLDS

From our side, as we're in the process of setting up a Lloyd's Syndicate as well, we've got lots of investors that are looking to access reinsurance risk through a Lloyd's Syndicate using London Bridge 2 as a way to facilitate that capital.

KATE
TONGUE

Also, from a Lloyd's perspective, the quality of syndicates has improved across the board. Decile 10 was a while ago, but if you look at going into the last soft cycle, the difference between high and poor performing syndicates was significant. Today, syndicates are operating with greater discipline, supported by Lloyd's clear expectations and oversight.

JOHN
MODIN

I would agree that on the private side of reinsurance quota shares, investors still have appetite for this asset class. The reason is that they've had three and a half years of strong returns, and the prospective returns today are still attractive. The investors, though, are smart, they know where rates are going. It all depends on the rest of this wind season, the rest of the year. But they know that, and they are able to contemplate that and how they're thinking of the January 1 renewal season.

KATHLEEN
FARIES

Investors increasingly want to see those big swings in pricing volatility moderate over time. There will be a floor, and we're not anywhere near it yet. But as we get closer, they'll start asking the same question they did before: are we really compensated for the risk we're taking? Confidence in the asset class comes from sustained price adequacy over the long term. We can't continue cycling between extremes if we want to attract and retain capital.

ANDRE
PEREZ

While the cat bond market is pretty strong, and every cat bond that gets issued is probably oversubscribed anyway, one trend that I found interesting is that two maybe three years ago it was all about cat bonds, and I think now we're starting to see the momentum shift back to private transactions. We've seen investors coming back, where most of their strategy was on the cat bond side, and now are doing more private deals than they used to. It's different risk levels, but that to me is interesting that they're not just looking at cat bonds; they're looking at private transactions as well.

KATHLEEN
FARIES

Supply plays a big role. When new issuances are plentiful, investors have plenty of options in the cat bond market. But as supply tightens, investors still need opportunities to deploy capital. If they can't find enough attractive risk in the public market, they'll naturally turn back to private transactions.

SIDNEY
ROSTAN

If we come back to the value proposition, one interesting aspect is that in the broader financial markets there is an increasing search for diversification, given the direct or indirect exposure of many asset classes to the tech sector, such as equities, credit markets and private equity, etc. Each time there has been a perception of latent correlation between various asset classes in the financial markets, the interest in a pure diversifier has increased. This also plays a role these days.

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STEVE
EVANS

Currently, investors across capital markets seem to perceive their costs of capital as quite high, which can affect flows and capital raising. How do you navigate those types of discussions, is it just closer conversations with investors?

JOHN
MODIN

We have conversations. We always start by just trying to pitch, in general, insurance-linked securities, and then talk about cat bonds and collateralized reinsurance, and quota share, and just try to make an investor see the merits of ILS. And then when it gets down to it, because we just have private quota share transactions, we try to focus on whether they're focusing on a return objective or a risk objective and then work around that. If it's a downside, we can say okay for that downside here's the maximum return, or if it's return, we can give the return, but here's the downside. So, we try to focus on how they think of risk management and the way we can dial it up and dial down, which for quota shares, it's pretty unique how we can do it. Ultimately there's a spectrum, and we can go on one side or the other.

STEVE
EVANS

Moving on to rate expectations through January renewals and further into 2027. Some are expecting more softening than we've seen this year, but where do you expect rates to go?

FERGUS
REYNOLDS

I asked everybody I've had meetings with today their thoughts on this, and the range of views was huge. It has been a long time since I've seen views on rates be so disparate between people saying, on the over confidence end of minus low-signal-digits, to others at a far broader spectrum than that. So, I'd say at the moment I don't think I know, but I think there's a broad range of potential outcomes.

STEVE
EVANS

There's clearly been some broadening of terms and conditions in cat bonds and other ILS transactions, but what's the feeling for the structure later this year? Do you expect the market to hold the line?

STEPHEN
A. VELOTTI

At least for us, we're in all the different instruments at once. In traditional private reinsurance, terms and conditions have been relatively steady. There hasn't really been much of a change. The retro side can be a bit of the Wild West, and people are bound to non-concurrent terms, and they don't realize that they got bound to non-concurrent terms. It's not a standard cat placement where everybody gets the same thing and you sign on or you don't.

