Q2 2019 Catastrophe Bond & ILS Market Report

Repeat sponsors and risks underpin issuance

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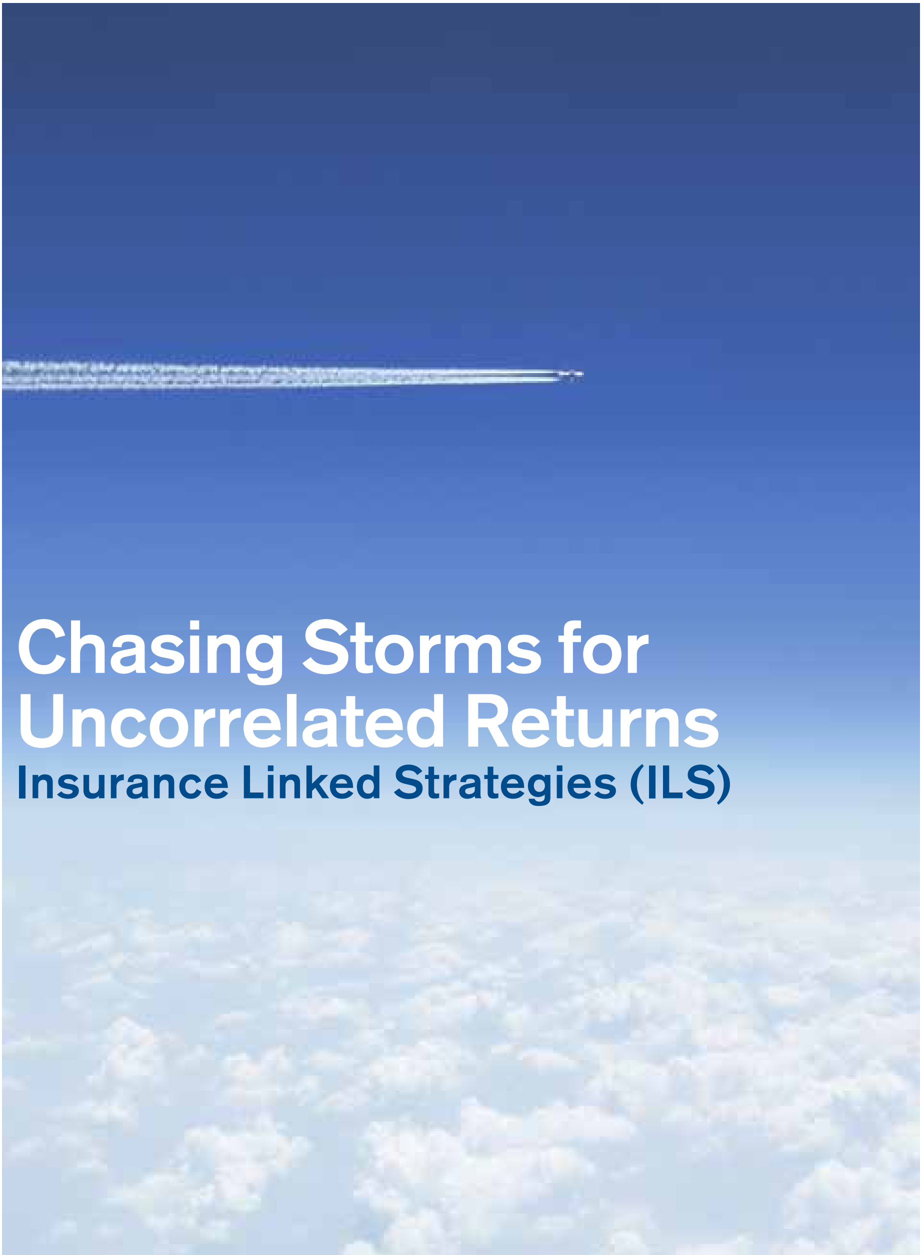

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INTRO

This report reviews the catastrophe bond and insurance-linked securities (ILS) market at the end of the second-quarter of 2019, looking at new risk capital issued and the composition of transactions completed during the quarter.

A total 18 deals consisting of 32 tranches of notes were brought to market in the second-quarter of 2019, resulting in approximately $3.61 billion of new risk capital, as shown by the Artemis Deal Directory. Both first and second-quarter 2019 catastrophe bond and ILS issuance declined year-on-year, but at approximately $6.4 billion, first-half 2019 issuance is still the third highest ever recorded.

