



# Q1 2014 Catastrophe Bond & ILS Market Report

A Record Quarter

# ARTEMIS

Focused on insurance-linked securities (ILS), catastrophe bonds, alternative reinsurance capital and related risk transfer markets.

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# INTRO

This report reviews the catastrophe bond and insurance-linked securities (ILS) market at the end of the first-quarter of 2014, looking at the new risk capital issued and the composition of the transactions completed during Q1 2014.

The total volume of new catastrophe bonds and insurance-linked securities (ILS) issued during Q1 2014 reached \$1.585 billion, according to the Artemis Deal Directory. This is a record first-quarter, the highest level of new cat bond and ILS issuance recorded in the first three months of the year in the markets history.

Artemis recorded \$1.585 billion of new risk capital issued from 11 transactions listed in the Artemis Deal Directory during Q1. Artemis' data includes three 'cat bond lite' type deals, but even excluding them the volume of new ILS issued in Q1 2014 reached \$1.51 billion, still a record.

Artemis is the leading, freely accessible source of timely, relevant and authoritative news, analysis, insight and data on the insurance-linked securities, catastrophe bond, alternative reinsurance capital and related risk transfer markets. The Artemis Deal Directory is the leading, freely available source of information, data and analysis on completed catastrophe bond and insurance-linked securitization transactions.

Artemis is very widely read by market participants, global asset managers, investors and service providers, making it the perfect platform to help you grow your exposure in these markets.

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# Transaction Recap

Q1 2014 saw a diverse range of transactions come to market. 11 transactions were recorded in the Artemis Deal Directory during the quarter, bringing investors 13 tranches of ILS notes including a diverse range of perils from both repeat and new sponsors.

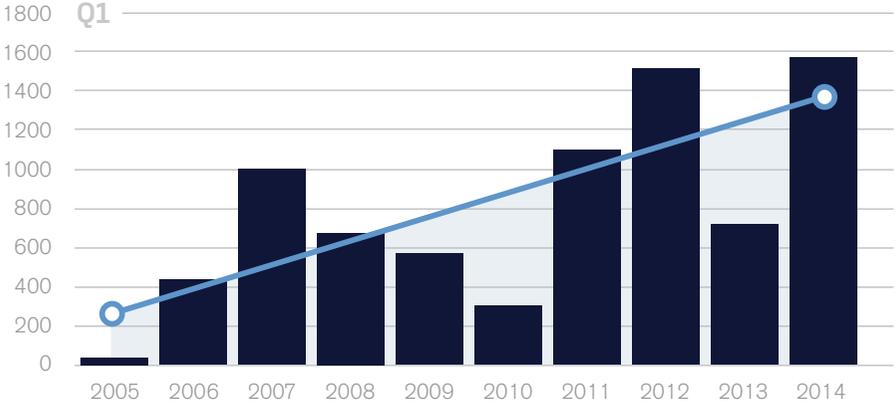
Four first time sponsors entered the catastrophe bond market for the first time in Q1 2014. Three of the new sponsors were insurers; American Strategic Insurance Group with Gator Re Ltd., Great American Insurance Group with Riverfront Re Ltd. and Tokio Millennium Re AG with the privately transacted Omamori cat bond. ILS investment manager Twelve Capital also entered the market as a sponsor, issuing two private ILS transactions this quarter.

Repeat sponsors were also a feature of Q1 2014, with regular sponsors including Aetna, Munich Re, Tokio Marine, Chubb and State Farm all demonstrating their commitment to the ILS market.