So, I think in retro, worldwide cover, different perils that were removed from these programs five years ago are starting to creep back in again, and minimum premiums that are less than deposit. It's amazing how everybody goes to the minimum, every single time. It's stuff like that that can really deteriorate the retro space.



Reinsurance is a little more resistant to that, but I would certainly think that retro could come under some pressure at January 1.

STEVE EVANS

Do you think we're at the stage where people are going to be looking to give away a bit more coverage and try and keep price instead, which is where we were in 2015/2016?

STEPHEN A. VELOTTI

Structuring, like you said, buying down retentions, the market's been pretty resistant to that because you can't make any money below that. So, instead of having a 40 loss ratio in the middle of the program, could you have a 45? Okay, you gave away something, but it's still kind of making money. When you go down to a Midwest cat program and it pays 37, and the overall performance is at 36 loss every other year, we're not going there. It's just never going to happen. I think some of that is pretty apparent, but I think giving away something in the upper bands, but maybe not as high as cat bonds sit, is what's going to happen.

KATHLEEN FARIES

There was a period when those changes caught buyers by surprise. Today, it feels much more normalized. Buyers have adjusted to the environment and generally view these structures and attachment points as the market standard rather than the exception.

.....
**Stephen A. Velotti –
 Buying down
 retentions, the
 market's been
 pretty resistant
 to that**

GUILLAUME COURTET

On the current structures, and coming back to the softening, perhaps the focus shouldn't be on headline price changes, but more on whether or not we can maintain these structures. You mentioned the minimum deposit premium; I think the collateral release conditions are key, and the market managed to negotiate robust conditions there. And I think we should push to keep that.

2027, the capital is there, there is no question around that. Some traditional reinsurers are pushing that again on the alternative capital. But when you think about it, the amount of capital which has been accumulated by these traditional reinsurers is around \$140 billion over the last three years, compared to only around \$30 billion for alternative capital. In 2027 it's not going to be a test of capital, but more a test of discipline and sticking to our principles.

STEPHEN A. VELOTTI

Just construction inflation runs 200 to 300 basis points above the CPI. So now everything out there is worth 6% more than it was in the last year. Forget about building anything new. We all should generally grow at a 6% clip because they should be buying 6% more limits, everything being held constant, it's not going to be totally smooth. Everyone talks about record issuance in the cat bond space. Every year there's record issuance because every year there's more things in the world to insure. So, it's not such an accomplishment. If it went up 30, 40%, yes, that'd be huge.

CHRIS MCKEOWN

The market is at a disadvantage from the start, projecting potential losses using out of date data, in terms of the amount of product that we sell, and it would be good to see a demand uptick due to ongoing inflation in this market. Whatever the pricing is going to do, that you see more carriers buying more coverage, and maybe it's not cookie-cutter 1-in-100, it's more bespoke to their portfolio needs, their risk management framework. And we certainly would endorse that. But it's a question of managing those expectations for investors. There is a rate adequacy our investors will not go below, and also trying to sell more product and draw more demand from the buyer side.

STEVE EVANS

When you think about elements like expected losses versus how inflation is moving in the economy, do investors appreciate the pricing environment as it is today, are they fully aware? Are you hearing any nerves yet?

STEPHEN A. VELOTTI

They're much more knowledgeable than they were from 2014 to 2017, where pricing was going down significantly. There really weren't any significant events, and everyone was getting a 10% return or whatever they were getting from the yield, and everyone thought that was great. And then 2017 and 2018 happened, and there were huge drawdowns because there just wasn't enough premium to pay for those losses. We're nowhere near that place now. So, from a relative standpoint, we'll probably reach some sort of equilibrium.

But they're much more knowledgeable, and if anything, we've seen people trim off some profits. Nobody's leaving the space. There's still a place for it with the non-correlation, especially in light of Trump and tariffs and the war and lots

of other things going on out there that make investors nervous. We're really detached from that, besides the inflation part for paying claims. But from that standpoint, I think they appreciate it. The education process is long. If you go into a pension fund, and you're an equity manager, there's some expert there that knows all about it. There's no ILS expert in almost any pension fund. There's someone that drew the short straw and got stuck researching this. And you need to become their best mate because they're going to have to explain this to other people who you will never meet, within the investment committee or the trustees or whoever. And you have no idea if they're discussing it properly because they're going to have to convince other people. It's not a single person decision.

