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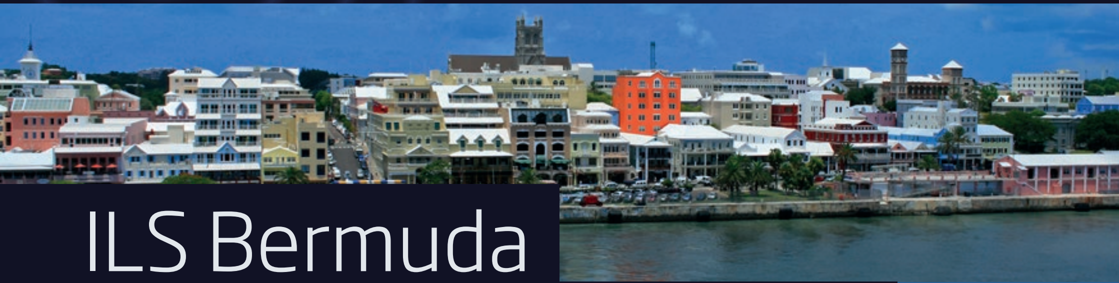

ILS Bermuda Executive Roundtable 2016

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FOREWORD

Welcome to the second Artemis ILS Bermuda Executive Roundtable, in which our participants explore a variety of challenges and opportunities for the sector as it continues down its impressive growth path in Bermuda, and beyond.

Bermuda remains a leading domicile for global ILS business, but as other international financial hubs continue to show an increased willingness to participate in the asset class, the island can't afford to rest on its laurels.

Roundtable participants highlighted the importance of innovation in the current market environment, and were keen to discuss both the benefits and potential implications of more standardised reporting within the ILS space.

Greater scalability of successful, yet one-off ILS transactions, as seen with some corporate deals, is likely to play a vital role in the sector throughout 2017, explained participants, while others noted a need for access to more original risk.

Bermuda's geographical position and proximity to the states ensures the island has access to a broad spectrum of U.S. risks, but roundtable speakers explained that Bermuda might not have the same advantage over other ILS jurisdictions when it comes to European business, for example.

However, so long as Bermuda remains nimble and responsive to the evolving risk landscape, which continues to be reshaped by regulatory developments, changing rating agency criteria, and the emergence of new, truly large exposures, participants saw no reason why the island's ILS business can't continue to flourish.

With other regions around the world starting to realise the potential benefits of facilitating ILS business on their shores, Bermuda must continue to innovate and embrace the expansion of the asset class, and ultimately support its continued evolution, for the benefit of the broader global convergence space.

Steve Evans
Owner and Editor in Chief, Artemis

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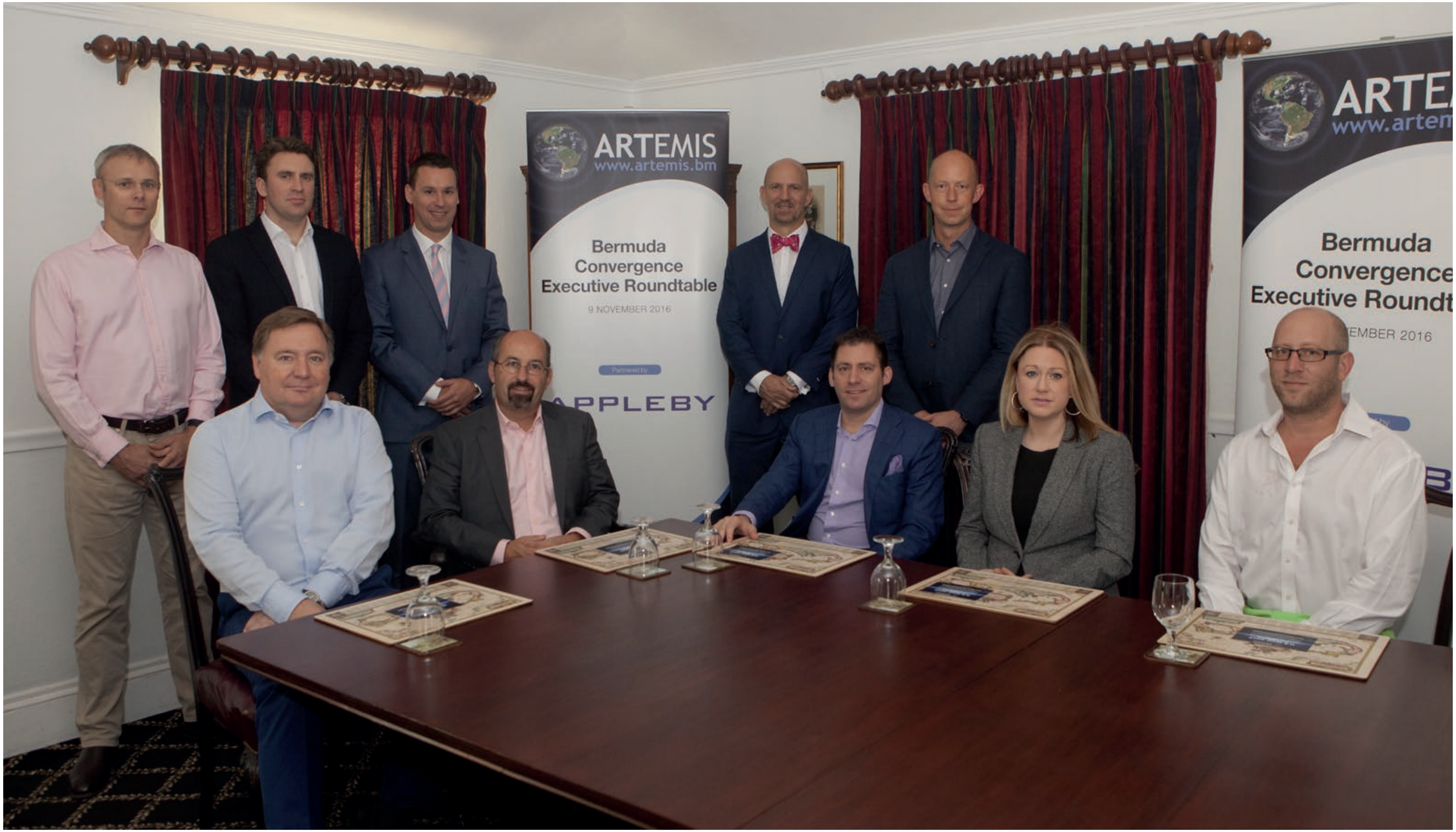

