

New Products Showcase: Weather and Insurance Linked Derivatives

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The Insurance Linked Investments Market

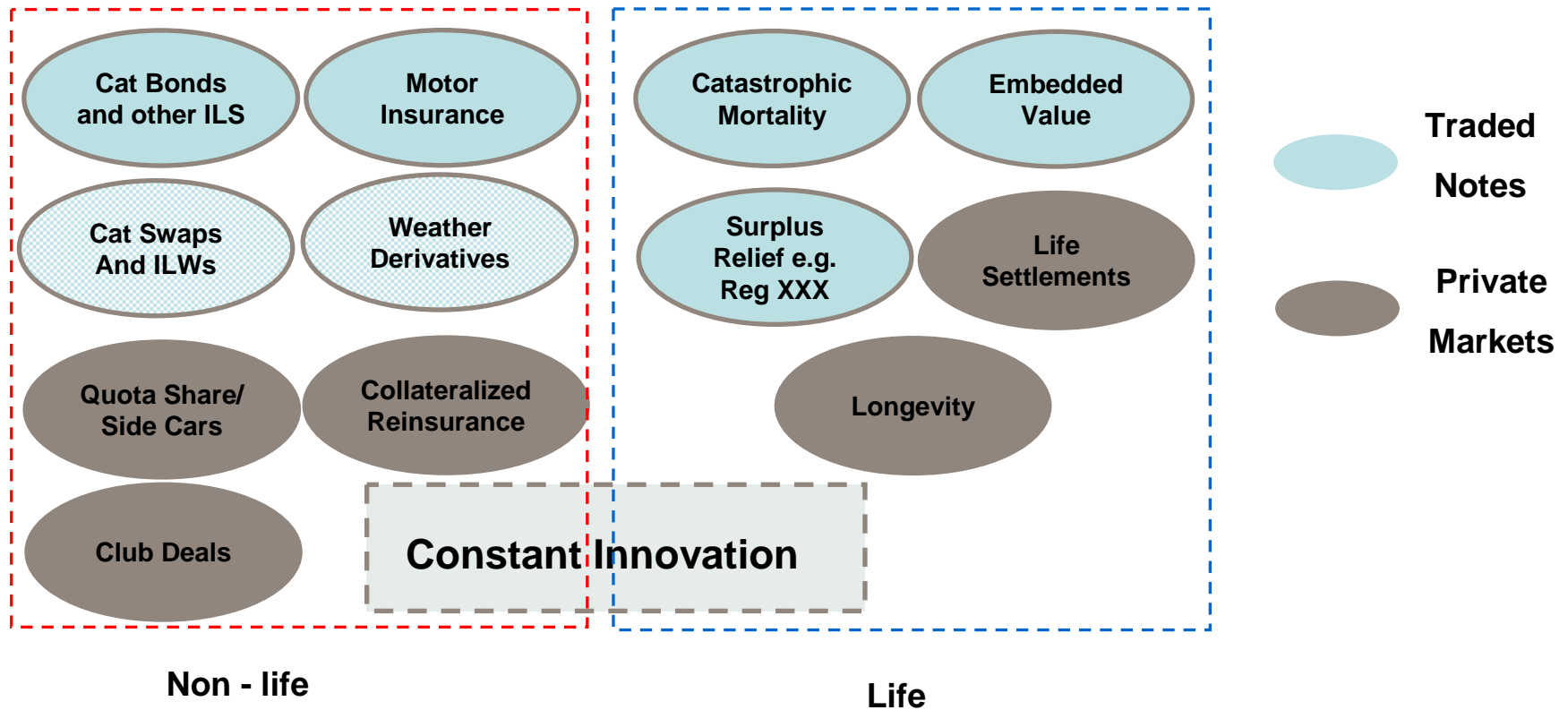
- The sustained growth of the insurance linked investment market led to a number of developments:
 - Different types of **protection buyers** with different needs approach insurance capital markets
 - Different types of **instruments** have been developed to address specific needs of protection buyers
 - A **dedicated investor base** with specialised knowledge has been developed, also preventing contamination from the turbulent status of the securitised markets
 - **Modelling and analysis** of insurance capital markets instruments have expanded, and **rating agencies** have further developed its methodology for insurance capital markets instruments
 - **Portfolio management tools** for insurance risk have been developed (albeit with a focus on non life in current status) to facilitate the monitoring of insurance linked investments

- The total market (between public and private transaction in life and non life sectors) backed by capital markets investors has grown to the size of a large reinsurance company and has become an integral part of the reinsurance industry landscape