SIDNEY
ROSTAN

I do agree that investor knowledge and sophistication have increased. As an industry, it is our collective responsibility to pursue our educational efforts. One of the most positive developments has been the growing number of investors viewing an ILS allocation as a strategic component of their portfolio, rather than a tactical one. They better understand the dynamics and the inherent cyclicity of our industry, adopt a longer-term approach and recognize the value that ILS can deliver across market cycles within a well-diversified asset allocation.

STEVE
EVANS

Have the hurdles changed in recent years for getting investors over the line? Are there things that used to be sticking points that are no longer sticking points as investors are generally becoming better understanding of the asset class?

KATE
TONGUE

Greater familiarity with insurance-linked risk, enhanced data availability and stronger market transparency have all contributed to increased investor comfort. Investing at Lloyd's requires a long-term commitment, but we are not finding that to be a significant barrier for investors. From our point of view, investors are very comfortable with the longevity of the asset class.

STEVE
EVANS

Focusing on the cat bond market, we've seen significant growth and record issuance, but it does feel like there's perhaps a sea change in how sponsors have been looking at the cat bond product, and integrating it more within their reinsurance towers. Is that really the driver, or have they just recognised an environment with lots of capital available?

STEPHEN
A. VELOTTI

It's probably record issuance because they've been told there's record capital. One is not following the other. We're not a huge participant in the cat bond space; we do have cat bonds in there. I was in a meeting with an investor who has a large cat bond position, and they said, 'oh, there's record issuance, and the cat bond market is booming.' And I said, 'record issuance is bad, they're issuing all these bonds because they're getting a much better

ANDRE
PEREZ

deal than in the private space'. And he was just staring across the table at me like, I never thought of it that way. And so, you have that type of thing as well, partly because they've performed well, a lot of events have fallen a bit short of triggering a lot of them. So, it's a tough spot right now.

FERGUS
REYNOLDS

As an extension of what you're saying, least what I've observed is that before, the cat bond market was the space of the large insurers. But if you look at the recent issuances, we're getting second, third tier insurers issuing cat bonds as well. Part of it is the demand, part of it might be because the terms and conditions are better than the traditional.

GUILLAUME
COURTET

When we talk about structural expansion, that's probably within U.S. perils or U.S. cedents. For it to be truly global, you need that adoption outside of U.S. perils.

If you look in the U.S., the largest insurers, most of them now have cat bonds, so it's structurally part of their reinsurance programme. They want to have access to capacity from the traditional reinsurers and the cat bond market. And during the market reset in 2023, what was quite interesting is some reinsurers retrenched massively, and the cat bond market was always there at a price. Now, some sponsors are coming back to the market and saying, 'during the market reset we transferred some capacity from the traditional market to the cat bond market because it had the capacity available, and this is not going back to the traditional reinsurance market, because we were able to get a deal done when the market was very hot'. It's not every sponsor, but we've definitely seen that.



KATHLEEN
FARIES

We did something amazing there. There's a lot of confidence in cat bonds, both from the sponsor side and from the investor side. The message that I would put into the room here would be that we just have to remember that as we move now into these other spaces such as casualty and specialty, there's a reason why that market is so robust. It is because of the confidence in the structure, confidence in how it's going to play out when there's a loss, and how I will get my capital back.

If we can maintain that confidence, we should expand the market, absolutely. It's fantastic for investors and for the industry that there's optionality. If I want to look at casualty, I can. If I want to look at life, there's an opportunity to do that. But we do have to be careful that we don't lose the confidence in the asset class because we haven't put that same structuring and execution rigor into all lines of business available to investors.

I'd be interested to know what people think about this. So, because of the capacity that we have in the market, there are deals that you're going to try to add additional risk in traditional reinsurance, don't you think we're going to see that happen on the cat bond side? I heard this morning from someone that they're trying to put in wildfire again, which is crazy. But I think we probably are going to see that push as well; 'there's a lot of capacity, there's a lot of cat bonds, there's a lot of demand, are we going to try to sneak in some additional risk in the structure?' It's all going to be about discipline and saying no.