For the third consecutive quarter, mortgage insurance risks featured heavily in catastrophe bond and ILS issuance, accounting for more than 50% of Q2 issuance on the back of almost a third of Q1 issuance. All four mortgage ILS deals issued in the quarter came from repeat sponsors. Returning sponsors also brought the majority of catastrophe risk to the market in the period, with Bermudian Hamilton Re being the only new sponsor to feature in Q2. As is typical of any quarter, some unknown sponsors also came to market in Q2 2019.

From the end of the first-quarter, catastrophe bond and ILS issuance has outpaced deal maturities and as such, the outstanding market at the end of the second-quarter is approximately $1.4 billion larger, at a record $39.3 billion.

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 source of information, data and analysis on issued catastrophe bond and insurance-linked securitization transactions.

Transaction Recap

Q2 catastrophe bond and ILS issuance featured 18 transactions and 32 tranches of notes, amounting to $3.61 billion of new risk capital.

Hamilton Re was the only new sponsor in Q2, with a $60 million issuance of a U.S. multi-peril deal. This, combined with repeat deals from Safepoint Insurance, USAA, and United P&C Insurance, saw $335 million of U.S. multi-peril risk come to market in Q2.

U.S. state specific multi-peril deals were a feature of issuance, and included the second North Carolina multi-peril deal from the NCIUA, separate Florida multi-peril deals from Security First and American Integrity, and TWIA's latest Texas multi-peril deal.

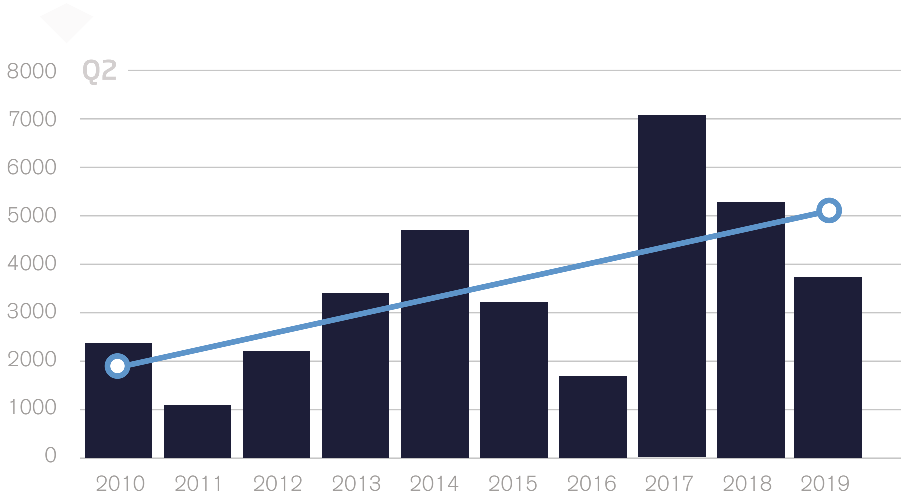
Once again, mortgage insurance risks featured heavily, with deals from Essent Guaranty, MGIC Investment, Arch Capital, and Radian Guaranty accounting for more than $1.8 billion of Q2 issuance.

International multi-peril deals from SCOR and AXIS provided diversification and included coverage for European windstorm, U.S. named storm, and U.S. and Canada quake risks. FEMA returned with more U.S. flood risk in Q2 while Swiss Re also returned with a slice of Northeast U.S. named storm risk. Combined, just under $30 million of unknown and U.S. prop cat risks featured in Q2.

