



# Q1 2018 Catastrophe Bond & ILS Market Report

Market buoyant despite 2017 catastrophes

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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 2018, looking at new risk capital issued and the composition of transactions completed during the quarter.

For the fifth consecutive year, catastrophe bond and ILS issuance broke records in the first-quarter, with approximately \$4.24 billion of new risk capital brought to market from 23 tranches of notes via 17 deals. Data from the Artemis Deal Directory shows that this is the first time Q1 issuance has surpassed \$4 billion.

A diverse spread of sponsors came to market in the first-quarter of 2018, including both repeat and first time market entrants. In total, five first time sponsors entered the market in Q1, including the Republics of Chile, Colombia, and Peru, Aioi Nissay Dowa Insurance Co., Ltd. and Essent Guaranty, while four transactions, or roughly \$133 million of first quarter issuance was privately placed.

Despite the impacts of catastrophe events in the second-half of 2017, catastrophe bond and ILS investors took advantage of a strong issuance pipeline in the opening three months of 2018, clearly remaining attracted to the asset class in spite of recent losses. As a result, the outstanding market size at the end of the first-quarter of 2018 hit \$32.83 billion, which represents growth of almost \$1.8 billion since the end of 2017.

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# Transaction Recap

The \$4.24 billion of new risk capital issued in the first quarter of the year came from 17 transactions, consisting of 23 tranches of notes.

First time sponsors included the Republic of Chile, the Republic of Colombia and the Republic of Peru, which all brought some regional earthquake risk to market. While first time sponsors Aioi Nissay Dowa Insurance Co., Ltd., and Essent Guaranty brought some Japanese multi-peril and mortgage insurance risk to market, respectively.

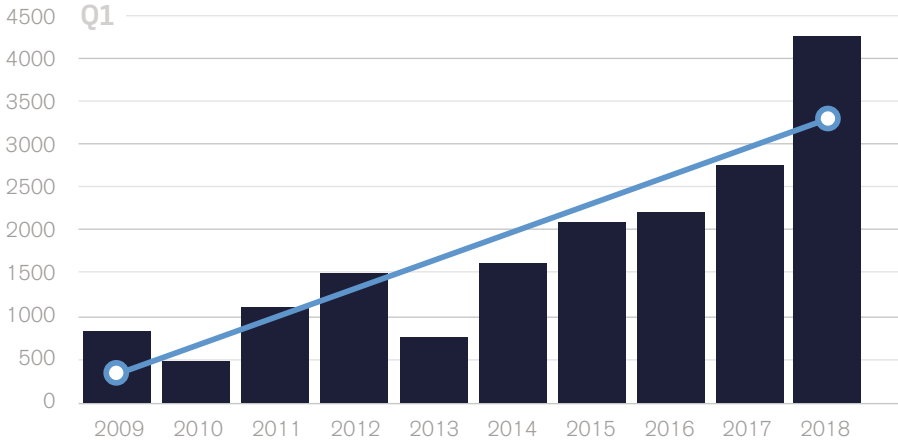
Allstate returned to the market in Q1 2018 with a U.S. multi-peril transaction, while FONDEN brought some Mexico earthquake risk to market. Tokio Marine & Nichido Fire Insurance returned to the space with Japanese earthquake risks, as did repeat sponsor Zenkyoren, while Mitsui Sumitomo also brought Japanese perils to market in the quarter. State Farm brought some U.S. earthquake risk to market, while Aetna returned in Q1 with a transaction covering medical benefit claims levels.

Roughly 3% of the deals issued in the quarter were privately placed, offering protection against both unknown and Latin American property catastrophe risks.