ANDRE
PEREZ

**Kathleen Faries –
It's fantastic for
investors and for
the industry that
there's optionality**

SIDNEY
ROSTAN

We have to remain disciplined. The good news, and I agree with Guillaume, is that an increasing number of carriers consider cat bonds as a permanent and reliable source of capital. Having access to two different sources of capacity, traditional reinsurance and the capital markets, is clearly beneficial for them. In addition, the multi-year protection that cat bonds provide has value, particularly when there is uncertainty around how market conditions may evolve over time.

It's a very positive development to see the market becoming more mature over time. And when cat bonds price cheaper than traditional reinsurance, it makes sense for a carrier to increase its use of cat bonds within its overall protection programme. This is what we are seeing today: in some cases, carriers are buying more cat bond protection than traditional reinsurance protection.

STEVE
EVANSCHRIS
MCKEOWN

On Andre's point about perils, we've just seen a US wind and terrorism bond privately placed, and there's a lot of talk about combining cyber into property cat bonds, but how do people feel about those kinds of opportunities?

Some investors like the framework of the property cat model and expected loss, and they got comfortable with that, as mentioned, over the years. To introduce something that's less quantifiable, we do get resistance from investors. We've seen that pressure expanding into offering terrorism, other

**Sidney Rostan –
It's a very positive
development to
see the market
becoming more
mature over time**

lines of business. If we don't have the conviction around it, we don't bring that to investors. That could limit us. The second pressure we see as being part of a company that writes traditional reinsurance on the balance sheet, is more pressure to horse trade. But those are pressures that we've been resisting in the marketplace and trying to maintain discipline.

STEVE EVANS

It's important to consider, if something were to go wrong in casualty for example, could that play into investor confidence in other areas of ILS? It's vital that the cat bond market and other areas of ILS continue to impress how institutional the structure and the product are.

JOHN MODIN

Agreed. It's the institutionalization of insurance risk as an asset class. It's here, we've been doing it for quite a while. And cat bonds, they're 144A, and the private ILS is a little bit different, but they all have the same objectives of introducing returns that, over the long term have been pretty attractive in general. And then there's the low correlation with returns from other asset classes.

I don't think of it as traditional versus ILS, I think of it as traditional plus ILS equals core capital for the insurance sector. It's complementary.

STEVE EVANS

Could the competitive environment hamper hitting another record issuance year, or is the cat bond product so accepted now that continued growth is inevitable?

SIDNEY ROSTAN

It's difficult to say at this stage. All indications suggest that Q4 will remain very active. Whether we will hit last year's record remains uncertain. We are now sitting slightly above last year's primary market issuance level. The market brought approximately \$7 billion of new cat bond issuances in Q4 last year, and I would expect this year's fourth quarter to be broadly in line with that level. As a result, total annual issuance will get close to last year's \$25 billion record. Will it end slightly above or slightly below, it's difficult to predict. But what is clear is that sponsors interest in issuing cat bonds continues to strengthen. And that is set to continue into early 2027. We already know that the pipeline of transactions in Q1 and Q2, particularly on US indemnity structures, is really healthy.

STEVE EVANS

Are traditional reinsurers going to look at that pipeline and think we can maybe steer some people back to our balance sheets instead? Do they even have the capability to do that anymore?

KATHLEEN FARIES

I agree with the earlier point that they complement each other. They're simply different ways of building the capital stack behind a particular risk. I'm not sure if the market thinks about it as an either-or proposition anymore.

STEPHEN A. VELOTTI

You need to know that they're planning to issue a cat bond. You don't usually know that; it's a big secret until it comes out. Once it's out, they've spent all the money on the drafting and the lawyers and everything, they're issuing

that bond. To talk them out of it, is a tough discussion. But there are merits to both. The cat bond market is going to be limited because you can't offer a reinstatement, and rating agencies require reinstatements. It's not going to be the majority of the market, it's never going to be unless the rating agencies change, or there are second event cat bonds, which there has only been one in history.