ISSUER / TRANCHE	SPONSOR	PERILS	SIZE (\$M)	DATE
Riverfront Re Ltd.	Great American Insurance Group	U.S. & Canada named storms, earthquakes, severe thunderstorms, winter storms	95	Mar-14
Merna Re V Ltd.	State Farm	U.S. earthquake (New Madrid region)	300	Mar-14
East Lane Re VI Ltd.	Chubb	U.S. named storms, earthquakes, severe thunderstorms, winter storms	270	Mar-14
Gator Re Ltd.	American Strategic Insurance Group	U.S. named storms, severe thunderstorm	200	Mar-14
Kizuna Re II Ltd. Class A	Tokio Marine & Nichido Fire Insurance Co. Ltd.	Japan earthquake	200	Mar-14
Kizuna Re II Ltd. Class B	Tokio Marine & Nichido Fire Insurance Co. Ltd.	Japan earthquake	45	Mar-14
Dodeka II	Twelve Capital	U.S. named storms, U.S. earthquake	25	Feb-14
Queen Street IX Re Ltd.	Munich Re	U.S. hurricane, Australia cyclone	100	Feb-14
Skyline Re Ltd.	The Cincinnati Insurance Company	U.S. earthquake, severe thunderstorms	100	Jan-14
Omamori	Tokio Millennium Re AG	Second event U.S. earthquakes, named storms	25	Jan-14
Dodeka I	Twelve Capital	U.S. multiple perils	25	Jan-14
Vitality Re V Ltd. Class A	Aetna	Medical benefit claims	140	Jan-14
Vitality Re V Ltd. Class B	Aetna	Medical benefit claims	60	Jan-14

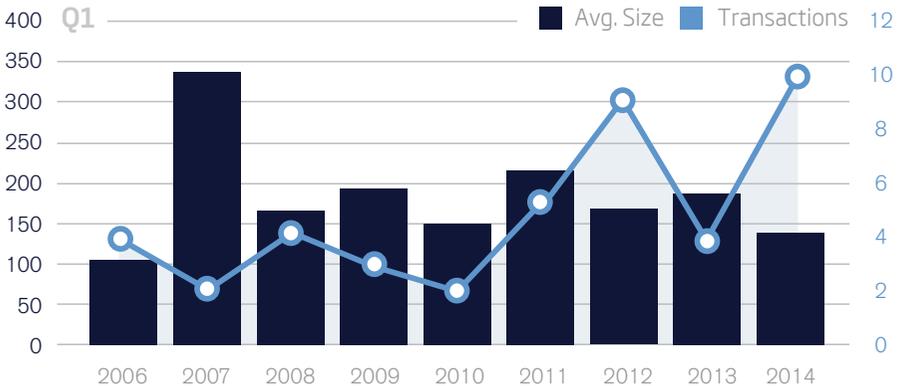
## Q1 ILS issuance by year (\$M)

2014 got off to a very strong start with a record level of new risk capital issued in catastrophe bonds and ILS during the quarter. The chart below shows first-quarter issuance over the last ten years. The \$1.585 billion of new risk capital issued beats the second highest figure from Q1 2012 by almost \$100m.



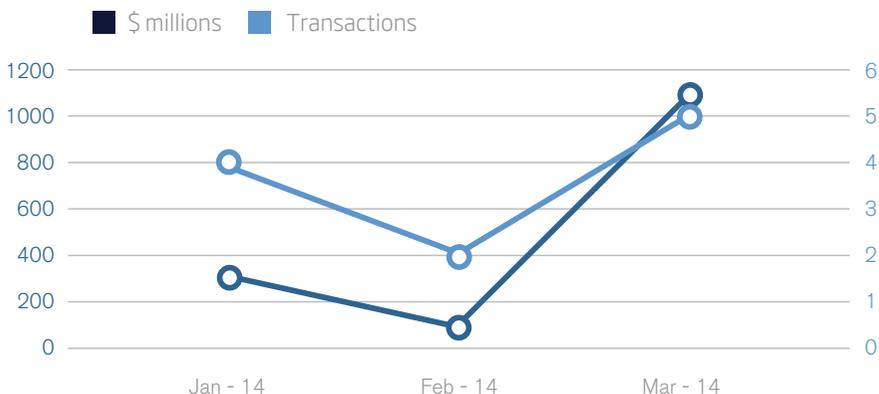
## ILS average transaction size & number of transactions by year (\$M)

The average transaction size for Q1 2014 recorded in the Artemis Deal Directory was \$144m, which is below average. However, if we exclude the three cat bond lite type deals, the average transaction size jumps to a healthy \$188m, above average for the first quarter. The 11 transactions recorded is a record, but if we remove the three cat bond lite deals that drops to 8, the second highest number of Q1 ILS deals recorded.



