Not everything in ILS comes down to models: Chin Liu, Amundi Pioneer

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When it comes to building a portfolio of insurance-linked securities (ILS) and reinsurance linked investments, there is more to quality and return potential than simply following models, according to Chin Liu of Amundi Pioneer.

Liu is a Director of Insurance-Linked Securities and a Portfolio Manager at Amundi Pioneer, managing over $90 billion in assets, including $1.5 billion across dedicated ILS strategies and multi-strategy funds.

He spoke with us in a recent interview and provided some insight into the approach Amundi Pioneer takes in ILS investing.

The Amundi Pioneer ILS portfolio is quite diverse, both in terms of perils and also structures allocated to, with the investment manager being very selective. We interviewed Liu to hear more of his opinions on the market and what's important to him when selecting assets for the portfolio.

Liu began by explaining his view of market conditions at this time and why he's positive on the sector.

"There are a host of favorable market trends in ILS that continue to make us very constructive for this asset class over the foreseeable future," Liu explained.

"What has remained constant over the recent history is the needs of plan sponsors to create diverse and resilient portfolios by accessing uncorrelated sources of both risk and return. ILS continues to be a structurally uncorrelated asset class. This has been demonstrated in the current market, as well as over its long-term history.

"In general, for all the renewals that have taken place year-to-date, they have been in-line with or exceeded our traditionally conservative expectations. We were able to take advantage of the market conditions and capacity disruptions during the renewals."

But for Liu, it’s not just about pricing , Liu explained, “While ROL increases are important to understand, they only provide one part of the equation that we evaluate and consider. We have also factored the terms and conditions, capital roll flexibility, loss communication transparency, and other aspects in our analysis.”

Liu went on to explain that format and structure are not what drives the ILS investment thesis for Amundi Pioneer.

“In addition to being sponsor agnostic, we believe another of our advantages is being format agnostic. Amundi Pioneer has been investing in ILS since 2008. Today, being a part of Amundi, a global asset manager, with over $1.6 trillion in assets, we have cultivated strong and close relationships with the re/insurers, providing strong market access. We have the ability to efficiently allocate capital to the asset class when most needed by the industry,” Liu said

He added, “Our exposure includes catastrophe (cat) bonds as well as private placement, such as collateralized reinsurance, quota shares (sidecars) and industry-loss warranties (ILWs). We have been invested in the asset class for more than a decade in multiple strategies with various volatility targets. This has allowed us to develop a robust, crucial understanding of how to manage ILS risk within a portfolio,” he told us.

While the returns seen in catastrophe bonds earlier this year were attractive, for example, Liu said that while “we took advantage of the favorable environment to increase allocation to the 144A Cat bond” an allocation decision based on market conditions at the time.

Quota share reinsurance deals make up a percentage of the Amundi Pioneer ILS fund portfolio, with the company taking a considered approach to which carriers to partner with.

Liu said, “As we mentioned before, we are vehicle agnostic. Quota shares offer investors many advantages, including peril/geographic diversification, the underwriting/claims management/loss reserve process of leading global reinsurers, structural underwriting leverage along with the ability to avoid many of the high-risk aggregate layers where capital tends to be more frequently trapped.

“However, we take a very rigorous approach to our proprietary quantitative and qualitative research regarding sponsor selection. In addition, we take advantage of our global, in-house fundamental research team that covers the re/insurance industry to get a fuller perspective on sponsors. As a result, we are very selective in terms of who we partner with.”

He went on to say that, there are other important factors to consider in ILS investing outside of what is presented to investors by risk models.

“Terms and conditions, not only with quota shares, but with all private transactions which make up the majority of the capital in this market, are very important.“There are aspects in ILS investing that do not lend themselves to quantitative modeling.

“Three primary areas that we focus on include sponsor quality, alignment of interests, and contractual terms and conditions. All of these are very important and can have a significant impact on the return outcome. In addition, we favor sponsors who offer more flexibility in terms of trapped capital at time of renewal. In general, we believe the re/insurers are aware of the challenges and becoming more sensitive to being equitable,” he explained.

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