There are structural limitations to how much it's going to take up the market anyway. Most of it is first event, it's up at the top, and has expected multiples of two or less in certain instances. And a two time multiple is great when you're getting paid a 40% coupon. It's not great when you're going to take a 6% coupon. That's not a great risk-reward there. But the market is absorbing it.

GUILLAUME COURTET

There is \$6 billion of maturities as well before year-end. So, there is a good amount of bonds coming to maturity, and sponsors would likely at least look at that as a first option to reissue. Then to get the market growing, it means we need to be higher than \$6 billion in issuance, which is possible, but not easy.

Something we haven't talked about too much in the cat bond market as well, and to come back to an earlier point, more than 20% of the universe are index bonds, which are retro. And there, there is an arbitrage going on because these bonds are basically being modelled using an industry exposure database, which is as of December 2024, and which was quite light back then, in our opinion, when it was put out. And then, if you include inflation and growth over two years in your modeling, the pricing there gets highly competitive.

SIDNEY ROSTAN

That is why we have to factor that in when analysing transactions. Inflation is part of the equation, but demographics also play a significant role in the U.S. In particular since COVID, we have seen meaningful population migration toward the southern states, increasing the concentration of people and assets in regions exposed to hurricane landfalls. All of these elements, inflation, demographic shifts and increased concentration, need to be incorporated into our risk assessments. Prior to 2021/2022, inflation was less of a concern because of the low inflation environment. Since then, it has become a much more important consideration when evaluating any type of transaction.

KATHLEEN FARIES

Investors will always gravitate toward what they view as the most attractive opportunity. If there were another asset class offering a similar risk-return profile, they would certainly look at it. Until that emerges, I would expect investor support for ILS to remain quite robust.

JOHN MODIN

I always say the quality of earnings, as well as diversification. There's a lot of diversifying investments, and you just have to sit and look at them and hope they go up in value. But not ILS. ILS pays coupons or dividends. That's another distinction that I sometimes remind investors.

STEVE
EVANS

Thinking about asset values, obviously data centres are a very hot topic right now. What do you think about the opportunity there? Are the challenges at this time still simply too much for ILS to get involved?

STEPHEN
A. VELOTTI

If they want to cover business interruption, that's a big ask. I equate it to almost like the reinsuring of the World Trade Center. There were 100 reinsurers participating to try to get even half the limits placed, and it still wasn't enough, and it fell short. And if you have BI, you essentially have the same thing, so at one address on one campus, you have a plane crash into something like that, then you're going to have a \$5 billion loss. Is the market really ready for something like that? That needs to be syndicated a lot.

ANDRE
PEREZ

The biggest problem with data centers is the geographical concentration risk. Right now, in the U.S. specifically, most of them have been in North Carolina and Texas, which obviously both have a lot of wind exposure. I was reading recently that they're now trying to make a push for more Midwest locations, and you have convective storm exposure there as well. They are all next to each other almost, so I think that the geographical concentration risk, you can't syndicate that. So, I think we should leave it with the traditional reinsurers for now.

.....
**Andre Perez –
 The biggest
 problem with
 data centers is
 the geographical
 concentration risk**

FERGUS
REYNOLDS

They have the engineering expertise. Certainly, within my team, we don't have the engineering expertise to understand or to be able to quantify the risk ourselves.

CHRIS
MCKEOWN

I don't know if anybody can explain the correlation or lack of correlation in that particular sector to other investments. It's unclear.

STEVE
EVANS

But you can quantify the convective storm risk and the tail risk, so are cat-focused covers possible?

FERGUS
REYNOLDS

Yes, but there's also the vulnerability. Have the cat modeling firms done the vulnerability assessments, the engineering assessments of data centres and the risk around severe convective storm, earthquake and how those structures would respond?

SIDNEY
ROSTAN

I agree. Vulnerability curves work well for very granular residential portfolios. It is more challenging when the portfolio is extremely concentrated on only a few high value assets. In this case, parametric solutions can help because you remove that uncertainty, but there is only limited capacity out there. Ultimately, it very much depends on how the risk is structured when it comes to the ILS market. Parametric covers already exist for earthquakes and severe convective storms. Therefore, a parametric cat bond covering for example earthquake risk in certain U.S. regions could be feasible. If such transactions represent 1% or 2% of the cat bond market size, the correlation with broader portfolios would be manageable. The issue is that we are seeing a massive wave of new protection needs emerging rapidly. Absorbing that demand will be challenging for the traditional market and even more challenging for the ILS market in the short term.