ISSUER / TRANCHE	SPONSOR	PERILS	SIZE (\$M)	DATE
Merna Re Ltd. (Series 2018-1)	State Farm	U.S. earthquake	300	Mar
Sanders Re Ltd. (Series 2018-1)	Allstate	U.S. multi-peril	500	Mar
Kizuna Re II Ltd. (Series 2018-1)	Tokio Marine & Nichido Fire Insurance Co. Ltd.	Japan earthquake	200	Mar
Akibare Re Ltd. (Series 2018-1)	MS&AD Insurance Group Holdings	Japan multi-peril	320	Mar
Radnor Re 2018-1 Ltd.	Essent Guaranty	Mortgage insurance risks	424.412	Mar
Resilience Re Ltd. (Series 1811A)	Unknown	Unknown property cat risks	52.6	Mar
Nakama Re Ltd. (Series 2018-1)	Zenkyoren	Japan earthquake	700	Mar
Resilience Re Ltd. (Series 1812A)	Unknown	Unknown property cat risks	60	Feb
Panthera Re Limited (Series 2018-1)	Unknown	Unknown property cat risks	100	Feb
Jungfrau IC Limited 2018	Unknown	Unknown property cat risks	15	Feb
IBRD CAR 120	Republic of Peru	Peru earthquake	200	Feb
IBRD CAR 119	FONDEN / AGROASEMEX S.A.	Mexico earthquake	100	Feb
IBRD CAR 118	FONDEN / AGROASEMEX S.A.	Mexico earthquake	160	Feb
IBRD CAR 117	Republic of Colombia	Colombia earthquake	400	Feb
IBRD CAR 116	Republic of Chile	Chile earthquake	500	Feb
Vitality Re IX Ltd. (Series 2018-1)	Aetna	Medical benefit claims levels	200	Jan
Alpha Terra Validus II	Terra Brasis Re	Latin American property cat risks	5	Jan

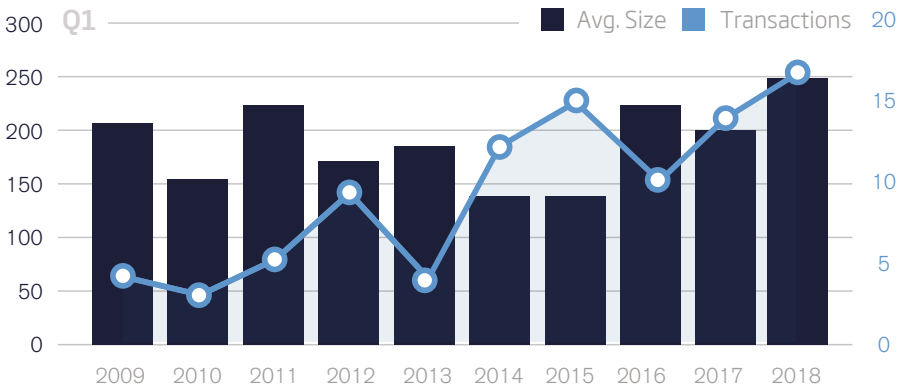
## Q1 ILS issuance by year (\$M)

Catastrophe bond and ILS issuance in the first-quarter of 2018 again broke records, surpassing \$4 billion for the first time in the market's history. As shown by the Artemis Deal Directory, Q1 2018 issuance is more than \$2.4 billion above the ten-year average for the quarter.



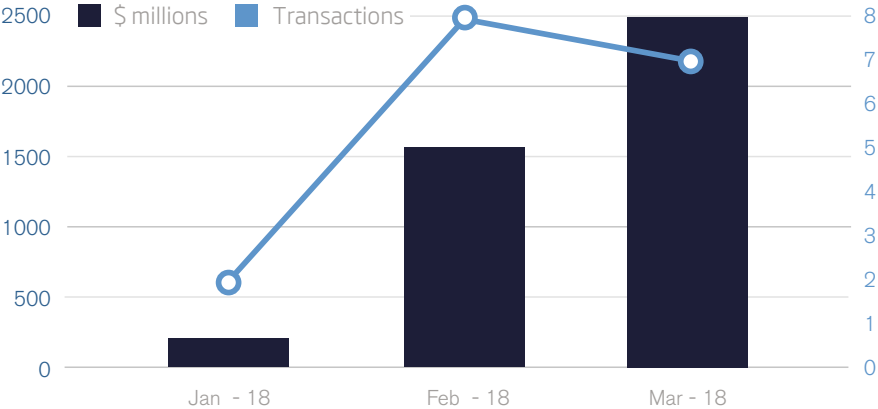
## ILS average transaction size & number of transactions by year (\$M)

The average transaction size in the first-quarter of 2018 was approximately \$249 million across 17 deals, which is above the ten-year average size of \$187 million, and eight above the average number of transactions completed. In fact, the 17 deals recorded in Q1 2018 makes it the most active first-quarter ever, both in terms of the number and average size of deals completed, as shown by the Artemis Deal Directory.