FROM LEFT TO RIGHT, BACK ROW: Paul Larrett – *Securis*, Darren Bailey – *Aon Benfield*, Matthew Ball – *Willis Towers Watson*, Brad Adderley – *Appleby*, Steve Evans – *Artemis*

FROM LEFT TO RIGHT, FRONT ROW: Darren Redhead – *Kinesis*, Rick Pagnani – *Mt. Logan Re*, Evan Glassman – *New Paradigm Underwriters*, Susan Lane – *Formerly of Tokio Solutions*, Tom Johansmeyer – *PCS*

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PARTICIPANT INDEX

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Susan Lane, Formerly of Tokio Solutions Management Ltd.

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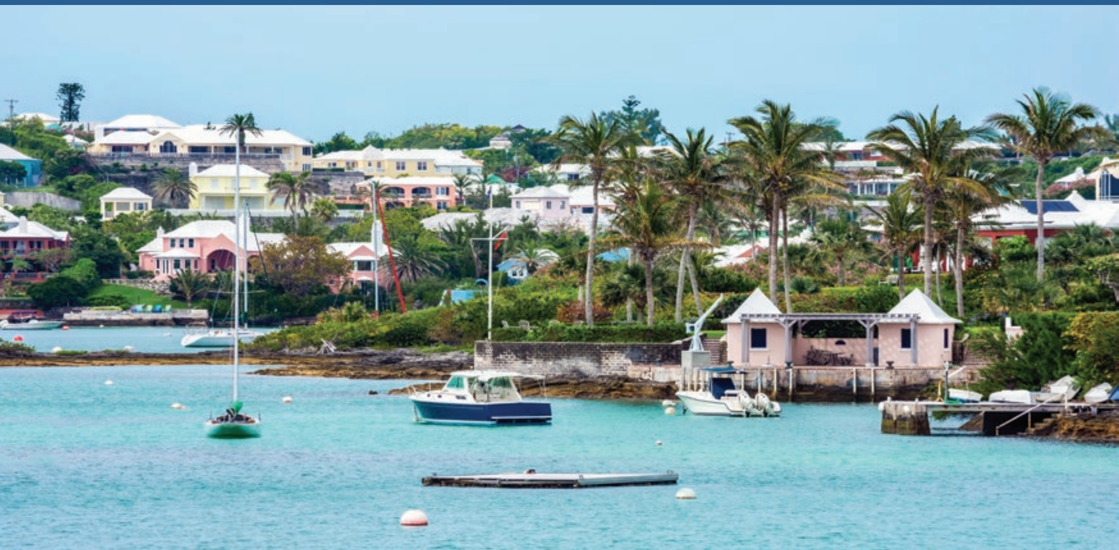


STEVE EVANS

The demand for ILS is clearly there, but how can the industry ensure it's got access to the risk investors need, and continue to create opportunities for its investor base? Is there anything Bermuda can do, specifically, to capitalise on continued investor interest?

BRAD ADDERLEY

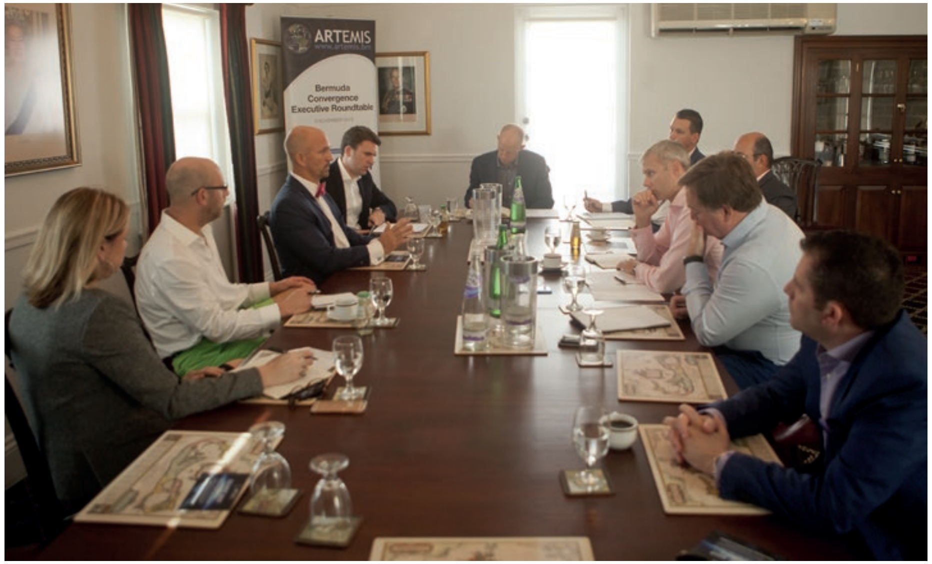
For me it would be the speed to market of ILS platforms that we create. I think often when we create new products people are concerned whether they're going to work, the time it's going to take and the cost to do them. If we create platforms that allow us to do things faster and more cost-effectively than a normal traditional cat bond, investors will want them. So if we're able to create ILS platforms, collateralised platforms which allow us to get to the market quickly at a cheaper cost, then there's more of a chance, in my mind, that other new products, different risks or new investors will come.

TOM JOHANSMEYER

It's an interesting thought, but I think the bigger issue is, "How do we get more risk to market?" We can take out little bits and pieces, as we've seen with legal fees and index fees, for that matter, that we try to slim down as much as we can, but the real win is going to come in getting something other than Florida wind.