GUILLAUME
COURTET

A growing number of brokers and underwriters indicate that the current capacity for data centres is quite plentiful, and that in the future we're going to need more, but currently it's quite plentiful. And the suggestion was the pricing was maybe not perfect because it was underestimating the BI. A large risk is with the SLAs that these data centers have in place.

Putting the BI topic aside, let's say we cover property damage only: will it be the buildings only or will we have to cover the chips? If we are expected to cover the chips themselves and their replacement costs, the exposure becomes extremely difficult to model. Replacement costs are likely to be heavily influenced by inflation and supply chain dynamics, and in many cases you may have to wait several years before replacement capacity becomes available. There are ways to secure priority access and reduce that uncertainty, but doing so comes at a significant premium.

So, for cat bonds, I could see capacities on a parametric side, or maybe covering just the facilities, and it would need to be transparent, well modelled.



JOHN MODIN

There are other large TIV properties out there. There are refineries but not many of them when compared to data centers. The capacity for these valuable properties will come online, and it will include insurance, reinsurance and ILS, but it's not going to happen overnight.

People think of the capital markets, and then when you start measuring things in trillions, people start thinking, 'oh, then the capital markets probably are the data center answer.' It will be a big part, but this kind of growth takes some time and discipline.

All of these questions on the contents and the servers and the chips that are inside, it's not the typical contents of a building. It may be multiple times the value of the structure, rather than a fraction of it.

The fact that it's going to grow the risk transfer market is fantastic. This is a good thing for the insurance, reinsurance market and the ILS space. Again, it will take time, but I'm pretty confident that we'll get there.

STEVE EVANS

The next topic is around what size or type of loss event might derail the market or investor appetite? Given the amount of capital available might it require a macro dislocation as well?

KATE TONGUE

It's hard to say. There is a significant amount of capital deployed at the moment, and a large-scale loss might not shift the dial on pricing. Significant loss events inevitably test sentiment, but investors enter the asset class knowing losses are potentially a part of the investment proposition. The day after large hurricanes, like the Harvey, Irma, Maria trio in 2017, there was

JOHN MODIN

capital asking for exposure to North American natural catastrophe risk. It's part of the industry. Market and investor reactions will depend on whether losses develop broadly in line with expectations and modelling assumptions.

FERGUS REYNOLDS

I prefer not to think of it only in terms of size, but also whether an event comes as a surprise to investors. What matters is the nature of the loss, whether it was well modelled, and whether the outcome was broadly in line with expectations. That's a huge part of it.

STEPHEN A. VELOTTI

Adding to that, the subconscious loss estimation. Investors don't like the continuous creep that was seen in some years like 2017, where you tell them it's going to be something and six months later it's twice as big, and six months after that you send larger again.

The severity is probably more researched. Especially in 2017 and 2018, the third and fourth event in a 12-month period is really where things tend to be very understated in the risk analysis part. Everybody complains about the model, but if it was so bad, nobody would buy it. We all buy them, and then you make your own adjustments. But I think the frequency part of it is probably the least researched and the least adjusted. The severity part, everybody seems to dwell upon that, and I think that's much more accurate. So, it's the third or fourth \$50 billion event that's going to be way worse to the industry than a pair of hundreds. That's going to be a real problem because the fourth \$50 billion is going to destroy a lot of insurance and reinsurance companies by that time.

STEVE EVANS

Do you think ILS investors would stick around after a year like that?

STEPHEN A. VELOTTI

In the cat bond space they probably would because a lot of those events probably fall just a little bit short. The pair of hundreds is going to be a reckoning to the cat bond world, but 40s and 50s may not be. But that's going to be a problem for a lot of other managers and re/insurers.

GUILLAUME COURTET

I think the problem would be if among these four \$50 billion events some are unexpected, let's say if there is one winter storm, one wildfire and maybe one tornado, then the managers are going to be asked by their investors, 'so how does it look in in your models?' And then they look in the industry models, and it's supposed to arrive only once every 500 years or so. I think that's where the managers get into trouble. If it's a series of hurricanes or earthquakes, it's not going to be pleasant for investors, but I think they would accept it.

