

INSIGHTS FROM CFA SOCIETY SINGAPORE

The growth story behind insurance-linked securities

By Mariagiovanna Guatteri

AFTER years of low yields and rising macro volatility, investors are demonstrating renewed interest in insurance-linked securities (ILS) for their very low correlation with traditional financial markets. Despite event-driven volatility, the first half of 2025 reaffirmed the market's strength and growing scale.

According to mid-year industry data, ILS issuance reached US\$17.2 billion across nearly 60 transactions, making 2025 the second-largest year in the market's history, with half the year still to go.

The total market size surpassed US\$56 billion, having expanded by more than 75 per cent since 2020. Last year alone saw 10 new issuers and three wildfire bonds, signalling growing investor confidence alongside supportive market dynamics.

The surge in issuance is being fuelled by both sides of the equation: strong demand from sponsors seeking risk transfer and an equally strong appetite from investors looking for diversification.

Elevated collateral yields and a wave of maturing bonds have created liquidity to reinvest. At the same time, diversification within the market has deepened, with new sponsors, new perils, and more sophisticated deal structures emerging.

Recent issuances illustrate this breadth. US hurricane exposures still dominate, but there has also been US\$182 million of coverage for UK flood; US\$105 million for

Canada earthquake and severe convective storms; and US\$100 million for French terrorism.

Such variety highlights the maturing nature of the market and its widening relevance across geographies and perils.

Performance has been another bright spot. The Swiss Re Global Cat Bond Index delivered a 9.89 per cent return for the first 10 months of 2025, even as global markets contended with tariffs, currency volatility, and other macro shocks.

Risk and resilience

Looking further back, the consistency of returns stands out. Since 2002, catastrophe bonds have produced positive monthly results nearly 90 per cent of the time.

Interestingly, inflation – typically a challenge for insurers – can have an indirect positive effect on the ILS market. Higher insured values at risk increase the need for risk transfer, which widens spreads and can enhance investor returns.

Additionally, most catastrophe bonds pay floating-rate coupons tied to Treasury money market funds, which means higher interest rates can directly benefit returns.

For multi-asset allocators, the consistent return pattern of catastrophe bonds has made them a compelling complement to traditional fixed income in high-rate environments.

The start of 2025 underscored the ever-present risks inherent in catastrophe-linked investments. The devastating wildfires in Los

Angeles caused about US\$40 billion in insured losses, the largest wildfire-related loss on record.

Severe convective storms across the United States added billions more in claims. More recently, Hurricane Melissa triggered a 100 per cent payout of a US\$150 million World Bank catastrophe bond for Jamaica.

Events like these are reminders that catastrophe bonds are not risk-free. However, they also demonstrate the market's resilience. While some structures were affected, the broader system absorbed the shocks without widespread disruption.

The key lies in understanding and modelling the underlying risks accurately. Investors must know the exposures they are assuming, but they should also expect fair compensation through higher spreads and premiums as those risks increase.

Institutions tend to access the market through specialist funds, with managers leveraging deep catastrophe modelling expertise to construct diversified portfolios.

Insurers and reinsurers are well-positioned in this space due to their access to proprietary data and scientific teams capable of analysing complex risk factors.

What was once a niche investment is increasingly finding its way into mainstream institutional portfolios.

An open question remains: How should investors categorise ILS exposure? Some treat it as part of alternative fixed income, others within hedge fund allocations, and



Hurricane Melissa triggered a 100% payout of a US\$150 million World Bank catastrophe bond for Jamaica.

PHOTO: REUTERS

some view it as a standalone diversifier.

Most institutions we speak to would allocate around 1 to 3 per cent of portfolios to ILS. While that may seem modest, even small exposures can meaningfully enhance diversification and income.

Looking ahead

Modelling suggests that allocations of up to 10 per cent could further improve portfolio metrics, though investors remain cautious and deliberate given the asymmetric risk profile and event-driven nature of returns.

The outlook for ILS remains con-

structive. Risk exposures are growing due to inflation, urbanisation and climate-related pressures, all of which increase the need for capital to absorb catastrophic losses.

At the same time, innovation is expanding the range of available structures, including index-based solutions and parametric products that offer faster payouts and more efficient risk transfer.

Continued institutionalisation is also likely. As data quality and model transparency improve, investor confidence in the asset class should deepen. However, success will depend on maintaining rigorous risk assessment and disci-

plined portfolio construction.

Catastrophe bonds and other insurance-linked securities are evolving from a specialist niche into a recognised source of diversification. Their appeal lies in their independence from economic cycles and their potential to provide steady returns even when traditional markets are under stress.

For investors searching for correlated returns, ILS can play a valuable role in portfolio resilience.

The writer is CEO and chief investment officer, Swiss Re Insurance-Linked Investment Advisors Corporation