SUSAN LANE

Yes, I would agree. Globally, these economic regions are expanding and we need to bring new perils to the market so that we can expand and grow. The growth is coming from regions that are underserved or under-insured. Being able to work closely with governments, insurers, reinsurers and regulators in these regions, is going to be key.



When we think about where we're going, partnership and relevance will be important. For Bermuda, as a leading, global ILS domicile, we can't be complacent. There are a lot of other jurisdictions that would be quite happy to step up if Bermuda loses its connection to the market and fails to respond to our clients needs.

RICK PAGNANI

There are other jurisdictions that are trying to supplant us, there is no question of that. I am confident that new non-elemental ILS products will emerge. Further I agree on the cost side, we need to continue to find ways to improve the efficiency of issuing these securities i.e. cat bonds, collateralized ILS, in addition to new products that will emerge down the road.

Don't get me wrong, I think Bermuda is presently a fantastic jurisdiction, but I think improvements can be made. In particular, I would like to see us develop regulations that are specific to ILS, ILS managers and sophisticated investors to make that process easier, lower the cost of operating here, and enhance our ability to attract and maintain third-party capital.

BRAD ADDERLEY

You make an interesting comment, there is obviously competition out there, there have obviously been a lot of interesting comments about Bermuda from Lloyd's and the London Forum, but in some ways some of the other jurisdictions are helping Bermuda without realising they're helping. I understand, Germany has said that if you want to market products into Germany you have to be a Solvency II compliant company.

Brad Adderley – **Some of the other jurisdictions are helping Bermuda without realising they're helping**

So then I think, "What jurisdictions are competing with us." How many jurisdictions have companies, which are deemed to be Solvency II equivalent? For us, SPIs would not be. So what are we seeing now? We're seeing a lot of people today going to us, "Brad, let's take over SPIs and upsize it to be a Solvency II equivalent class, 3As, 3Bs and 4s.

It's good for us, but the problem for everyone else, Gibraltar, Malta and the rest who are trying to get into the space, is they don't even have that in their bag. So yes, there is competition but in some ways what we're going to have to do is make sure that when laws in other jurisdictions change, can we as a jurisdiction, Bermuda Monetary Authority (BMA), make sure our laws comply with theirs to allow us to do business?

MATTHEW BALL

Solvency II equivalence is a good example of Bermuda providing the right environment. The BMA did a great job here. Some other jurisdictions were saying, "You must be mad", think of the extra cost, red tape etc. I think Bermuda will now start to see some of the rewards of Solvency II equivalence in terms of an expanded market footprint. For example there seems to have been plenty of new start-up activity, which I'm sure some of us have seen at this table.

That's a great example of Bermuda providing the right environment. I think if Bermuda continues to provide the right environment - and we shouldn't sit on our laurels - then the market and innovation will continue to increase efficiency and bring in new product lines.

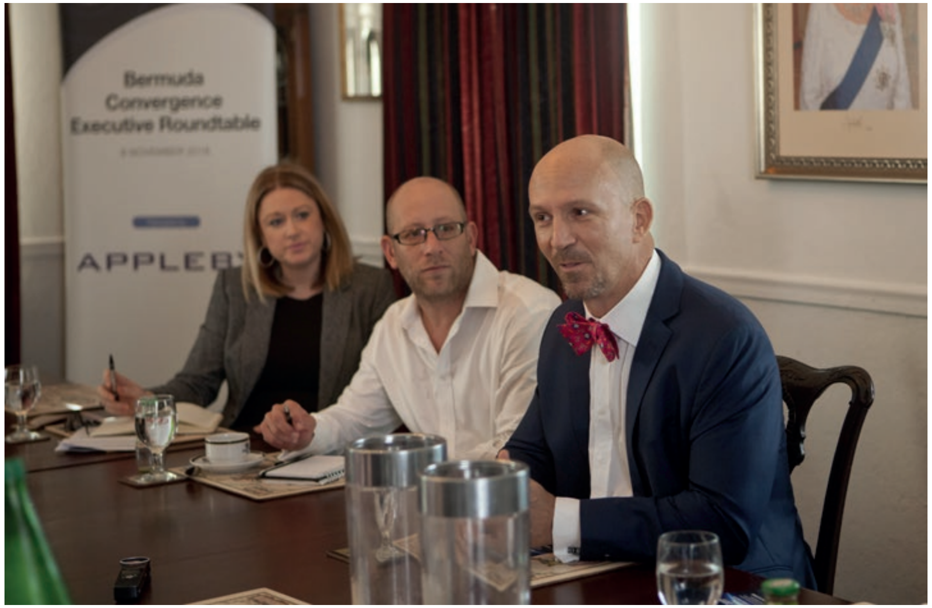
As you say, in the ILS environment if you are using traditional commercial reinsurers for fronting or transformation they may be caught up in the new solvency regulations. Therefore, ILS funds, even if they are providing fully collateralised reinsurance, may be directly or indirectly affected by the new requirements.

So are there things around the edges the BMA could be doing to smooth some of the transition? The overarching principles of proportionality and substance over form should allow the ILS funds and regulator to find a reasonable path through the new regulations. But overall, I think the new regulations and Solvency II equivalence is a benefit for the island and will ultimately bring more insurable risk to Bermuda.

SUSAN LANE

Proportionality is key when you consider how the Bermuda Monetary Authority develops its regulations. Bermuda is a global, leading domicile for a reason; we have supported our clients, created vehicles and legislation to foster an environment that is productive to building business and bringing more risk to the island.

Solvency II brings additional complexities with regards to regulatory requirements and governance. As long as Bermuda is proportional and maintains appropriate oversight, then we can still be nimble and responsive.



DARREN BAILEY

In terms of innovation and what Bermuda can offer, it is fair to question whether the market is actually truly innovating. Old concepts are revisited, whether that is from 20 years ago or from last year, and are posed as innovation. We need to tackle some of the immediate market issues that we have on some of the product lines like cyber and terrorism, or in terms of collateralized reinsurance, work to resolve the issue around collateral getting trapped between policy periods.