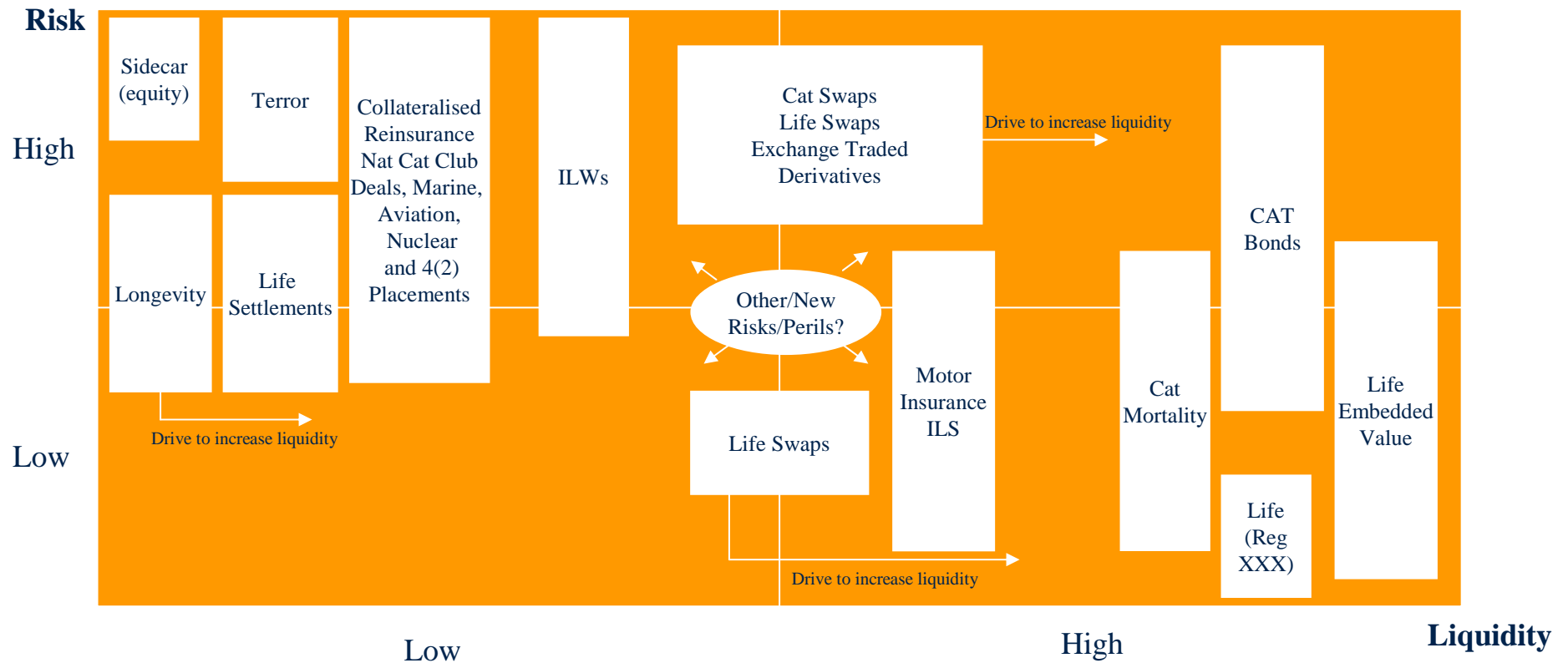
- The new insurance linked investments landscape poses investors new challenges and opportunities

The Insurance Linked Investments Market

- Many instruments are being used to transfer insurance linked risk to the capital markets
- We believe all instruments have a role in a portfolio strategy to ensure liquidity, profitability and growth



Risk and Liquidity Profile of Investments



Weather and Insurance Linked Derivatives

- The weather derivatives market has grown to be the largest in the sector
 - Core products traded are temperature and wind-speed, but structured derivatives have been developed to tailor to customers needs
 - Last year the sector grew to an estimated USD50bn, of which
 - About half traded OTC and
 - The rest through the CME
 - Volumes estimated down by approx 30% this year, due to challenging market conditions

- Cat swaps and cat derivatives are traded via:
 - Exchanges (e.g. CME, IFEX)
 - OTC
 - Brokers (ICAP, GFI)
 - ILWs are not derivatives contract but.....

- Cat swaps volumes are not huge, and traded transactions are mostly US Perils and Hurricanes in particular
 - LiveCat trades (in small volumes) are done when named hurricanes approach landfall
 - RMS' Paradex starting to allow an OTC trading on European windstorms

- Key to develop a P&C derivatives market in other territories: a transparent independent reliable index

- Banks are promoting population mortality indexes in key regions (US and UK) to develop a market for longevity and mortality
 - First sizeable transactions have been executed in the last few months