ISSUER / TRANCHE	SPONSOR	PERILS	SIZE ($M)	DATE
Northshore Re II Ltd. (Series 2019-1)	AXIS Capital Holdings Ltd.	International multi-peril	165	Jun
Radnor Re 2019-2 Ltd.	Essent Guaranty	Mortgage insurance risks	333.844	Jun
Cerulean Re SAC Ltd. (Easton 2019-1)	Hamilton Re	U.S. multi-peril	60	Jun
Matterhorn Re Ltd. (Series 2019-1)	Swiss Re	Northeast U.S. named storm	250	Jun
Cape Lookout Re Ltd. (Series 2019-2)	North Carolina Insurance Underwriting Association	North Carolina multi-peril	100	Jun
Dodeka XXIII	Unknown	U.S. prop cat risks	9.33	Jun
Atlas Capital UK 2019 PLC (Series 2019-1)	SCOR Global P&C SE	International multi-peril	250	May
Home Re 2019-1 Ltd.	MGIC Investment Corp.	Mortgage insurance risks	315.8	May
Integrity Re Ltd. (Series 2019-1)	American Integrity Insurance	Florida multi-peril	50	May
Alamo Re Ltd. (Series 2019-1)	Texas Windstorm Insurance Association	Texas multi-peril	200	May
First Coast Re II Pte. Ltd. (Series 2019-1)	Security First Insurance	Florida multi-peril	100	May
Manatee Re III Pte. Ltd. (Series 2019-1)	Safepoint Insurance	U.S. multi-peril	40	May
Residential Reinsurance 2019 Limited (Series 2019-1)	USAA	U.S. multi-peril	135	May
Armor Re II Ltd. (Series 2019-1)	United P&C Insurance & subsidiaries	U.S. multi-peril	100	May
Eclipse Re Ltd. (Series 2019-01A)	Unknown	Unknown prop cat risks	20	Apr
Bellemeade Re 2019-2 Ltd.	Arch Capital Group Ltd.	Mortgage insurance risks	621.07	Apr
FloodSmart Re Ltd. (Series 2019-1)	FEMA / NFIP via Hannover Re	U.S. flood risk (named storms)	300	Apr
Eagle Re 2019-1 Ltd.	Radian Guaranty	Mortgage insurance risks	561.982	Apr

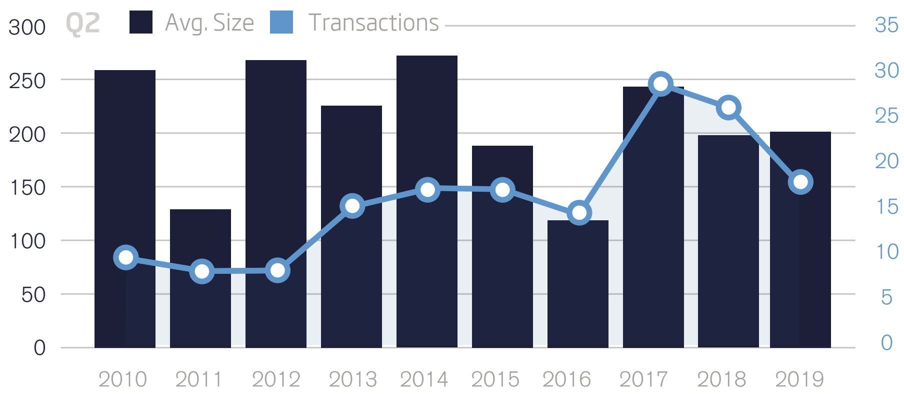
Q2 ILS issuance by year ($M)

At $3.61 billion, catastrophe bond and ILS issuance in the second-quarter of 2019 is above the ten-year average for the quarter. As is typical in the opening six months of the year, issuance in the second-quarter exceeded first-quarter issuance, and by more than $836 million in 2019.



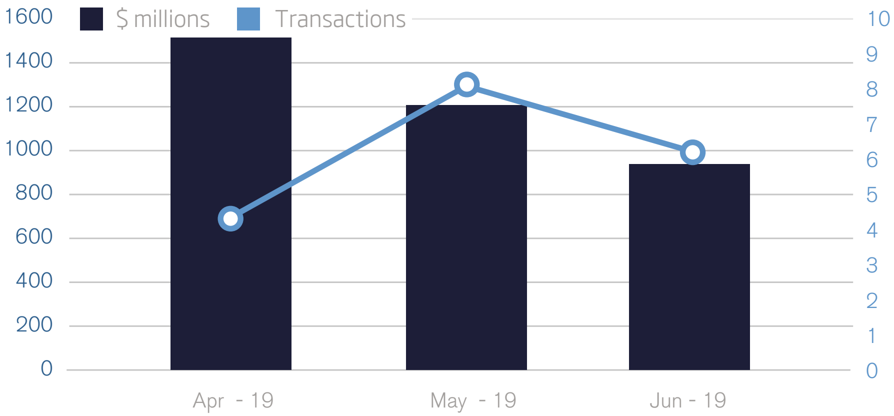
ILS average transaction size & number of transactions by year ($M)

Representing a slowdown from the extremely active Q2s in both 2017 and 2018, just 18 transactions came to market in the second-quarter of 2019. However, this is still above the ten-year average of 16 transactions. At $201 million, the average transaction size of Q2 2019 issuance is below the ten-year average of $208 million, but is in line with that of Q2 2018.