Darren Bailey – **It is fair to question whether the market is actually truly innovating**

In terms of truly innovating, focus on the actual ILS funds and innovate in respect of disclosure. Increased transparency could gain further attraction from investors, whether that's in Bermuda, London, or elsewhere.

With ILS London on the horizon, collaboration amongst the domiciles and being supportive of each other in respect of innovation is key for a productive 2017. I think one of the things that the market should do is if there is product innovation, whether it's evolved in London, Guernsey, Bermuda, Gibraltar, Malta, or wherever, is support, praise and then build off the back of, and actually bring it to Bermuda and do it better.

DARREN REDHEAD

Regarding disclosure and the BMA, I think one of the things the BMA could perhaps consider is standardising the various disclosures etc. made by the actual funds themselves for their investors, i.e. a standardised way of doing it. Everybody reports in a different way and with different levels of disclosure.

Regarding innovation, I do think there's going to be natural evolution, claims are going to happen because that's the product we sell, and when large claims happen it is possible that some of the capital providers won't reinvest, but I think there will be twice the amount waiting to come in.

As a final note, there was a mention of trapped funds, but we must remember that's the product we sell. We don't sell a promise to pay.

RICK PAGANI

In terms of the claims and the trapped capital, I couldn't agree with you more. We cannot forget that that is the business we are in, pay claims in exchange for premiums. I grew up on the traditional side and follow the fortunes was a concept that we lived with and lived by, that was our commitment to our cedants.

I wonder if the collateralised reinsurance market will follow that. If they don't it could work against the ILS sector, repudiation risk would become a real concern for cedants. Tied up collateral, yes, for an ongoing investor you've got to think about that. The question is, will they litigate? How long will that take? Will it be a more litigious process relative to a traditional reinsurer?

To your point, I would welcome uniformity in reporting. That would certainly be a plus from a marketing standpoint. We come across a variety of ILS managers decks and are surprised by the range of methods for how they articulate their value proposition in particular net returns. As an investor, you have to be very careful – net returns are not always treated the same way. We would welcome a uniform approach so as to create a level playing field and enhance the investor communities' confidence in our market.

I would just like to see uniformity. I think on a macro level it's very important particularly in a post-event environment.

PAUL LARRETT

Standardised setting of NAV daily on cat risk will be difficult if you're using a different set of models, different weightings between the models, different model settings etc.

RICK PAGANI

I'm thinking more prospectively. ILS managers all have nuanced approaches to dealing with the models and deriving their loss picks. Treatment of expenses, on the other hand are not always treated in a uniform way. What is net to one firm may not be the same to another. We can improve on this to facilitate the investment process. The key is bringing in investors and investors want standards.

DARREN REDHEAD

I think the key thing is how we report to investors. In the different marketplaces we've all got a different view of risk, whatever that is, and we all charge a different amount for it. We've all got a different cost-of-capital, that's what makes a marketplace and that happens in all financial markets, but many funds report on different bases and this can lead to reporting different returns. Forget how we get there, some people do a loss free, some people do an average, some people don't take the expenses, and some people just turn up and show a track record.

STEVE EVANS

Matthew, given your role in the marketplace what's your view on standardised reporting?

MATTHEW BALL

This is very interesting from my perspective given the work we do on the valuation side for ILS funds. Witnessing the evolution over time has been interesting. It's clear that the governance push up to now has been driven by the investors. One of the first questions I ask my ILS fund clients is, "Who are your investors?"

For ILS funds that have pension fund or hedge fund investors or are attached to traditional asset managers, the governance requirements, for example third party independent valuation, tend to be higher. For other funds where the investors are mainly high net worth individuals or family offices for example, there may be less of a push from the investors on some of the governance aspects. And then of course there's a whole spectrum of governance standards in between.

In terms of valuation standards three to five years ago, I used to call it "the Wild West" because of the differences in approaches from fund to fund. But is regulations of reporting standards in general the right answer? That's an open question in my mind. I do sometimes wonder whether regulation is the right mechanism here compared to industry reporting standards for ILS funds.

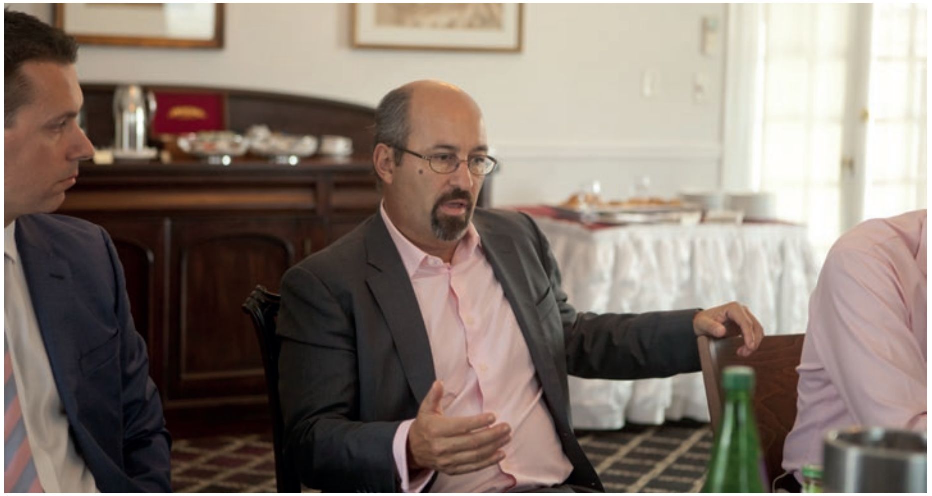
Maybe the standardisation will naturally come from industry lead reporting standards, for example from the Hedge Fund Standards Board or the Open Protocol Draft Reporting Standards for ILS funds currently under consultation. We have been gradually bringing more consistency across our clients over time in terms of valuation standards. Up to now the evolution in governance standards has partly depended on the type of investor. Going forward I can see the value in further consistency in reporting in general across all ILS funds.