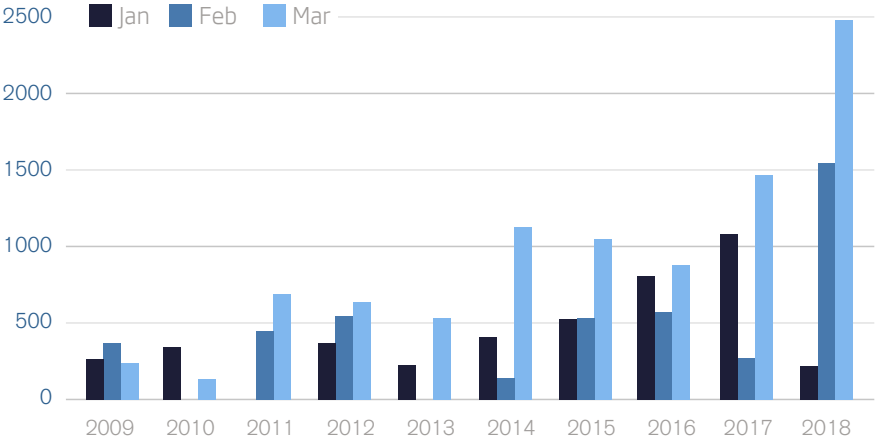
## Number of transactions and volume issued by month (\$M)

The quarter actually started off more slowly than in previous years, with January witnessing just \$205 million of issuance from two deals, making it the slowest month of the first-quarter. However, the quiet start was more than offset by approximately \$1.5 billion of issuance in February from eight deals combined with more than \$2.4 billion of issuance in March, from seven deals.



## Q1 issuance by month & year (\$M)

In line with the trend of the last ten-years, issuance in March was the strongest of the first-quarter, and exceeded the \$2 billion threshold for the first time in the market's history. The Artemis Deal Directory shows that February is typically the quietest month of the quarter, but in 2018 the month witnessed more than \$1.5 billion of issuance, from a record eight deals. At just \$205 million, January issuance was roughly 50% below the ten-year average for the month.





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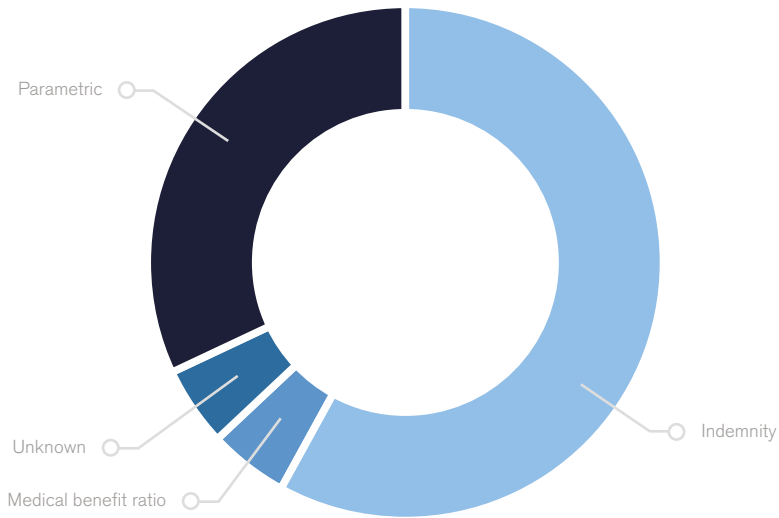
**Tim Faries**

Managing Partner, Bermuda  
Group Head, Bermuda | Corporate  
Group Team Leader | Insurance  
+1441 298 3216  
tfaries@applebyglobal.com

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## Q1 2018 ILS issuance by trigger type

As is typical of the first-quarter, indemnity triggers dominated issuance in 2018, with sponsors securing \$2.46 billion of indemnity cover, accounting for 58% of the total risk capital issued in the period.