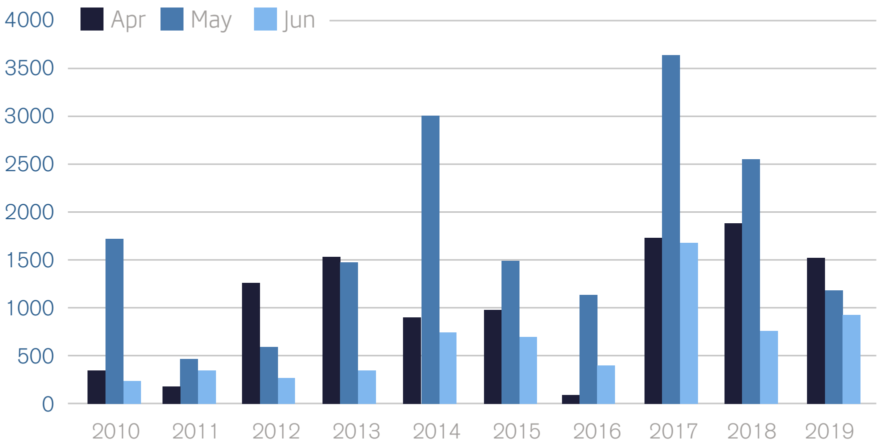
Number of transactions and volume issued by month ($M)

For the first time since 2013, issuance in the month of April outpaced May issuance, in terms of new risk capital issued. Typically, May is the most active month of the second-quarter, but at more than $1.5 billion, April issuance was roughly $300 million higher than the $1.2 billion witnessed in May. In line with the ten-year trend, June issuance was the lowest of the quarter, at $918 million.



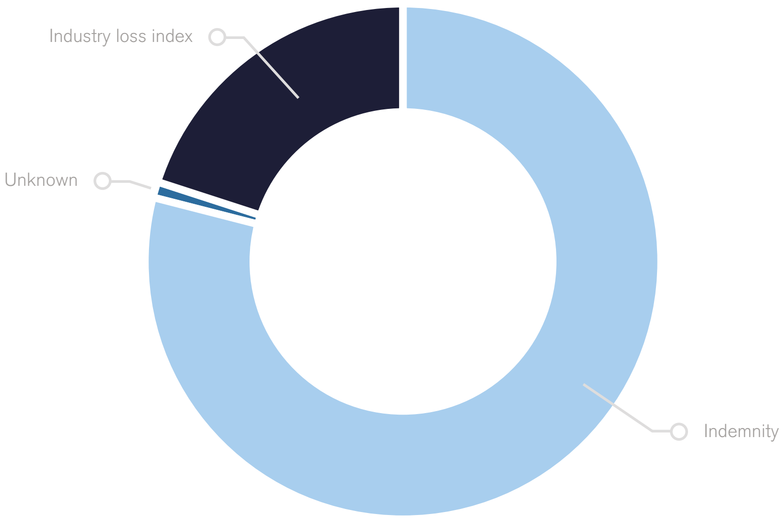
Q2 issuance by month & year ($M)

Despite being the most active month of the second-quarter in terms of new risk capital issued, in terms of the number of transactions issued, April was actually the least active month, with four deals. Six deals came to market in June, while the month of May was the busiest month of the second-quarter in terms of the number transactions, when eight came to market.