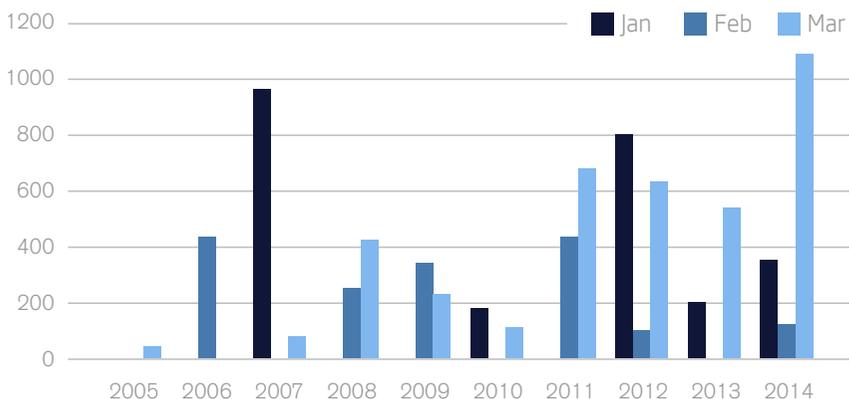
## Number of transactions and volume issued by month (\$M)

March 2014 has seen the highest level of catastrophe bond issuance ever recorded for the month, with \$1.11 billion of new risk capital issued. New deals from regular sponsors Chubb and State Farm helped the month achieve this strong level of issuance.



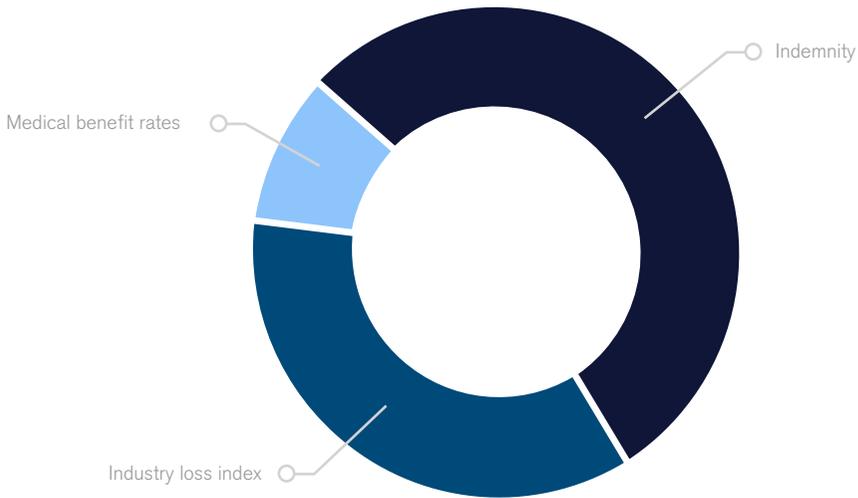
## Q1 issuance by month & year

Comparing Q1 ILS issuance by month and year shows that Q1 2014 was actually a more consistent first quarter in terms of new risk capital being issued during each month. This chart also shows that the issuance volume in March outstrips all years by a significant margin.



## Q1 2014 ILS issuance by trigger type

Indemnity triggers remained the focus for the majority of sponsors in Q1 2014, with 55% of the total risk capital issued and tracked by Artemis using them. Sponsors continue to take advantage of market conditions and investor appetite to secure indemnity protection, at the same time more risks are being included in many cat bonds that are unmodelled, showing sponsors are taking advantage of buyers market conditions.



Industry loss triggers remained popular in Q1, with 36% of risk capital triggered based on reported insurance industry losses. Property Claim Services (PCS) remains industry loss trigger provider of choice for U.S. perils, while PERILS AG remains the favourite for European windstorm risks.

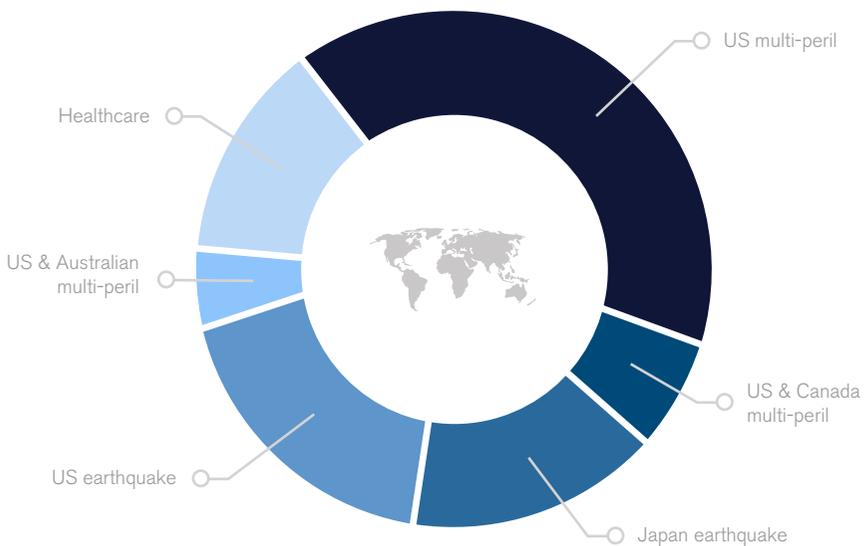
The Aetna Vitality Re ILS deal uses a medical benefit ratio as its trigger. This tracks the rate of claims at the health insurer, so the trigger is really indemnity based, but triggers against a percentage of claims rather than the dollar value of the claims themselves.

