



# Q3 2019 Catastrophe Bond & ILS Market Report

Mortgage deals  
boost subdued market

## ARTEMIS

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# Chasing Storms for Uncorrelated Returns Insurance Linked Strategies (ILS)

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# INTRO

The Artemis third-quarter 2019 Catastrophe Bond and Insurance-Linked Securities (ILS) Market Report reviews new risk capital brought to market, as well as the composition of transactions completed during the period.

Catastrophe bond and ILS issuance in the third-quarter of 2019 totalled \$1.42 billion, and was comprised of 11 deals and 20 tranches of notes. Despite declining year-on-year, the volume of new risk capital brought to market in Q3 is the third highest of the last ten years for the quarter.

At \$1.42 billion, catastrophe bond and ILS issuance is approximately \$332 million above the ten-year average for the period, and, in Q3 2019, mortgage deals contributed significantly to this growth. Overall, mortgage deals account for almost 73% of Q3 2019 issuance, as shown by the Artemis Deal Directory. A range of private deals, known as cat bond lites, also came to market in the third-quarter.

For the first nine months of the year, catastrophe bond and ILS issuance has declined by more than \$4 billion in 2019, when compared with the same period in 2018. However, at approximately \$7.8 billion, 2019 is still the third most active, in terms of deal value, first 9M period of the last decade, as shown by the Artemis Deal Directory.

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.

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# Transaction Recap

11 transactions comprised of 20 tranches of notes combined to bring \$1.42 billion of new risk capital to market in the third-quarter of 2019.

Continuing and accelerating issuance trends witnessed in the second-quarter of 2019, mortgage insurance risks dominated third-quarter issuance. Deals from National Mortgage Insurance Corp. and Arch Capital accounted for almost three-quarters, or more than \$1 billion of quarterly issuance.

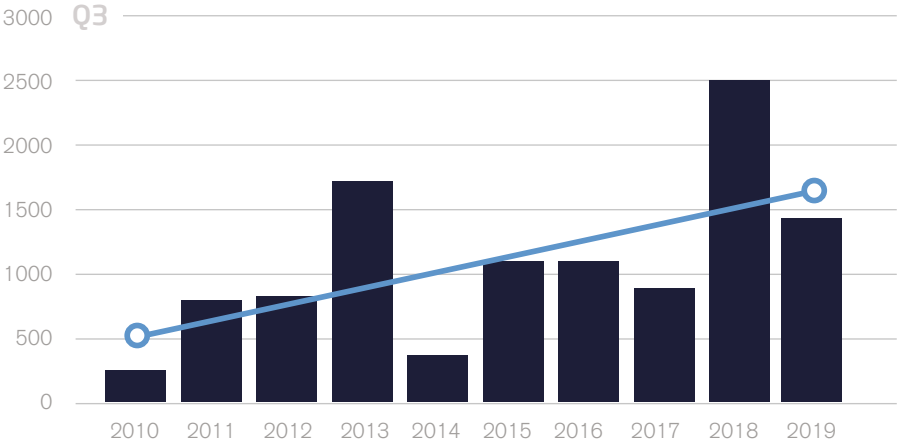
As well as two large mortgage ILS deals, third-quarter 2019 issuance saw the return of smaller, private cat bond transactions. This includes a \$25 million Florida named storm transaction from Florida Citizens, \$260 million of unknown property catastrophe risks and \$34 million of U.S. property catastrophe risks, all from unknown sponsors.

An unknown sponsor also came to market in the third-quarter with \$70 million of Japan earthquake risk via issuer Asagao - White Rock Insurance (SAC) Ltd.

ISSUER / TRANCHE	SPONSOR	PERILS	SIZE (\$M)	DATE
Cerulean Re SAC Ltd. (Series 2019-E1)	Unknown	Unknown prop cat risks	25	Sep
Eclipse Re Ltd. (Series 2019-06A)	Unknown	Unknown prop cat risks	48	Sep
Asagao - White Rock Insurance (SAC) Ltd.	Unknown	Japan earthquake	70	Sep
Eclipse Re Ltd. (Series 2019-02A)	Unknown	Unknown prop cat risks	56.59	Aug
Eclipse Re Ltd. (Series 2019-05A)	Unknown	Unknown prop cat risks	100	Jul
Eclipse Re Ltd. (Series 2019-04A)	Florida Citizens	Florida named storms	25	Jul
Oaktown Re III Ltd. M-1A	National Mortgage Ins Corp	Mortgage insurance risks	100.073	Jul
Oaktown Re III Ltd. M-1B	National Mortgage Ins Corp	Mortgage insurance risks	100.073	Jul
Oaktown Re III Ltd. M-2	National Mortgage Ins Corp	Mortgage insurance risks	93.401	Jul
Oaktown Re III Ltd. B-1A	National Mortgage Ins Corp	Mortgage insurance risks	16.679	Jul
Oaktown Re III Ltd. B-1B	National Mortgage Ins Corp	Mortgage insurance risks	16.679	Jul
Cerulean Re SAC Ltd. (Series 2019-1) Class A-1	Unknown	U.S. prop cat risks	7.98	Jul
Cerulean Re SAC Ltd. (Series 2019-1) Class B-1	Unknown	U.S. prop cat risks	10.48	Jul
Cerulean Re SAC Ltd. (Series 2019-1) Class B-2	Unknown	U.S. prop cat risks	4.48	Jul
Dodeka XXIV	Unknown	U.S. prop cat risks	11.36	Jul
Bellemeade Re 2019-3 Ltd. M-1	Arch Capital Group Ltd.	Mortgage insurance risks	222.809	Jul
Bellemeade Re 2019-3 Ltd. M-1B	Arch Capital Group Ltd.	Mortgage insurance risks	278.511	Jul
Bellemeade Re 2019-3 Ltd. M-1C	Arch Capital Group Ltd.	Mortgage insurance risks	176.39	Jul
Bellemeade Re 2019-3 Ltd. B-1	Arch Capital Group Ltd.	Mortgage insurance risks	23.21	Jul
Eclipse Re Ltd. (Series 2019-03A)	Unknown	Unknown prop cat risks	30	Jul

