

# AIR Solutions for ILS Investors

Over the past two decades, insurance-linked securities (ILS) have established themselves as trusted investment tools that play an important role in a diversified portfolio. Now more than ever, investors need a way to evaluate the risks associated with these instruments from the time they are marketed until they reach maturity.

In the expanding ILS investor space, AIR maintains its dominant position by providing a complete solution—one that combines the highest quality information and analysis with the industry-standard software for analyzing the widest range of financial instruments.

### Control accumulations of risk

Investment guidelines typically require investors to respect certain risk accumulation metrics by region and peril. Without the ability to analyze all cat bonds within a single platform using the same set of simulated events, investors may resort to controlling their risk accumulations by adding up the total value of their bond investments exposed to a given area or peril—regardless of the relative riskiness of such investments. This limits the total capital that investors can commit. Touchstone Re™ eliminates this problem by leveraging AIR's comprehensive suite of catastrophe models, which allows investors to consider more bonds exposed to a given region or peril while still meeting their investment guidelines.

“The AIR catastrophe models that underlie the software enable us to generate loss estimates for a wide range of our potential investments.”

Nelson Seo  
Co-founder and Managing Principal  
Fermat Capital Management, LLC

### AIR's Comprehensive Solution for the ILS Investor Consists of Three Components:

- Touchstone Re software allows investors to model the risk associated with the widest range of financial instruments
- AIR's Remodeling Service provides timely and accurate information on current issuances
- AIR Loss Estimates in Real Time (ALERT™) provides information about loss potential as catastrophes unfold

### Touchstone Re: The Industry-Standard Software Platform

Touchstone Re—the same platform used by reinsurers to assess their exposure to catastrophe risk—is also used by ILS investors to build portfolios that minimize risk while maximizing return.

By modeling all of a company's insurance-linked securities and reinsurance contracts in the same software—a critical strategy as ILS and reinsurance markets continue to converge—portfolio managers can assess the risk associated with each instrument, whether a catastrophe (cat) bond, industry loss warranty (ILW) or collateralized reinsurance contract.

Touchstone Re equips investors with the ability to analyze catastrophe-exposed investments, quickly perform sensitivity testing, conduct marginal impact analyses, and provide breakdowns of loss by region and peril. Results of these analyses give investors key insights into their investment decisions—including, for example, whether to limit the geographic aggregation of risk in a portfolio.

Touchstone Re gives fast access to data vital to robust risk evaluation, including AIR's comprehensive industry exposure database, which is used to provide the market's most reliable assessment of industry losses. Touchstone Re also provides access to the industry's most scientifically advanced catastrophe models, which cover perils in more than 110 countries.

### Touchstone Re Can Do the Following and More:

- Organize all publicly traded cat bonds in a single interface, which makes assessing the marginal impact of new investments on existing portfolios and identifying new trading opportunities easy. Touchstone Re comes

pre-loaded with all outstanding cat bonds in the market, allowing investors to simply add selected securities to construct dynamic portfolios and analyze them with the click of a button.

- Enable investors to perform sophisticated portfolio analyses without intensive training. Touchstone Re generates advanced analytics from exposure and loss data, giving you a quick, comprehensive overview of compelling portfolio metrics (i.e., segmentation by region and by peril) and making the correlations between individual transactions—a critically important capability as investors’ portfolios grow—straightforward.
- Meet investors’ need to share information. Filtering by contract, peril, region, and exceedance probability (or EP point) allows you to quickly generate reports that reflect multiple views of your portfolio from a single analysis. Reports can be customized to meet individual organizations’ needs.
- Support complex reinsurance structures with a Relationships tab that allows you to set up program interconnections in complex reinsurance contracts with a graphical interface that shows the whole structure in one landscape.

### Providing the transparency investors seek

Since the inception of the ILS market, the sophistication of investors and their understanding of catastrophe risk have grown enormously. As a result, investors are seeking increased disclosure with new issuances, including details about the underlying exposure, modeling assumptions, and results. Touchstone Re allows investors to examine the parameters of the simulated events that result in loss to their portfolios. Investors using Touchstone Re can also take advantage of AIR’s database of event and loss information, built on AIR’s best-in-class catastrophe models, to test and validate the underlying assumptions of bonds, including their triggers and attachment points.

### AIR’s Remodeling Service: Information When You Need It

In today’s fast-paced ILS market, investors depend on catastrophe modeling software to quickly and accurately analyze potential investments as they are announced—and to analyze the impact of these new issuances on their existing portfolios. AIR was the first modeler in the industry to complement its best-in-class software with

an investor-targeted Remodeling Service. When a new security is issued, AIR’s experienced ILS team provides the information necessary to analyze that bond in a timely fashion—typically within days of receiving the offering materials. Investors can utilize AIR’s Cat Bond Database (CBDB) to construct portfolios from the universe of active cat bonds without having to input any of the details of the existing issuances.

In addition to providing customized cuts of the risk, the CBDB can be used to:

- Better understand risk correlations and diversification effects
- Assess the impact of various sensitivity scenarios on an investor’s risk profile
- Quantify the uncertainty in the risk estimate of a particular bond.

AIR’s Remodeling Service, available for both outstanding and new issuances, is continually being expanded to provide timely and comprehensive coverage of new instruments as they come to market.

### AIR Loss Estimates in Real Time (ALERT)

At AIR, we recognize the growing importance of obtaining reliable loss information quickly—as an actual event unfolds. AIR Loss Estimates in Real Time (ALERT™) is the industry-standard online service providing loss estimates for major natural catastrophes. With ALERT, you can assess the impact of actual events on your individual holdings and entire portfolios or evaluate Live Cat contracts.

AIR’s flexible solutions let you integrate AIR data and analytical tools with your own proprietary information to derive the insights most valuable to you. While many investors prefer to bring AIR’s risk modeling solutions in-house, AIR also offers a variety of consulting services, which partner investors with modeling experts who provide analytical services in key areas such as marginal impact analyses and long-term hedging strategies.

## ABOUT AIR WORLDWIDE

AIR Worldwide (AIR) provides risk modeling solutions that make individuals, businesses, and society more resilient to extreme events. In 1987, AIR Worldwide founded the catastrophe modeling industry and today models the risk from natural catastrophes, terrorism, pandemics, casualty catastrophes, and cyber incidents. Insurance, reinsurance, financial, corporate, and government clients rely on AIR's advanced science, software, and consulting services for catastrophe risk management, insurance-linked securities, longevity modeling, site-specific engineering analyses, and agricultural risk management. AIR Worldwide, a Verisk (Nasdaq:VRSK) business, is headquartered in Boston, with additional offices in North America, Europe, and Asia. For more information, please visit [www.air-worldwide.com](http://www.air-worldwide.com). For more information about Verisk, a leading data analytics provider serving customers in insurance, energy and specialized markets, and financial services, please visit [www.verisk.com](http://www.verisk.com).

AIR is a Verisk business.