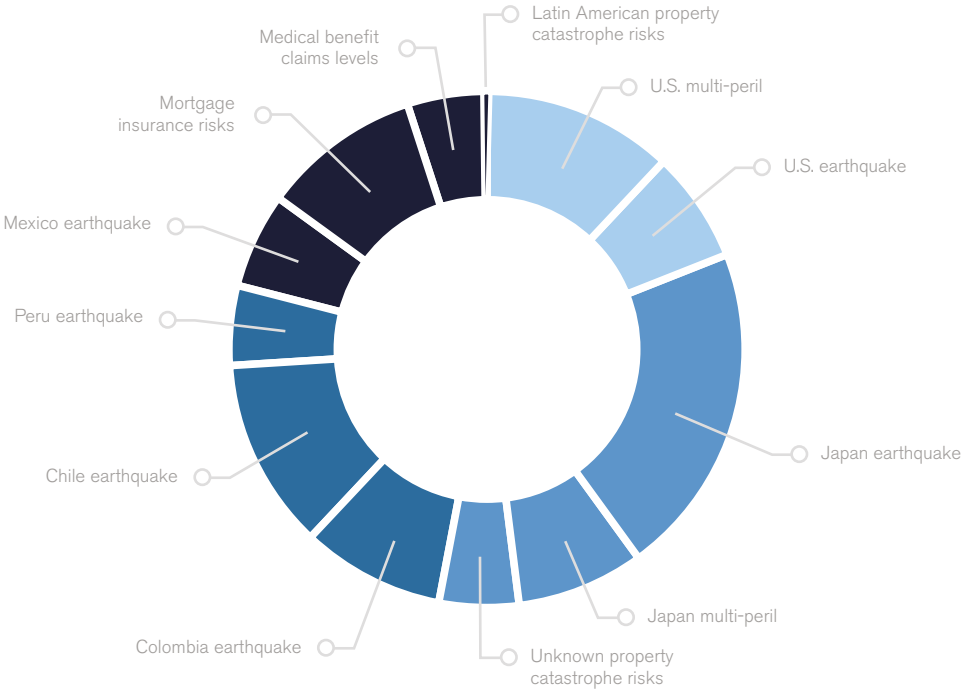


Catastrophe bond and ILS issuances supported by the World Bank provided trigger diversification in the first-quarter, bringing \$1.36 billion of parametric structured protection to the market, which accounts for over 32% of the total risk capital issued. 5%, or \$200 million of issuance featured a trigger based on the medical benefit claims ratio of the sponsor.



# Q1 2018 ILS issuance by peril

No one peril dominated first-quarter 2018 catastrophe bond and ILS issuance, with investors being treated to both risk and geographical diversification.



21%, or \$900 million of Q1 issuance covered Japanese earthquake risk and came from a combination of repeat sponsors Zenkyoren and Tokio Marine & Nichido Fire. A two-tranche \$320 million deal benefiting both Mitsui Sumitomo and Aioi Nissay Dowa Insurance also offered some Japanese diversification in Q1, protecting against Japanese flood, typhoon and earthquake fire risks.

With support from the World Bank, the Republic of Peru, Chile, and Colombia secured regional earthquake protection amounting to a combined total of \$1.1 billion, while FONDEN returned to secure \$260 million of Mexico earthquake protection in the first-quarter. A \$500 million U.S. multi-peril deal from Allstate also featured, as did just under \$425 million of mortgage insurance risks. \$300 million of issuance covered U.S. earthquake risk, while \$200 million covered medical benefit claims levels. 6% of issuance covered Latin American and unknown property catastrophe risks.