Absent again in this quarter was the parametric trigger which is typical as there were no deals issued in emerging economies or for less well-modelled perils. Parametric triggers seem to predominantly be used for Asian perils or new risks, such as storm surge, in catastrophe bonds.

## Q1 2014 ILS issuance by peril

The first quarter of 2014 ILS issuance featured a good mix of perils, offering investors a chance to acquire some diversification and this also led to some portfolio rebalancing in the secondary market.

U.S. multi-peril cat bonds dominated the quarter, accounting for 41% of risk capital issued. U.S. earthquake was the next most prevalent peril issued at 19%, followed by Japanese earthquake at 15% which was welcomed by investors.

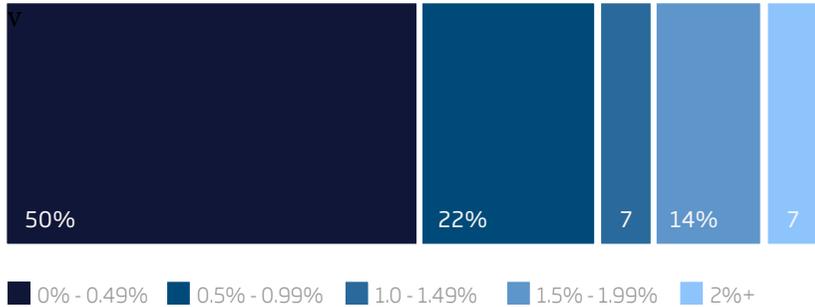


Interestingly though, only \$740m of the \$1.585 billion Q1 cat bond and ILS issuance was linked to U.S. hurricane or U.S. named storm risks which amounts to just 47% of the risk capital issued. This is below the generally accepted 65% to 70% that observers report the catastrophe bond markets total exposure to U.S. wind at.

Conspicuously absent in Q1 2014 were European perils, with no European exposed catastrophe bonds issued at all in the quarter. This is a little unusual and perhaps is due to the reduced pricing available in the traditional reinsurance market.

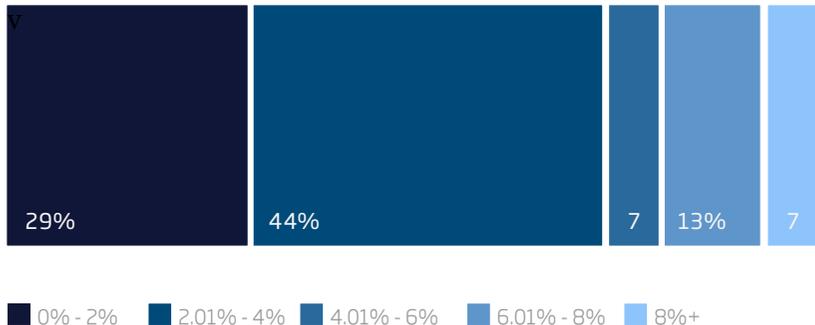
## Q1 2014 ILS issuance by expected loss

Of the catastrophe bond and ILS transactions we have expected loss figures for (which total \$1.41 billion of the risk capital issued) 50% of the issuance has an expected loss of below 0.5%. That is low in terms of the risk being transferred. Only 7% of the risk capital issued in the quarter had an expected loss of above 2%. The average expected loss of ILS issued in Q1 2014 was 0.85%.