Q2 2019 ILS issuance by trigger type

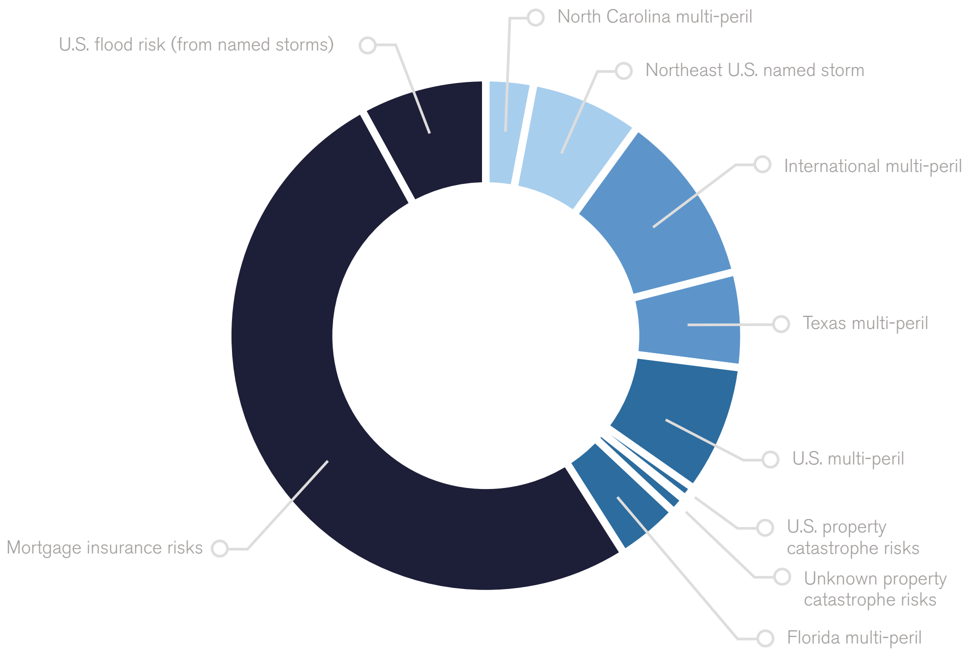
Similar to the same period in 2018, second-quarter 2019 catastrophe bond and ILS issuance lacked trigger diversification, featuring only indemnity and industry loss index structured transactions, as shown by the Artemis Deal Directory.



At just below $2.9 billion, indemnity protection accounted for around 79% of second-quarter issuance in 2019. Almost $734 million, or roughly 20% of issuance featured an industry loss index trigger, while we do not have trigger information for almost 1%, or $20 million of second-quarter 2019 issuance.

Q2 2019 ILS issuance by peril

Mortgage insurance risks accounted for more than half of catastrophe bond and ILS issuance. And at a combined $1.8 billion, deals from Arch, Essent Guaranty, Radian Guaranty, and MGIC ensured mortgage insurance risk featured heavily for the third consecutive quarter.

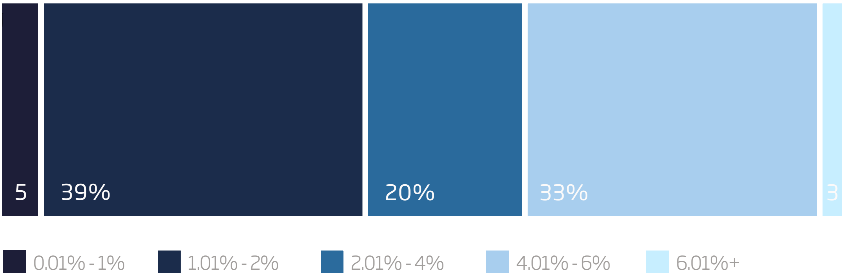


Despite the dominance of mortgage risks, in Q2 2019, catastrophe bond and ILS investors were treated to catastrophe risk diversification. Supporting a trend of more state-specific deals, $100 million of North Carolina multi-peril risk came to market in Q2, alongside $200 million of Texas and $150 million of Florida multi-peril risk. $250 million of Northeast U.S. named storm risk also featured in Q2, as did $300 million of U.S. flood risk and $335 million of U.S. multi-peril risks, and almost $10 million of U.S. property catastrophe risks.

$415 million of Q2 issuance offered protection against multiple international perils, including U.S. and Canada earthquake, European windstorm and U.S. named storms, including Puerto Rico and the Virgin Islands. $20 million of Q2 2019 issuance offered protection against unknown property catastrophe risks.