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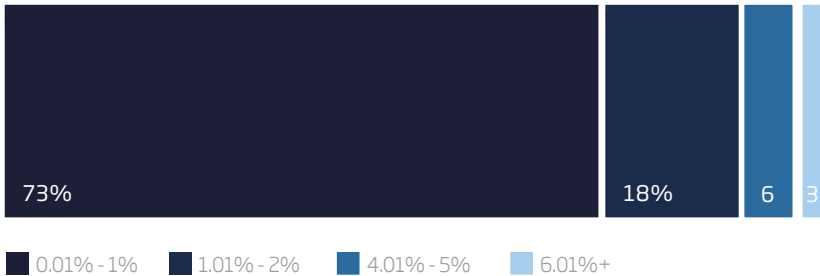
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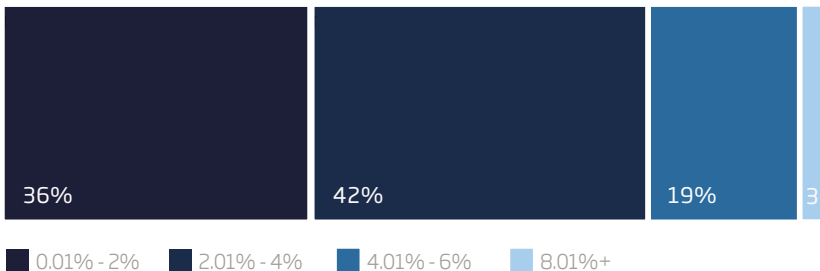
## Q1 2018 ILS issuance by expected loss

For the \$3.28 billion of total risk capital issued that we have expected loss data for, the majority, or 73% of issuance in the first-quarter remains very remote in terms of risk, at less than 1% expected loss, amounting to \$2.38 billion of the total risk capital issued. The highest expected loss on offer in the quarter, at 6.54%, came from the IBRD CAR 119 Mexico earthquake deal. While the lowest expected loss on offer in the period came from the Class A tranche of Vitality Re IX notes, at just 0.01%.



## Q1 2018 ILS issuance by coupon pricing

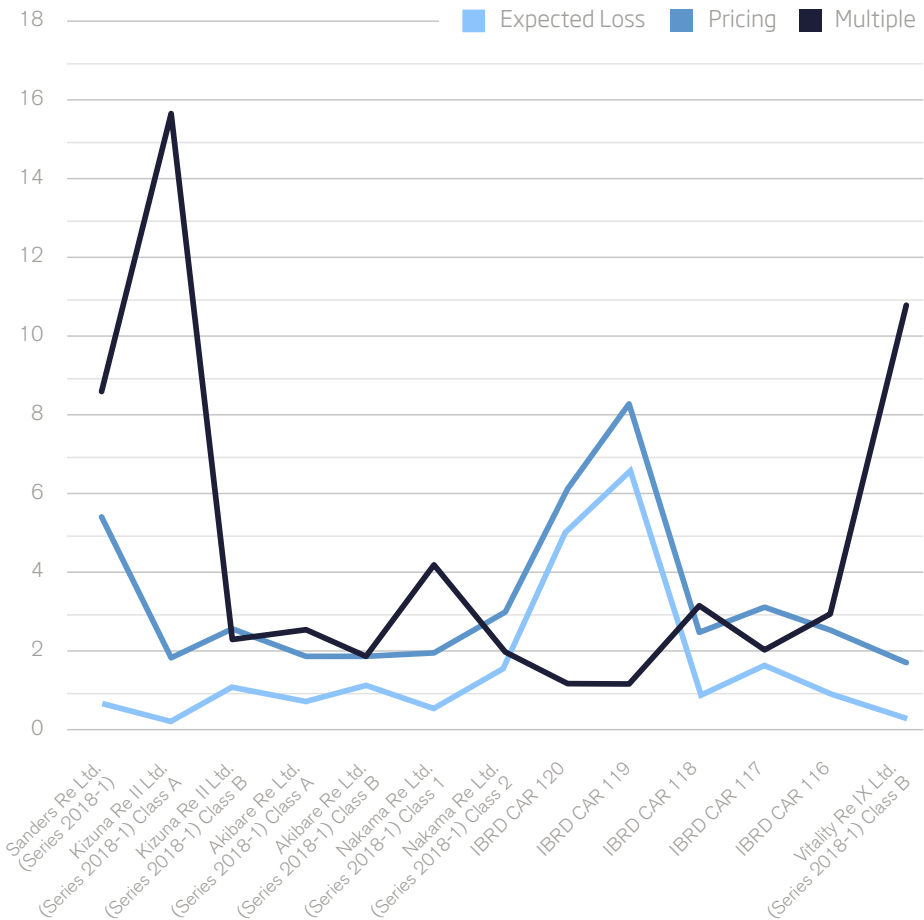
For Q1 issuance where we have pricing data (this amounts to \$3.704 billion of total risk capital issued), roughly \$2.9 billion, or 78% paid investors a coupon of below 4%, reflecting the remote risk of the majority of issues. \$700 million, or 19% of Q1 issuance offered a coupon of between 4.01% and 6%, while 3%, or \$100 million of issuance paid investors a coupon of above 8%, which came from the deal with the highest expected loss. The lowest coupon on offer during the quarter came from the Class M-1 tranche of Radnor Re notes, at 1.4%.