## Q1 2014 ILS issuance by coupon pricing

Due to the low expected losses of much of the Q1 2014 catastrophe bond and ILS issuance, the coupon pricing (showing interest to be paid to investors) were also low. The average coupon on the issuance we have pricing for (\$1.51 billion of the total issued) was just 4%. In fact 71% of the risk capital issued in the quarter will pay investors a coupon of 4% above the return of the underlying collateral or lower. Only 20% of the risk capital issued will pay a coupon of above 6%, which is a more typical target level for many ILS investors.



## Cat bond and ILS price changes during Q1 2014

As is typical of the catastrophe bond and ILS market in recent years, the majority of ILS issued during Q1 saw pricing decline before completion as investors displayed continued appetite for assuming risks at increasingly low returns. Interest spreads declined by an average of -15% across the tranches which Artemis has pricing data for. The average coupon of these tranches was just 3%, showing the reduced returns available to investors from recent new issuance.

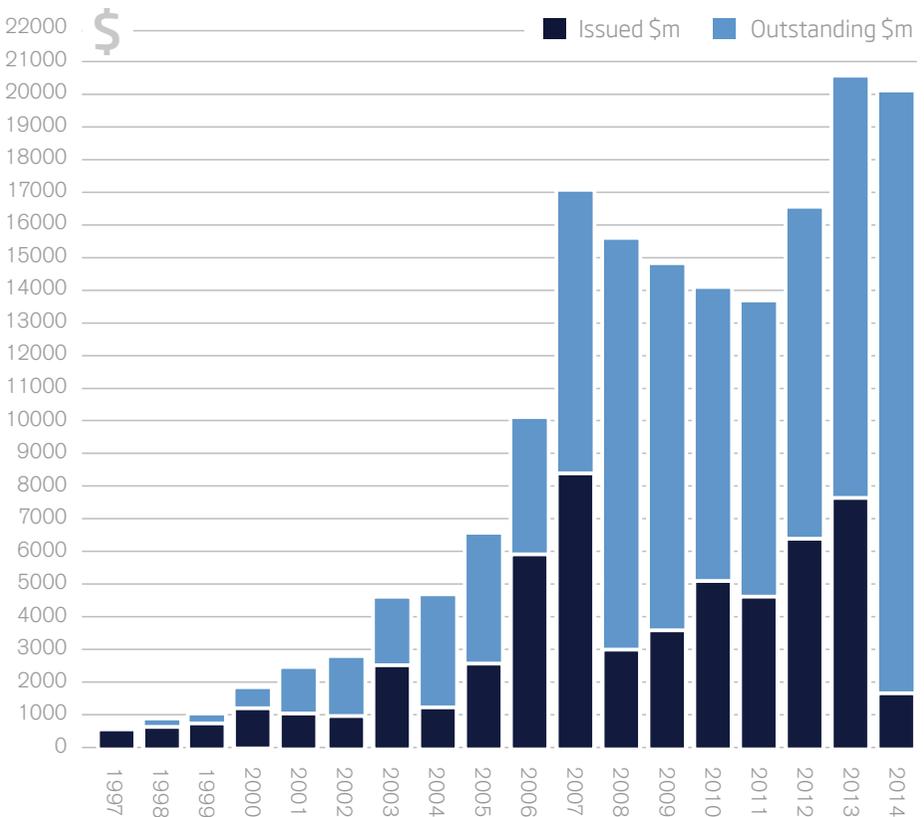


ISSUER / TRANCHE	LAUNCH PRICE RANGE	FINAL PRICING	CHANGE FROM MID-POINT
1 - Riverfront Re Ltd.	4.25% - 5%	4%	-14%
2 - Merna Re V Ltd.	2% - 2.5%	2%	-11%
3 - East Lane Re VI Ltd.	3% - 3.75%	2.75%	-19%
4 - Gator Re Ltd.	7% - 7.75%	6.50%	-12%
5 - Kizuna Re II Ltd. Class A	2.25% - 2.5%	2.25%	-5%
6 - Kizuna Re II Ltd. Class B	2.75% - 3.25%	2.50%	-17%
7 - Queen Street IX Re Ltd.	6% - 6.5%	5.50%	-12%
8 - Vitality Re V Ltd. Class A	2% - 2.75%	1.75%	-26%
9 - Vitality Re V Ltd. Class B	2.75% - 3.5%	2.50%	-20%

## Issued Outstanding

So 2014 has got off to a very strong start, with \$1.585 billion of new risk capital issued in catastrophe bond and ILS transactions up to the end of March. At the same time as seeing record issuance, the market has also seen a high level of maturities, with over \$2 billion of issuance maturing during the quarter. This means that the size of the outstanding catastrophe bond and ILS market has shrunk slightly, from the record \$20.5 billion at the end of 2013 to end Q1 2014 with a market size of \$20.05 billion.