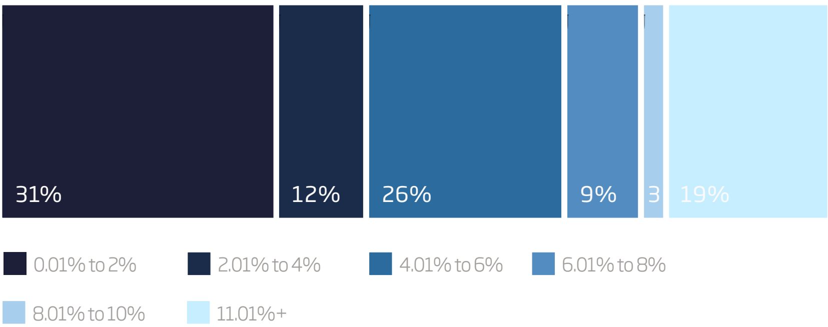
Q2 2019 ILS issuance by expected loss

For the $1.59 billion of total risk capital issued that we have expected loss data for, 59%, or $945 million had an expected loss of between 1% and 4%, with the majority of this offering an expected loss of between 1% and 2%. Roughly 5% of issuance had an expected loss of less than 1%, while 33%, or $520 million had an expected loss of between 4% and 6%. $50 million, or roughly 3% of issuance had an expected loss over 6%. At 6.01%, the Class B tranche of FloodSmartRe notes from FEMA were the riskiest on offer. While the Class 13 tranche of Residential Re notes had the lowest expected loss in Q2, at 0.98%.



Q2 2019 ILS issuance by coupon pricing

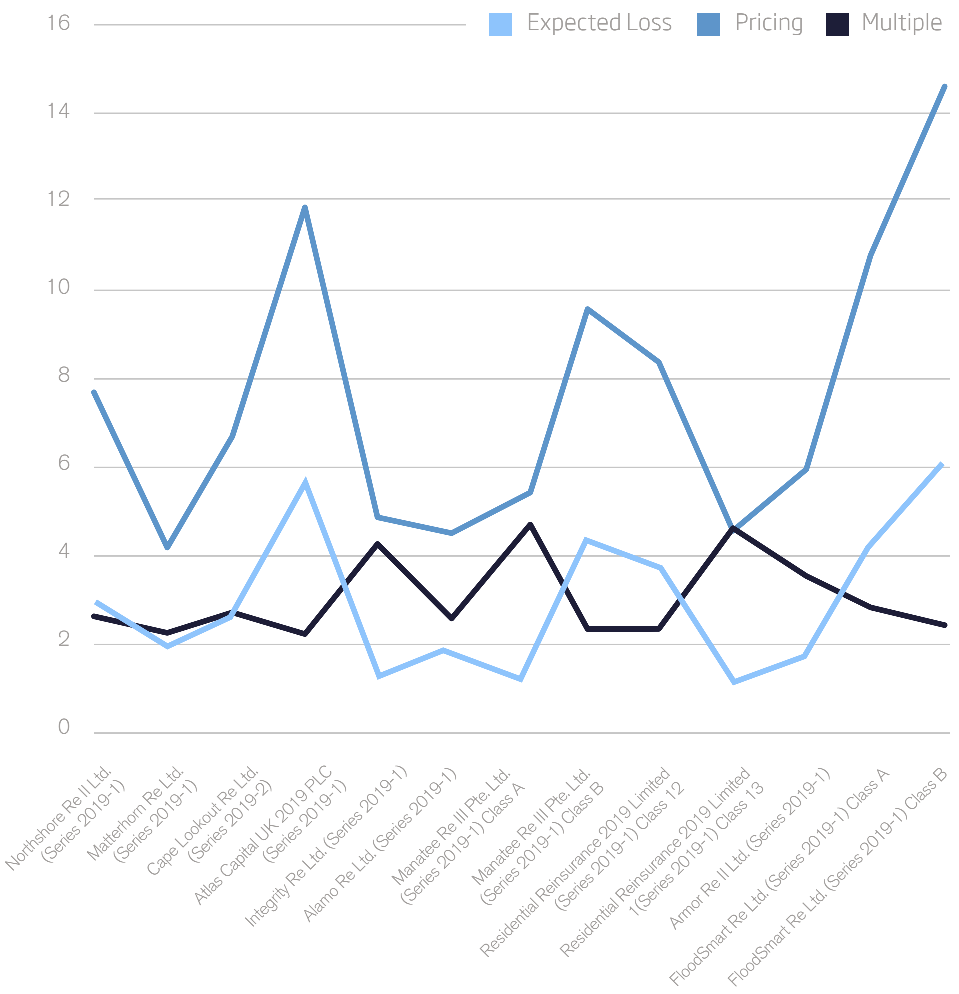
Where we have pricing data (this amounts to $2.86 billion of total risk capital issued), 31%, or $896 million of Q2 2019 issuance offered a coupon of less than 2%. Over 37%, or $1.1 billion of issuance paid investors a coupon of between 2.01% and 6% in the quarter, while 12% of issuance had a coupon of between 6.01% and 10%. More than 19% of Q2 issuance paid a coupon of above 11%, including the Class B tranche of FloodSmartRe notes, which had the highest coupon, of 14.5%. The lowest coupon on offer, at 1%, came from the M-1A tranche of Bellemeade Re notes.



