STORM Synthetic Transfer Of Risk Markets
News and features for the alternative risk transfer industry

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The STORM interview
Managing catastrophe

Barney Schauble, a principal at Nephila Capital, answers STORM's questions

Q: **Which sector of the synthetic transfer of risk markets are you primarily involved with?**
A: We are a fund manager dedicated to managing a range of investment vehicles specifically investing in catastrophe risk and weather risk products.

Q: **When, how and why did you/your firm become involved in the sector?**
A: Nephila as a firm launched its first catastrophe risk fund in April of 1998. The founders - my partners, Frank Majors and Greg Hagood - felt that institutional investors might want to pay a professional manager with re/insurance experience to manage funds in this sector, rather than making their own decisions about whether to invest in specific instruments on an individual basis. At the time, I was at Goldman Sachs in their risk markets group, which was dedicated to structuring and distributing catastrophe and weather risk products.

Q: **In your view, what has been the most significant development in the markets you cover in recent years?**
A: Securitisation of insurance and weather risk has become a broadly accepted risk management alternative, a key part of the overall enterprise risk toolkit. This has been particularly evident for re/insurers and for energy companies, though also increasingly for corporates in other businesses with natural hazard exposures. The shift from a one-off experimental product to an ongoing part of hedging strategy has been the most significant development in these markets over the past decade. Investor demand for non-correlated products has also grown steadily, but the larger rate-limiting factor in these new markets has been supply of risk rather than demand from our investor base.

Q: **How has this affected your business?**
A: We have been able to grow our business accordingly, which has enabled reinvestment into the platform. Nephila is now approaching its ten-year anniversary in these young markets; the team and our proprietary analytical capabilities today have a depth that reflects that experience and ongoing reinvestment. We also have the scale to provide meaningful coverage to buyers of weather and catastrophe protection, both in terms of pure size of risk capacity and in terms of structuring capability for more tailored products.

Q: **What are your key areas of focus today?**
A: We have three key areas of focus. The vast majority of our invested assets and internal resources are currently deployed in catastrophe risk. Our primary focus has been on continuing to drive innovation in that market: most recently by launching the first actively managed catastrophe CDO - Gamut Re.

Secondly, we are trying to do all we can to encourage the growth of the weather risk market, which we currently estimate is less than 10% of the size of the cat market. One of several ways we are actively involved in promoting this market is through our partnership with and supply of risk capacity to the start-up WeatherBill (www.weatherbill.com). Lastly we are always focused on improving our platform, by investing in superior technology, but more importantly in the people - we are very proud of our team of 25 people here in Bermuda.

Q: **What is your strategy going forward?**
A: Our fundamental strategy is to "follow the logic" in the development of new risk transfer markets, and to offer high-quality protection (to hedgers), which generates a high-quality investment product (for investors).

Q: **What major developments do you need/expect from the market in the future?**
A: The future of the market will depend upon the joint trajectory of two trends: demand for protection against the impact of weather and/or catastrophe events, and demand for non-correlated investment products. We expect both of those trends to grow over time, and we are hopeful that they will be positive for our business which is located at that intersection.

About Nephila Capital
Nephila Capital Ltd is a leading investment manager specialising in the reinsurance industry with multiple investment products dedicated to investing in instruments such as insurance-linked securities, catastrophe bonds, insurance swaps and weather derivatives. Nephila - named after the silk spider Nephila clavipes, which, according to Bermuda folklore, is known for its ability to predict bad weather - was founded in 1998.

The instruments in which Nephila invests have evolved over time, along with investors' risk appetite. The company currently manages multiple investment vehicles and managed accounts exclusively for sophisticated institutional investors. In addition to insurance-linked instruments (which are predominantly focused on natural catastrophe risk), the company has been trading weather risk since 2000 and launched a dedicated weather vehicle in 2005.

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