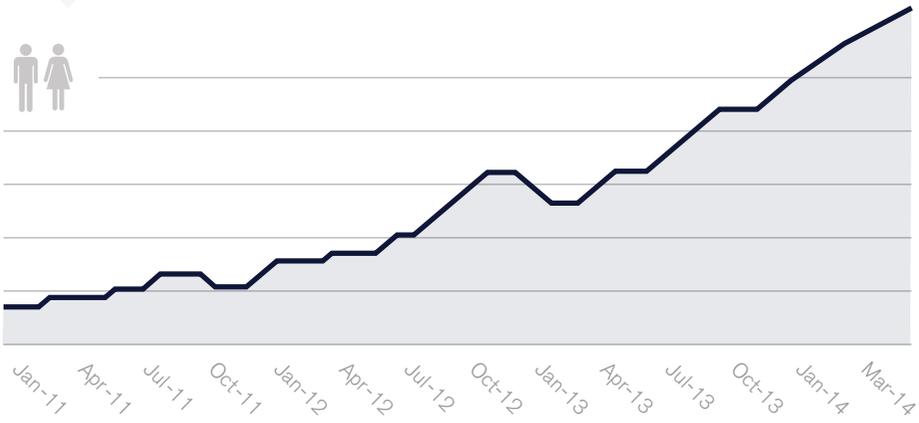
If issuance of new catastrophe bonds and ILS can keep up the strong pace set in Q1 we should see the market begin to grow in size again later this year. Artemis will report again at the end of Q2.



If you want to see full details of every catastrophe bond and ILS transaction included in the data in this report please visit [www.artemis.bm/deal\\_directory/](http://www.artemis.bm/deal_directory/)

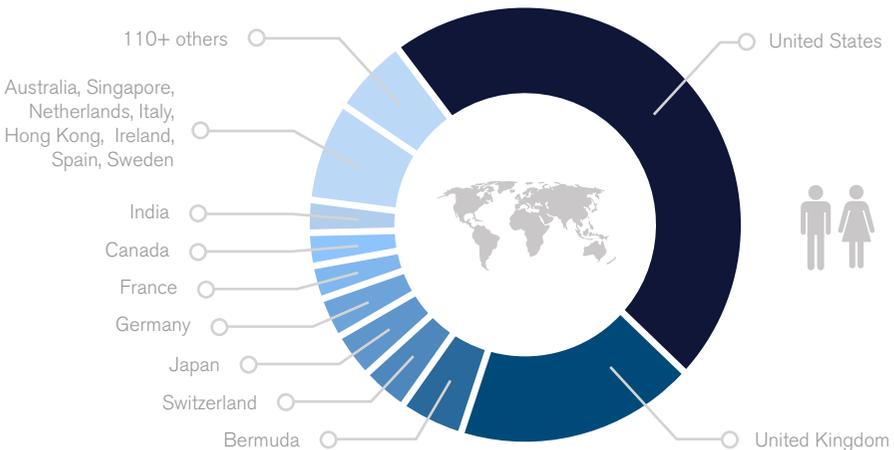
## Artemis audience growth

By the end of 2013 the size of Artemis' global audience had reached over 27,000 individual readers per month. January 2014 saw this rapid growth continue nearing 30,000 readers. This demonstrates the rapid growth of the market and the current high-level of interest in catastrophe risk assets and reinsurance linked investments.



## Global audience reach

Artemis reaches a global audience, with readers coming from over 150 different countries or territories during 2013. This shows the global interest in reinsurance capital trends and the participation of investors in reinsurance and catastrophe risks, catastrophe bonds, insurance-linked securities and associated forms of risk transfer.





All catastrophe bond and ILS issuance data sourced from the Artemis Deal Directory.

Opportunities exist to work with Artemis to increase your profile to this segment of the global reinsurance and risk transfer market. Advertising opportunities, sponsorship, content development and partnership opportunities are available. Contact us to discuss.

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