Pricing multiples of Q2 2019 issuance

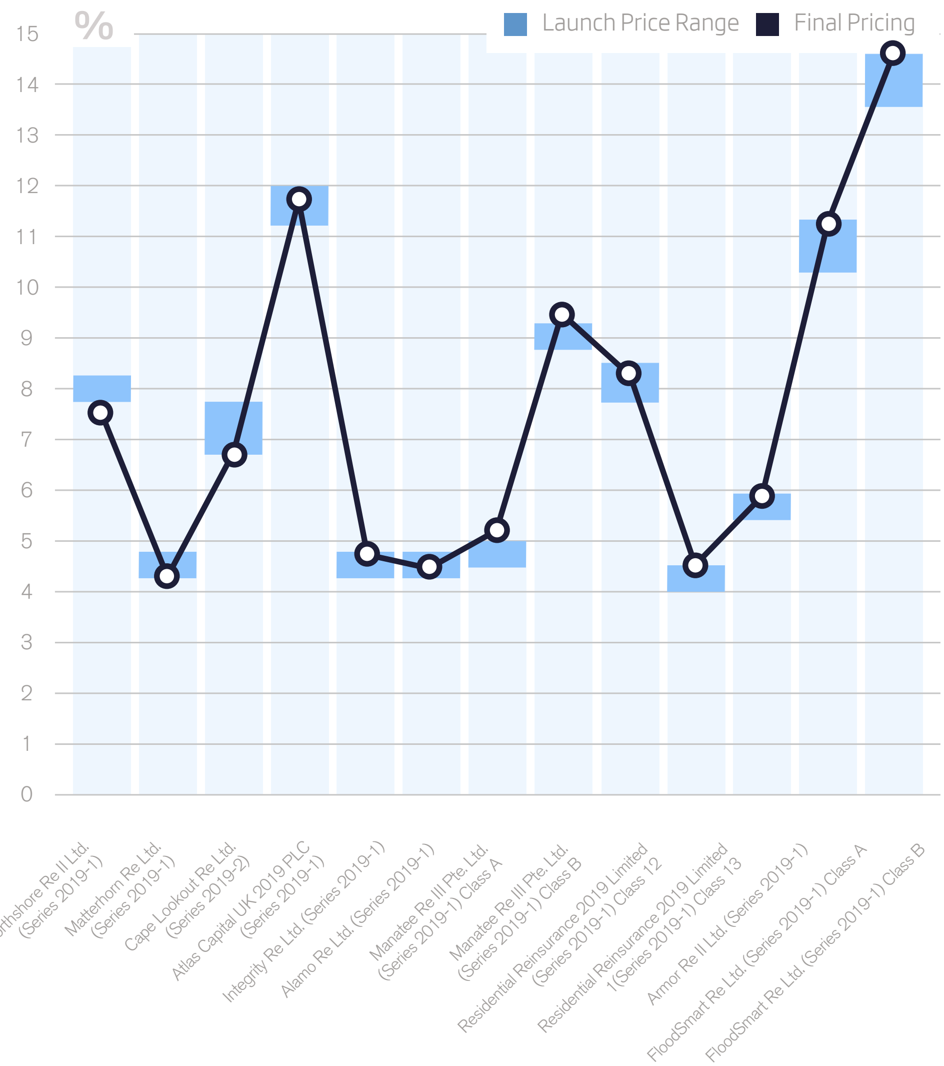
In spite of a decline from the end of the first-quarter, the average multiple (price coupon divided by expected loss) of Q2 2019 issuance, where we have full pricing data, improved year-on-year, to 2.64.

As shown by the Artemis Deal Directory, the average multiple of catastrophe bond and ILS issuance struggled to stay above 2 throughout last year. However, after declining in Q4 2018, the average multiple improved substantially to 3.65 in Q1 2019, and, has continued to recover in the second-quarter after a lacklustre 2018.



