Casualty ILS market can double annually in next two years: MultiStrat CEO

Industry sources estimate the market to be around $3bn.

The casualty ILS market could double or even triple annually over the next two years, MultiStrat CEO Bob Forness said in an interview with this publication.

Unlike property cat ILS, there is a lot less data to ascertain how much casualty ILS capital is in the market, but industry sources estimate it to be roughly $3bn-$4bn.

"I would expect that to easily double or triple each of the next two years," Forness said on the sidelines of the Bermuda Risk Summit.

Supporting that conviction is investors' deepened understanding of casualty risk as an investment, along with the fact that casualty ILS is maturing as a market segment.

"We've got an increase in the number of participants in the market and increasing sophistication in the product design," he said.

Last year, the casualty ILS firm saw $20bn in submission activity, according to the CEO.

Forness has been with MultiStrat since the firm's inception in 2013 and was promoted to group CEO in November last year.

The firm has focused on building portfolios of primary casualty business.

It has mainly targeted asset managers which are interested in risk that is frequency-oriented, rather than severity, which differentiates them from cat bond investors primarily looking for event-driven risk.

Casualty risk has “medium-to-long-duration liabilities, and you're looking at predictable cash flows, more frequency loss and less severity”, Forness explained.

“It's really the Berkshire Hathaway model, where you're managing premium float and generating a substantial amount of your return from investment yield,” he said.

Over the past decade, MultiStrat has seen an evolution in the type of investors who are comfortable participating in casualty risk.

The early investors in casualty ILS were hedge funds, private equity and a little bit of high-net-worth individuals, according to Forness. Recently, alternative asset managers, family offices, and pension funds have shown more interest.

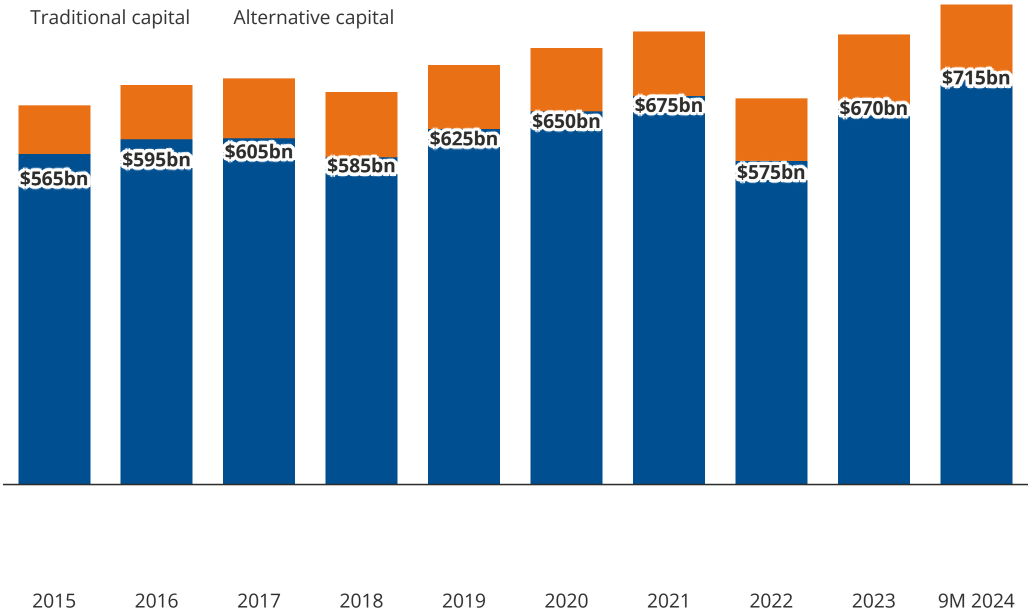
“Now we're seeing more conservative investor groups that are looking for low volatility returns,” he said.

A maturing market

The MultiStrat executive said it was in the last two or three years that he’s seen substantial growth in the casualty ILS space.

Part of this growth has been due to the volatility that other investment markets have faced, while casualty ILS has garnered more interests as a lower volatility investment that still managed to generate attractive returns.

Global reinsurer capital



Source: Aon

Also, Forness pointed out that 2017 through 2021 were tough years for the property cat segment. While that market has improved, setting record-high returns the past two years, some investors were less inclined to return to the catastrophe risk market and broadened their horizons to other risk classes.

While property has had an extremely good two years out of a seven-year stretch, MultiStrat's objective has been producing "consistent returns every year" through diversifying portfolios and avoiding concentration in a single line of business.

Another driver behind the casualty ILS market's growth is the emergence of fronting carriers, MGA platforms, and an expanding excess and surplus lines market.

"We're able to work with the fronting carriers and develop collateral structures that are highly efficient," he said. "The investors are earning very attractive returns on casualty ILS at present, even relative to cat bonds."