PAUL LARRETT

If you have pension fund investors (especially Japanese investors for instance), the level of detail and quality of reporting is already set very high. Any regulatory framework for reporting would likely be held to a much lower standard.

RICK PAGNANI

Your analogy regarding the Japanese is something we should all listen to. The bar is high, and if we want to innovate and bring in new capital, standardisation will help facilitate investment.



PAUL LARRETT

I somewhat disagree about standardising reporting because that's one way you can differentiate yourself to your investors. However, clarity and standardisation with respect to reporting of results, whether they be net or gross of management and performance fees, would be welcome though. Absolute net numbers would be the easiest and most comparable. We're never going to get agreement on cat risk returns or valuations, as we are never going to get the same view of risk.

TOM JOHANSMEYER

If you're not tied in by regulation and a certain amount of standardisation, or whatever you call it, if you can do this better than everybody else, you now have an advantage over them. I think certain amounts of standardisation take that potential advantage away. If we have regulation that sets the bar down here, but everyone's functionally up here all this is, is a cost for no reason because you're already doing so much more than that.

RICK PAGNANI

We must recognize that the more sophisticated investors are going to demand this of us. Thus, we are in a way already bearing the cost of having to meet these standards; the Bermuda market might as well create these standards and capitalize on them from a marketing perspective.

This is about Bermuda, and I think Bermuda can use it to its advantage to attract and maintain ILS managers. Like the benefits associated with Solvency II equivalency, standards will enhance our reputation across the globe. As I said before, we as managers are being held to these standards by investors why not formalize and capitalize on it?

DARREN REDHEAD

You're a Bermuda based fund and the investor gets a degree of comfort straight away.

BRAD ADDERLEY

It would be interesting to see how many SPIs do convert to a Class 3A/3B. What will be interesting of course is that there is transparency because you have to publish accounts, and place them on your website. They are not standardised but there is more transparency because of the Solvency II requirements. We've already had several clients upsize themselves to that model.

MATTHEW BALL

Yes, so for example that's a good point about the transformer vehicle. At the moment, they come under the solvency regulations, which is designed to protect the policyholder, but what does this mean when the reinsurance is fully collateralised. Perhaps the regulatory emphasis could be more on the investor reporting somehow.

PAUL LARRETT

One can find oneself in a situation where you present a view of risk that is pretty conservative, and produce numbers to investors factoring in lots of non-modelled risk, loads and so on. This can actually be a disadvantage if other funds are presenting just raw AIR or raw RMS data, or are not adding in non-modelled perils and making these adjustments.

Understandably, investors want a "raw a view of risk" as they want a constant comparable measure between funds. However, the danger then is that, when there is a loss, there are usually meaningful differences between the actual loss and the modelled loss. One has to be very transparent and clear on the differences between the "raw view" modelled loss and the "in-house view" of modelled loss. So one has to be very careful and clear defining what assumptions, models and settings have been used.

DARREN REDHEAD

I think that is part of the education process with your investors. You can guarantee that whatever loss happens the model will not be right. But it is a model.

We're asked by investors exactly the same, they say, "Can we have the raw RMS event IDs? We want to roll out our portfolio." "Fine. But please remember this was our view of the portfolio."

That's up to us, and that's part of the reason I mentioned this, I don't think we can standardise how we report our marks, how we report our probabilities of loss and what we charge, but we can standardise the underlying way that we report to investors our past track record, e.g. what was on an expected basis, actual losses etc. I think that's going to be the bump in the road.

PAUL LARRETT

Sometimes you forget that we're one of the few industries that show prospective returns. When did you last look at a bond or equity portfolio and see forward looking returns, usually they present just their track record. It's like, "Whilst John was a manager at this firm he did this…" so even track records can be sketchy. I think ILS funds hold themselves to quite a high standard of prospective reporting.

Paul Larrett –
I think ILS funds hold themselves to quite a high standard of prospective reporting

STEVE EVANS

Just going back to your point, Darren, do you think the industry is perhaps too reliant on the modelling firms?

DARREN REDHEAD

The models have brought around much more standardisation of price. Twenty/thirty years ago the bottom price was there and the top price was there, but now there's a lot narrower spread in that price, so it's a good thing. But then has there become an over reliance on the model for pricing and portfolio management? Maybe, but most big companies, whether they are traditional or non-traditional, they have their own view of risk. So I don't think we're too reliant on them at all.

RICK PAGNANI

While it is getting harder to attract capital to the elemental ILS sector, the job is certainly made easier by the fact that we can use these models to express the risks and returns associated with the business. The investor community is generally comfortable with these models.

Would you operate without one? I don't think we could. I don't think I could readily sell without a model.

DARREN REDHEAD

No, investors wouldn't invest without one.

RICK PAGNANI

Cyber is another story, while folks are building models to capture and understand the potential risk; confidence levels are not high at the moment. It is unfortunate because cyber risk is perfectly suited for the capital markets in that if you're going to fulfil the needs of the fortune 500 you're going to need to put together billions of dollars of capacity. The current re/insurance market cannot meet those demands.

Rick Pagnani –
Cyber risk is perfectly suited for the capital markets

Are we there? No. I think I'd have a very hard time going out to an investor base tomorrow and saying, "We're creating a cyber fund, this is how it's going to run, here's our loss pick and here's why." I am not sure that the insurance industry has its head around these risks so to try to go out and educate and articulate the risk/returns parameters of cyber risk would be a real challenge at the current level of development of this product.

MATTHEW BALL

The interesting thing here is, tying back to our earlier discussions on innovation and new products etc., more and more ILS funds could start going into lines of business where there isn't a standard third-party vendor model available. But that doesn't mean there won't be models available. Cyber's a tough one, it's new, the claims experience and modelling is in its infancy, we all know. However, casualty, we've been modelling this for decades, that's not new. It may not be wrapped in a standard vendor model but we've got these other folks called actuaries and underwriters who do know how to model these risks.