Cat bond and ILS price changes during Q2 2019 issuance

For the $1.59 billion of risk capital issued where we have full pricing data, the average price change in the second-quarter of 2019 was 1.85%. One tranche of notes priced exactly at the mid-point of initial price guidance, while just three tranches priced below the mid-point. Nine tranches of notes priced above the mid-point of initial price guidance, with the most dramatic price increase being seen with the Class A tranche of Manatee Re II notes, which increased by 10.52% while marketing.

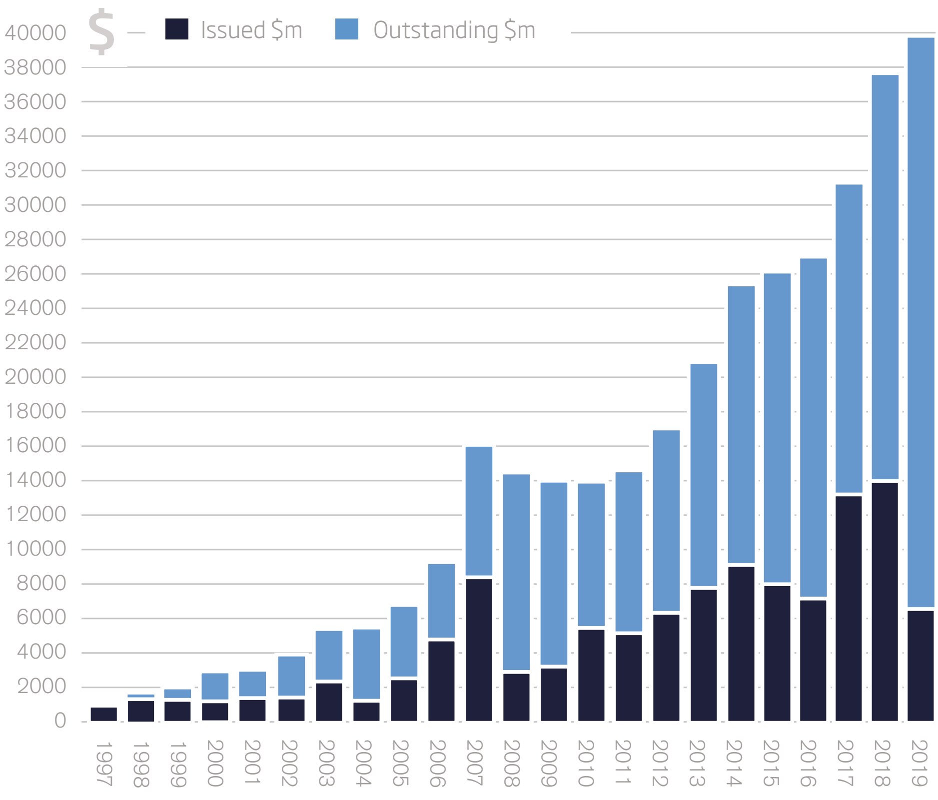


Issued / Outstanding

On the back of a solid but muted start to the year, catastrophe bond and ILS issuance in the second-quarter of 2019 remained robust. Despite first-half issuance levels being down by more than $3 billion, year-on-year, the approximately $6.4 billion of new risk capital issued this year has taken the outstanding market to a new high, ending the quarter at $39.3 billion.

Overall, the market once again achieved outright growth in the second-quarter of 2019, but it's worth highlighting the growing influence of mortgage ILS deals, especially over the last 18 months. Artemis' data shows that mortgage ILS issuance is near $2.7 billion so far in 2019, which accounts for roughly 42% of 2019 issuance. The average size of these deals suggests that it will only take one more deal to feature this year for annual mortgage issuance to reach a new high.

Despite the clear influence of mortgage risk, catastrophe risk-focused issuance remains solid and new sponsors, risks, and geographies continue to provide the sophisticated investor base with welcomed diversification. According to the Artemis Deal Directory, just over $3 billion of catastrophe bond and ILS transactions are scheduled to mature in the second-half of the year. Artemis' data shows that over the past ten-years, issuance has averaged $2.9 billion in the second-half of the year, which suggests that market growth might well continue in 2019.



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/

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

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CONTACT ARTEMIS:

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

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