The Swiss Re Global Cat Bond Index generated gains of 17% in 2024, including around a 3% gain in mark-to-market prices over the year.

That growing interest in casualty ILS has also encouraged more players to offer competing strategies in the space.

At this stage, Forness's view is that competition is positive for MultiStrat as long as its peers are disciplined, whether it be a traditional balance sheet underwriting team or third-party capital-backed underwriting team.

"It creates more credibility when you have strong competitors. It helps us educate the market," he added.

One notable transaction was Starwind Specialty Insurance's launch of Fractal Re, a $270mn casualty sidecar, last October. State National is the fronting carrier while Enstar offered a forward exit option to investors.

According to Forness, investors were attracted to that deal, partly because it provided an exit option which allows investors to step away from the transaction after a defined number of years. It was a "pioneering" structure, the executive added, which demonstrated a "really attractive way to participate in casualty ILS" for investors.

As the market grows, so will the degree of sophistication of participants and casualty ILS products, Forness said. In that sense, the executive said MultiStrat is in the "third or fourth inning".

"We're now reaching the middle of the game where we can scale the business, generate more results and see more reinsurance buyers and investors participating in the baseball game than before."

There is plenty of room for growth at the moment, he added, given how much smaller the casualty ILS market is than property ILS, and the fact that in the general P&C market, casualty is a larger segment than property. In addition, the overall ILS market is growing.

"We're talking about a larger segment of the market – assuming that we penetrate it to a similar level and do it at a faster pace, then I would expect that casualty ILS is going to see substantial growth over the next three to five years," Forness said.

Discipline first

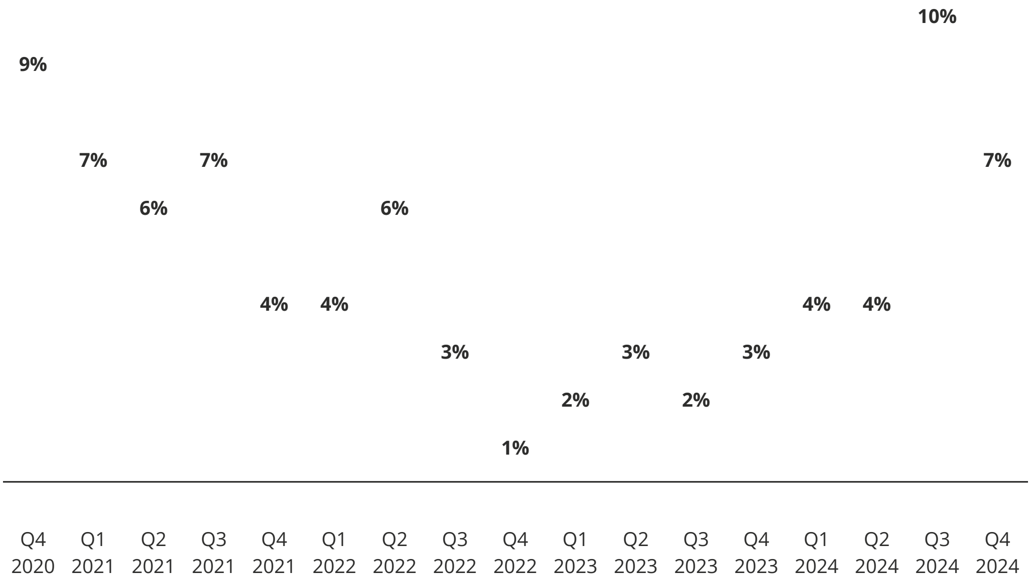
The company does not publicly disclose its premium volume. However, Forness noted that MultiStrat has doubled in size over the past two years and aims to continue that pace of growth over the next couple of years.

In any circumstance though, discipline will come first. “We don’t need to double every year – the reason we’re doubling right now is because it’s from a smaller size,” he said. “Eventually, we’ll grow 30% to 50% a year – that would be our longer-term target.”

That said, market conditions are very good for MultiStrat. “But I wouldn't say that without some caution,” Forness noted. “We have some established players that are pulling back from certain lines of business, and we're aware of that.”

US casualty has entered its seventh year of rate increases, which is unusually long for a class of business where previous hard markets have lasted two to three years. However, the industry is still struggling to put a finger on where loss costs are.

Marsh’s US casualty rate index has increased since 2019



Source: Marsh

While Forness agreed that some segments in casualty aren’t performing, he was also of the view that casualty rates are generally adequate at the moment. As long as the company has a diversified casualty portfolio, certain classes may harden and soften within that book, but generally those fluctuations can be absorbed, he said.

What can make US casualty less attractive for third-party capital investors, however, would be a low-investment-yield environment persisting for a very long time.

In his previous career, Forness worked for companies that were owned by Canadian asset managers. “They always had a very simple instruction: write to 100% combined ratio or less,” he added.

"If all of a sudden we're only producing a break even result, we should put the pen down.”

Topics