STEVE EVANS

If we struggle now with three models and in the future everybody has the technical capability to create their own, is everybody going to have their own view of risk and be promoting their technology base as the way to give them another competitive edge?

TOM JOHANSMEYER

Something I'm hearing more and more from analytics companies is that they want to become MGAs now. So once upon a time if you had a good analytics platform you would become an analytics company and sell that platform, that's how the standardisation comes into play. More and more people I talk to in the start-up space develop a platform and say, "I now understand this risk better than anybody else. Why wouldn't I write the business myself?" So you see a shift at that point to the best underwriters, the best analytics provider.

STEVE EVANS

It was mentioned that investors wouldn't invest in the space without the models, which underlines just how important they are. But what do people think about investors' potential over-reliance on models? As in "The model said this, great," but in reality an event takes place and it doesn't really match.

MATTHEW BALL

I absolutely see where you're coming from, for low frequency high severity event property cat losses. You've got the EP curve and if the event happens it can be difficult to back-test the model or prove it wrong over a short experience period. Unless it's the Thai floods for example, that was clearly unmodelled. But as you start to move into other lines of business that may be less volatile or more exposed to trend risks, like some casualty lines etc., it can actually be easier to back-test those models.

As you move into other lines of business some of the issues you face in terms of back-testing may get easier, even if there may not be a "standard" model.

But perhaps there are already standard models for other lines of business. If you look at casualty reserve risk for example, if you have had read an actuarial loss reserve report, you would have probably seen plenty of "standard" methods already.

So there is already a lot of consistent, standard, transparent models out there. There may still be some judgement in the assumptions going into these models, of course, but the structure's pretty standard.

Ultimately, if you can increase the transparency and consistency of the modelling, then capital providers or investors should be prepared to accept lower spreads over time, which in turn should open up the ILS product to more buyers.

DARREN REDHEAD

Again, it's convincing the investor. The investors take comfort from the independence, those models' periods of evolution, and that's what will, if you like, accelerate other classes, it's the investor getting comfortable with how those other classes, whatever they may be, are priced. For other classes it will probably take some form of shortage of capacity to accelerate the growth in them.

TOM JOHANSMEYER

I think we're still talking about the standard world that we live in. If we want to place more business it all comes down to talking to your clients, basics, right? Finding out the pain, the protection they need, developing that new thing, educating, distributing, selling. That's the real problem. We can look at repackaging what we have where a harder market would be helpful, but we can't sit around and wait for that, and we certainly don't want to cause it.

DARREN REDHEAD

Correct, it's not a business model to wait for the hard market.

STEVE EVANS

Bringing the discussion back to Bermuda, apart from the aforementioned developments with regulation, reporting, and standardisation, what else should the island be doing to ensure it maintains its competitive edge as the ILS market looks to spread its reach and influence?

PAUL LARRETT

Three words I'd like to focus on is "access to risk." Does Bermuda have better access to risk than other markets? I think that's the case with the U.S., however, that may not be the case with access to Europe and other jurisdictions obviously. People tend to look towards developing countries for the protection gap, however, there really is huge potential within the U.S. if you just look at the National Flood Insurance Program, or making quake coverage mandatory on mortgages, and so on. I think Bermuda is in a position of strength, in terms of proximity to the U.S., the Atlantic time zone, with a lot of brokers and cedants deciding to visit the island. Bermuda gets a very good cross-section of business.

In short, access to U.S. risk is first rate here.

BRAD ADDERLEY

I think that's a good point Paul, at least on this side of the business, because if I look at some of our clients from the last three or four years a lot of them came to Bermuda with one or two people, and what they've found over the years is that there's been more business on the island than they expected. A lot of them have now grown from two to twelve. Because they found more access to risk and more opportunities on the island that onus becomes a self-fulfilling prophecy.

There are several stories of people who are hiring people because they're seeing more access to risk and more opportunities on the island, which I am assuming is just going to multiply through the industry as they see more and more people doing trades on the island. That's not just specifically in the ILS space. It's an interesting comment and it will be interesting to see how Solvency II benefits Bermuda in terms of increased business and hiring.

DARREN REDHEAD

I'd agree with that in that in that I think Bermuda underestimates their access to risk, distribution and the whole infrastructure, the brokers all being here, even the intra-trading between the companies in Bermuda is growing as well and so it's creating its own market.

Darren Redhead – **I think Bermuda underestimates their access to risk**

DARREN BAILEY

Scalability will be key in 2017. Issuance experience has shown lots of one off deals in respect of corporate cat bonds (MTA, Amtrak, Kaiser Permanente), and we just don't seem to scale that activity to provide wider coverage benefits. Is the lack of activity due to a lack of understanding around capital markets or are the traditional markets too competitive and with pricing forcing the hand of corporate risk managers?