ANDRE PEREZ

It depends also on the type of investors. If you compare it to '05 and '06, where you had a lot of opportunistic investors, which came in and then when the market softened, they went out. But my sense is that the majority of the investors we have in the space right now, have made a long-term

STEVE
EVANS

commitment to the market, have bought into the market, understand the reality, understand the cycle. To me, they have more staying power. My prediction is that those type of investors will stay. And then the opportunistic ones will go. But that's the way this market works.

Shifting to casualty, what are people's expectations for ILS in this area? There's been a lot of talk about casualty sidecars, whether the risk is being priced properly, and there's also some concern around commutations in terms of how long they can take and how difficult they could be.

ANDRE
PEREZ

There's a lot of pros and cons about casualty sidecars. The one that I'm the most worried about is MGA-sponsored casualty sidecars, and for many reasons. One of them being a lack of alignment of interest between the MGAs and the investors. But without trying to be disparaging to investors in that space, I think a lot of them just don't understand the risk they're taking. They love the float; the float is great. But do they really understand the underlying risk? I've seen that movie a couple of times in my career, and let me tell you, the end is not very nice.

So, I'm going to make a prediction that the MGA sidecars which lack alignment of interest features are going to end up pretty bad. And the recent trend, according to Marsh Re, is that they're expecting to see more MGA-sponsored sidecars. That worries me.

JOHN
MODIN

Reinsurance sponsored casualty sidecars, where there's an alignment of interest with the reinsurer and the sidecar investors, meaning the reinsurer still retains a decent proportion of the total, those, I think, can work well as the reinsurer has expertise in understanding the liability environment.

A reinsurance company should consider all available capital and risk transfer alternatives, including issuing common equity, including subordinated debt, senior preferred, cat bonds, catastrophe quota share, and casualty quota share. All of them increase financial flexibility and improve solvency ratios. And so, you should have them in your toolbox.

The reason why they're working today is because of where interest rates are, it's an upward-sloping yield curve. And yes, you get the float, and you magnify the expected returns. Yes, you need to do due diligence of the underwriter, true.

STEVE
EVANS

Finally, projections for the future. Any statements on the market heading into 2027 and beyond?

CHRIS
MCKEOWN

I never try to predict the market. But we should be out of the super El Nino by next year, so we'll have a different landscape of risk to contend with. The point about ever increasing values in concentrated areas, we should not lose sight of and not get swept up in whatever the supply demand and the market's

GUILLAUME
COURTET

telling us that the clearing price is of the risk, to be disciplined around the risk, and managing investors' expectations. If we do really think it's going to be Armageddon, and we can't make our returns, we need to be upfront with our investors to explain what that looks like, and let them make the decision based on their allocation and their opportunity cost elsewhere. Does that still make sense? That's the mode we're in right now.

I've never predicted the market correctly because the market always surprises me in many, many ways. We're not through hurricane season. We talk about El Nino this year. I just mentioned it, but it only takes one. Maybe it's not \$100 billion, maybe it's more of a series of one, two, three shots, and that could still happen.

On the super El Nino, we have seen some odd trades during the summer, where the traded discount margin was really low compared to the risk embedded in the transaction. I don't know if it's linked to the super El Nino and thinking there's not going to be a hurricane, or the need to deploy capital in order to generate returns. But this is not going to be reflective of the price that the investor community would expect for the primary market.

For 2027, I would say, it will still remain constructive for investors. However, we need to watch out how quick the spreads are normalising because we're going to get to the levels where investors are going to monitor us pretty heavily. And to come back to an earlier point, we don't want too much volatility, so I think it's better to stabilise at a floor and try to keep this level of pricing instead of swinging back and forth.



Guillaume Courtet –
**It's better to
stabilise at a floor
and try to keep this
level of pricing**

KATE
TONGUE

From our perspective, we keep coming back to the fact that Lloyd's assesses and approves syndicate business plans based on its LAR principles, these being that plans need to be Logical, Achievable, and Realistic, and it is heartening that even as the market enters a more competitive phase of the cycle, the returns on capital are forecasted to be in the teens.





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