## Pricing multiples of Q1 2018 issuance

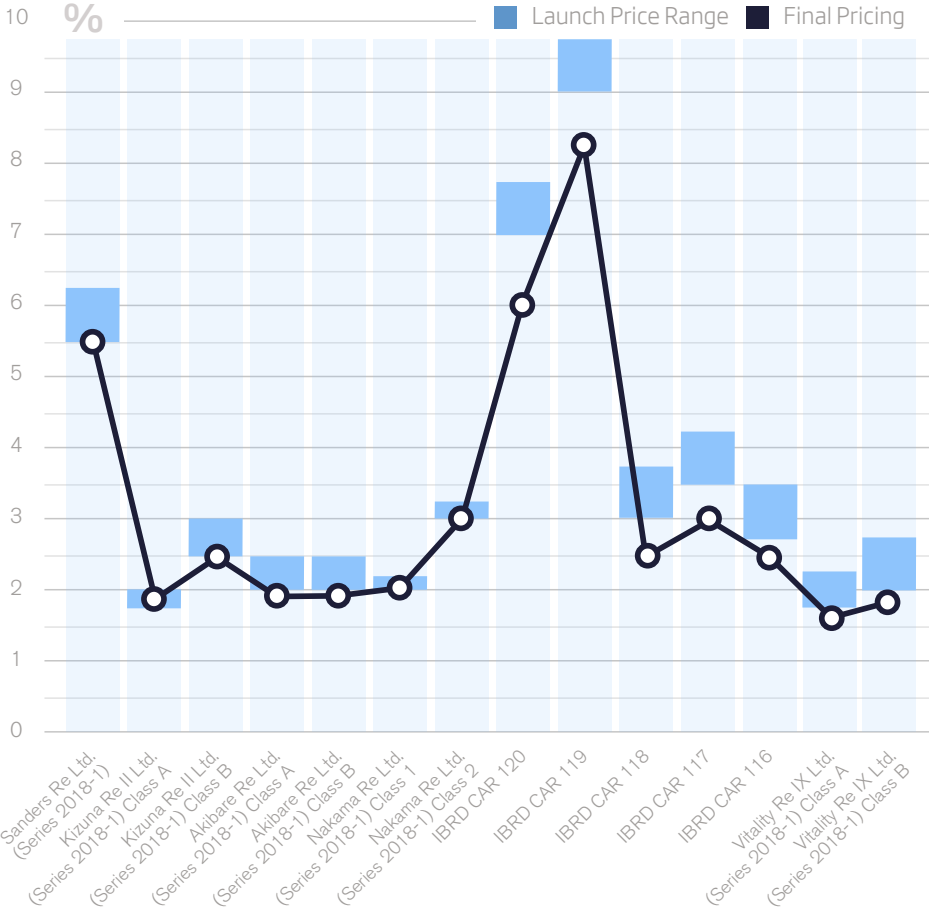
Where we have both the expected loss and pricing data, the average multiple (price coupon divided by expected loss) during the first-quarter of 2018 was 2.10. Data from the Artemis Deal Directory shows that the average multiple of Q1 issuance had been on the decline in recent years, falling from 3.59 in 2014 to 2.55 in 2015, before declining again to end Q1 2016 at 2.12 and then Q1 2017 at 2.09.

Despite the year-on-year declines, Artemis data shows that the average multiple of catastrophe bond and ILS issuance at the end of Q1 2018 is actually 0.43 higher than at the end of Q4 2017.