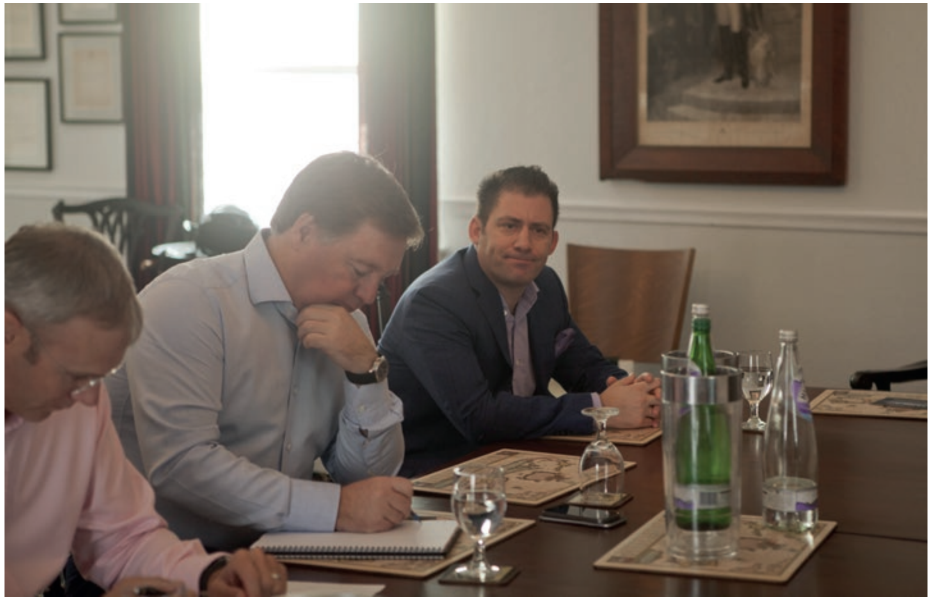
Maybe we need to point out the flaws in them and say, "Actually, this is not an appropriate risk for the ILS market" and focus attention elsewhere. Concentrate efforts and have Bermuda say, "One risk we're backing for 2017 is X," whether that's cyber, operational risk or terrorism, and then really back it and be the first domicile to say, "We've backed one risk or territory…" If it doesn't work for 2017, pick a new territory and new risk for 2018. But at least be seen to be focused.

TOM JOHANSMEYER

That's a good thought. If you look at Panda Re, that hasn't come back. If you look at Turkish risk it's been Bosphorus Re and that's it. Bosphorus not a one-time deal, but certainly a one-company deal in the Turkish market. Operational Re, one time. When we're looking at new risks I think there's been a tendency over the past few years to throw it all against the wall and see what sticks, and nothing has. What we should be doing is something that can scale and – try to develop a market that can scale.

RICK PAGNANI

I think it goes back to the education of investors and articulating the risk. For that we thankfully have third-party models.



TOM JOHANSMEYER

The underlying product though has to be something that you can educate on. Education is important. If the product makes sense, then education helps. If the product's a disaster, if it's loose or poorly structured then education can only make things worse. I think the industry's obligation here, for those of us in the room who are in various parts of this, take cyber, we need to come up with the right sort of product that can be developed, marketed, sold and serviced.

EVAN GLASSMAN

Let me provide some unique insight here, with what we're doing we're very much on the front lines of bringing ILS capacity to go after new risk, using technology. To your point about some bonds that have been there, that are not there on the corporate side, you have the MTA metro cat, you have Panda. The education process is very long.

Evan Glassman – **With human nature, what we've found is that people are preparing for yesterday's war not tomorrow's war**

If you look at why most insurance is purchased, most insurance is purchased because it's a mandate; you have to have it for a lender requirement, a statutory requirement, or a board requirement. To do something different, whether you have a huge risk that's sitting on your balance sheet that historically has been uninsured, one, to get someone to budget for it and, two, to get it designed and done right is a long process.

With human nature, what we've found is that people are preparing for yesterday's war not tomorrow's war. So being that it hasn't happened yet, or hasn't happened in a very long time, makes things even more difficult.

STEVE EVANS

And if the right products are developed, do people think there's enough demand amongst the investor base?

RICK PAGNANI

I'm telling you, there is demand for new product from our investor base, there is no question about it. People are looking for non-elemental exposures but the product needs to be credible. We need credible companies to season the risk and a market to pricing mechanism and capacity for the tail risk.

But more to the point of trying to create a broader market my thought is that you tranche the risk in time blocks. First the seasoning with the traditional reinsurance market and then a secondary market comprised of both runoff companies and capital market investors. That's something that we can do. It is not going to be easy but is something we should do.

SUSAN LANE

We're in a market cycle now where pricing is low, there is excess capacity, and some of the structured products we've developed are too complex; they take time to structure and are paperwork heavy. We must make it easier to bring risk to market. Cedants need to be able to easily decide, "Why am I going to go with structured third-party capital products as opposed to A) not address it at all, or B) do it in a more traditional manner."

The industry has done well educating otherwise the market would not have grown. We want to see continued growth. To that end, when we talk to our cedents and look at how their programmes are structured, the percentage of ILS funds or third-party capital participating on their programmes is increasing year-on-year. Cedants are becoming more comfortable with collateralised reinsurance and their trading partners. They prefer having a choice and they understand that parts of their reinsurance programme are well suited to the ILS market.

TOM JOHANSMEYER

Right now when you think about the benefits of ILS or third-party capital, what's the one thing that usually comes up? "Can they get me the price?" If we're going to talk about benefits and education around ILS we need to convey benefits beyond just the price. If all you're doing is shopping on price right now, you're missing some really important stuff.

DARREN BAILEY

As a differentiator to London, Bermuda is perfectly positioned to innovate with its large captive management base and therefore the opportunity to access C-suite at various times of the year. Multiplying the actual contact points you can get with corporates to promote the use of capital markets for cat bonds, parametric solutions, etc.

SUSAN LANE

Collaboration is key; there needs to be sufficient demand. If you consider a region such as China, pricing risk is low combined with excess capacity and there isn't sufficient demand.

If you're a government body and looking to expand the catastrophe risk coverage you have, how do you explain allocating funds for a future potential loss event versus meeting immediate funding needs? There's a lot of planning required and there must be ultimate demand or risk need they feel exposed to.

PAUL LARRETT

Many investors that we speak to don't really want to target low returns even if the risk is remote. Most of the money that's waiting in the wings is chasing higher returns, it's a small allocation to ILS in the first place, it's a sub-set of the alternatives. If they're going to invest in ILS, it's got to be at higher returns. They're not interested in risk at sub two-on-line, even if it's a 1-in-1000 year event.

DARREN REDHEAD

I couldn't agree more, Paul. It's all well and good talking about innovation and creating new products, but if the investor doesn't want it what's the point? The other thing that we've got to think of as well, quoting the number $70 billion, of which $50 billion is probably pension funds, on an average rate-on-line of five or below. If interest rates go to 5%, in my view, half that money's gone because it's going to say, "I can get no risk, or a minimal government debt risk for 5%" So half of it will stay, because it's an asset class it's decided to invest in, but half of it will go.

