New data + new risks = new ILS deals

New technology and the way data and analytics are advancing has the potential to transform the insurance-linked securities space, says Munish Singla, global head of Escrow Solutions at Deutsche Bank.

New technology is redefining the risk transfer industry in multiple, complex ways. The focus to date has been more on the insurance, customer-facing side of things, but it also has the potential to transform reinsurance and the insurance-linked securities (ILS) space.

That is according to Munish Singla, global head of Escrow Solutions at Deutsche Bank. Singla notes that the rapid change in customer behaviour and expansion of contextual data is already reshaping underwriting practices in the insurance industry.

Since insurance has always been a data-driven industry, this is a natural process, he says, and it is being accelerated by the high levels of investment into the so-called insurtech sector. It is estimated that venture investments into insurtech topped $5 billion in the last three years, according to McKinsey. But as the financial and technology worlds become more interconnected, more players may enter this highly efficient and large market, Singla says.

"The trend, driven by the higher availability of data and a superior analytical ability, will increasingly allow insurers to slice and dice the market into sub sectors and this in turn will put a secular downwards pressure on the premiums and revenue profile of the industry," Singla claims.

Finding the opportunities

But the advent of technology is not all bad news. Incumbent players with the desire and capital to expand in new categories can leverage their scale if they use data and technology correctly.

Some of the business lines and new risks they may find growth in, on the back of better data and analytics, include climate change, cybersecurity and terrorism—all of which could create entirely new revenue streams for the industry.

"Technology is going to change the way the industry operates in multiple ways," Singla says. "On the one hand, very plain vanilla risks could become commoditised by technology and data; on the other, new kinds of risk could be better understood and priced thereby creating opportunities for companies."

Singla says the industry will need to evolve its risk capital structure to support these changes and incumbents will need to continually invest to stay competitive. But he believes there is a strong chance that the ILS market could broaden its own horizons as it too benefits from better data analytics.

With one foot in the highly technical world of the capital markets, ILS could play an increasingly useful role in driving professionalism and competition in the market while bringing new capital to the sector.

Munish Singla

Investors with the appetite to take risks will benefit from the ILS infrastructure, he believes.

"ILS could become very important in bringing capital to emerging risk categories—cyber and terrorism are two areas that immediately spring to mind for investors with the risk appetite and the ability to take these non-conventional risks. ILS could become a pioneer in those segments," he says.

Deutsche Bank's role in ILS deals is as a trust service provider. Singla says the bank would like to engage with both non-traditional and traditional investors and fund managers to gauge their appetite for such risks.

"We would love to discuss how they are engaging with some of the new technologies and the possibilities around that," he says.

"We want to discuss their expectations on how trusts will be delivered and how we can help. We expect a lot more innovation and structural change in the way industry does business over the next decade and we want to be at the forefront of that." ■

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