# Cat bond and ILS price changes during Q1 2018 issuance

For the \$3.28 billion of total risk capital issued where we have full pricing data, the average price change in the first-quarter of 2018 was -14.34%. Just one tranche of notes issued in Q1 priced at the mid-point of initial price guidance, with all other deals in the quarter pricing below the mid-point of initial price guidance. ILS investor appetite to assume insurance risks continued to drive pricing trends in the quarter, despite the heavy catastrophe losses suffered in the prior year.

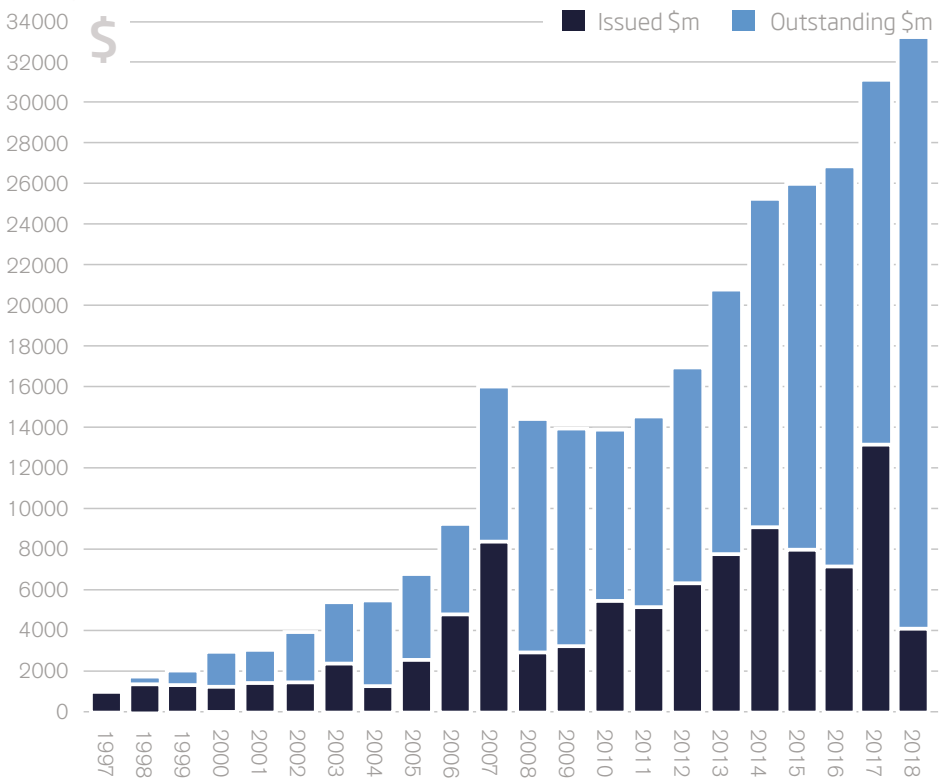


## Issued / Outstanding

In what's become somewhat of a trend, catastrophe bond and ILS issuance in the first-quarter of 2018 again broke records, beating last year's issuance record by more than \$1.47 billion, to reach an impressive \$4.24 billion. Combined with roughly \$2.4 billion of maturities, the more than \$4 billion of first-quarter issuance helped the outstanding market reach a new end-of-quarter high, of just over \$32.83 billion. Rolling twelve-month issuance reached a new high of \$14 billion, according to Artemis' data.

Data from the Artemis Deal Directory shows that at over \$32.83 billion, the outstanding catastrophe bond and ILS market size at the end of the first-quarter of 2018 is over \$1.7 billion larger than at the end of 2017, and more than \$5.6 billion larger than at the end of the first-quarter of 2017, which represents year-on-year growth of 21%.

The catastrophe bond and ILS market's response to 2017 catastrophe events highlighted the sophistication and maturity of the investor base, which, as evidenced by another record-breaking quarter, clearly remain attracted to the asset class. More than \$2.7 billion of maturities are scheduled in Q2 2018, meaning that an average level of new deal activity in the second-quarter of 2018 would likely result in the market once again achieving growth.



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/)



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**CONTACT ARTEMIS:**

Steve Evans, Owner/Editor  
steve@artemis.bm  
+44 (0) 7711 244697

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