It's all well and good saying, "We're going to innovate with new products," but we can't be foolish. We're serving the investor base, and we need to remember why this investor base came in the first place.

BRAD ADDERLEY

We have to have the time. I think everyone is so busy doing their job, which does not allow them to actually innovate a new product because it takes a lot of time.

Education is there but the people don't want to be educated, they just don't want to listen to it. But this is Evan's point, unless you have a requirement to buy insurance, it makes no difference.

On the education of ILS managers it's a small world. You go to New York and it's a small group of law firms who actually understand the product. You go to Bermuda and it's a small group of insurance managers who actually do ILS, understand it and could structure something a bit more differently. I don't think there are many people who want to be educated or could actually be educated because I don't think there's actually that many people in the space.

STEVE EVANS

The desire among the ILS space to access risks more directly has been a growing trend, do people expect this to continue and even intensify in the coming months?

PAUL LARRETT

Investment from ILS funds in the U.S. insurance market is already happening. I always find it surprising how much of the U.S. personal lines business is still done through agents, which is in stark contrast to the UK where consumers are happier transacting on a direct basis. The U.S. market in that respect is more like France where 80% of personal lines business is still placed through an agent as opposed to online. As the demographics change, younger people who have been brought up with the Internet will tend to buy insurance directly and the use of agents will slowly change. As truly direct business becomes more commonplace, that presents a great opportunity for the data driven ILS market as well.

RICK PAGNANI

I personally think you're going to see innovation on the primary level specifically at the personal lines level. The folks that are going to win this battle are those companies that have easy access to consumers, can manage big data and can get access to third-party capital and by doing so wring out the expense associated with distributing these products. I can think of a Google insurance, or an Amazon insurance partnering with a national carrier and bringing in third-party capital to support the venture.

As third-party capital gains more direct access to insurance risk the costs for the consumer will decline. There is real appetite in the investment community for risk of this nature. To me this is the next wave, it's not immediate but it may happen quicker than you think.

TOM JOHANSMEYER

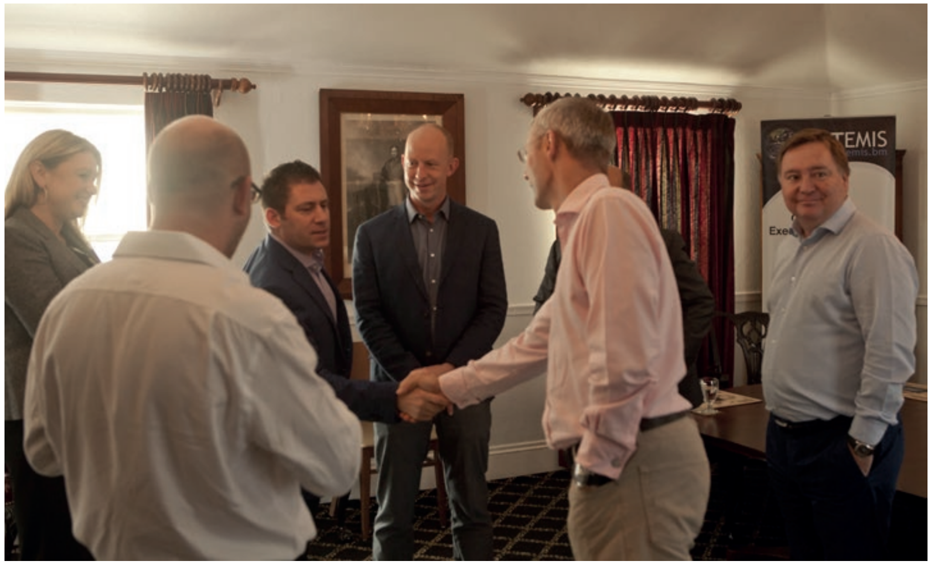
I think it's important to note, we've talked about the ILS product a bit and ILS is not the product, period. The product is protection. So we need to figure out how to drive protection in a way that somehow maximises returns for your investors. When you look at what's coming next, in addition to disintermediation of the retail agent, which I think has to happen, I mean it's insane that I need to buy an auto insurance policy through an expert in selling me auto insurance. But when you look at the new product that will come out of this, it will be shaped by things like the Internet of Things, telematics and smart homes.

Tom Johansmeyer – **We need to figure out how to drive protection in a way that somehow maximises returns for your investors**

Also, rather than look at someone like Amazon or Google for distribution, which is still massive, there would also be an input. If you want to look at risk evaluation you could probably learn more about me from my Amazon purchasing history than from any other source available.

SUSAN LANE

Yes, technology evolution is going to have a major impact on how companies do business in the next five to ten years. Even around this table, our companies most likely have a technology platform that enables us to be more efficient and allows us to connect on a real-time basis with our clients so that we can be more productive. This enables us to focus on the questions: "What are the clients' goals? And how can we help?"



BRAD ADDERLEY

I think the most important thing, and to tie it back to Bermuda again, is if we, Bermuda, do innovate and create the right products, with the right technology, and make people buy it.

History shows that the BMA is open in relation to new ideas. They're able to think laterally. To go back to Susan's comments, there is appropriate regulation to allow them to say, "We can put this within the right box and regulate it properly." That's how Bermuda came about.

So as a result, for me, it's being consistent and quick, but also being able to say, "Here's a new product, we understand you might know more than us, it fits within its class and we can go forward." Instead of maybe building something and waiting for something to come I think it's the opposite, "We want you to play in our jurisdiction by putting more people here and finding more access to risk." Than, "This is what we want to do, this is how we want to do it. Let's get to it." That, to me, is the important part.

DARREN REDHEAD

There's definitely a culture, and Bermuda mustn't lose it, of, "Let's make the risk happen. In Bermuda the natural reaction is, "No, I can't do it that way but this is a way I could do the risk."