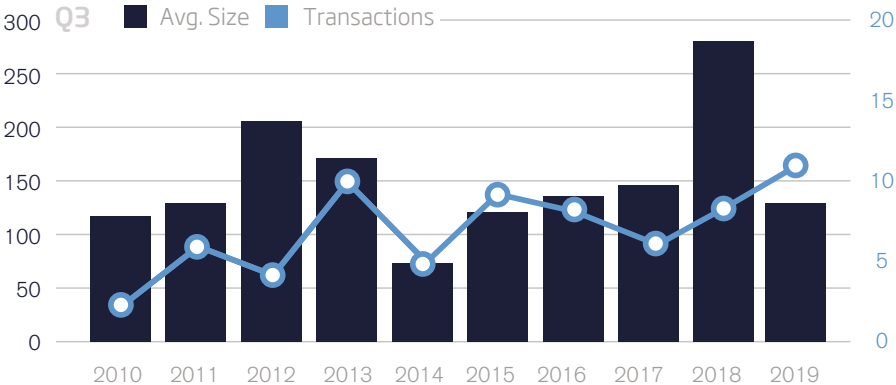
### Q3 ILS issuance by year (\$M)

The \$1.42 billion of catastrophe bond and ILS issuance witnessed in Q3 is the third highest of the last decade, behind the record-breaking level seen in 2018 and the \$1.7 billion recorded in Q3 2013. As shown by data from the Artemis Deal Directory, Q3 2019 cat bond and ILS issuance was roughly \$332 million above the ten-year average for the period.



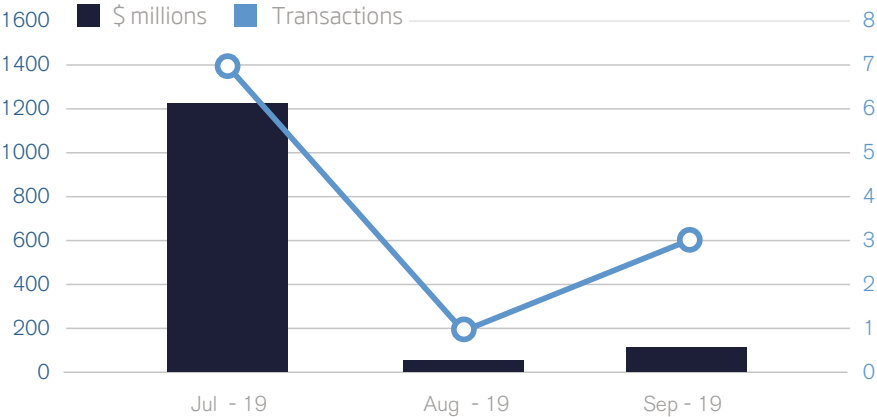
### ILS average transaction size & number of transactions by year (\$M)

The average transactions size in Q3 2019 was just under \$129 million, which is above the ten-year average for the quarter. As shown by the Artemis Deal Directory, in terms of the number of deals, the 11 transactions brought to market in Q3 is above the ten-year average for the period, of seven deals.



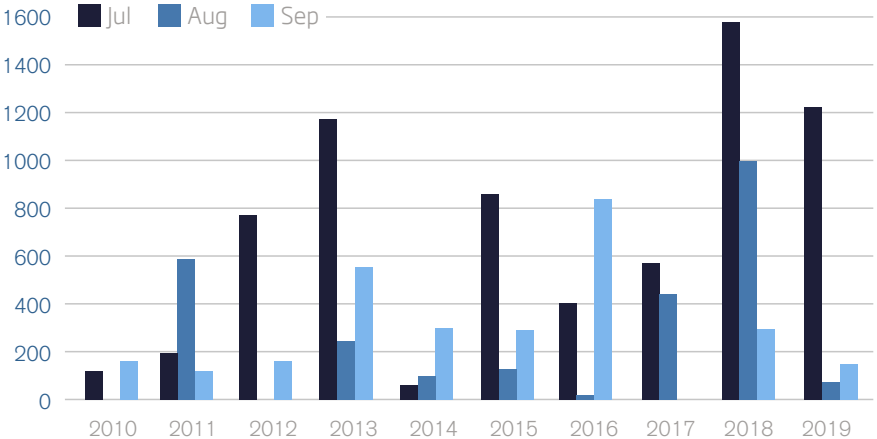
## Number of transactions and volume issued by month (\$M)

Once again, the majority of third-quarter issuance, both in terms of new risk capital issued and the number of deals, came to market in July. \$1.2 billion, or roughly 86% of new risk capital from seven transactions came to market in July, which is approximately \$600 million above the ten-year average for the month.



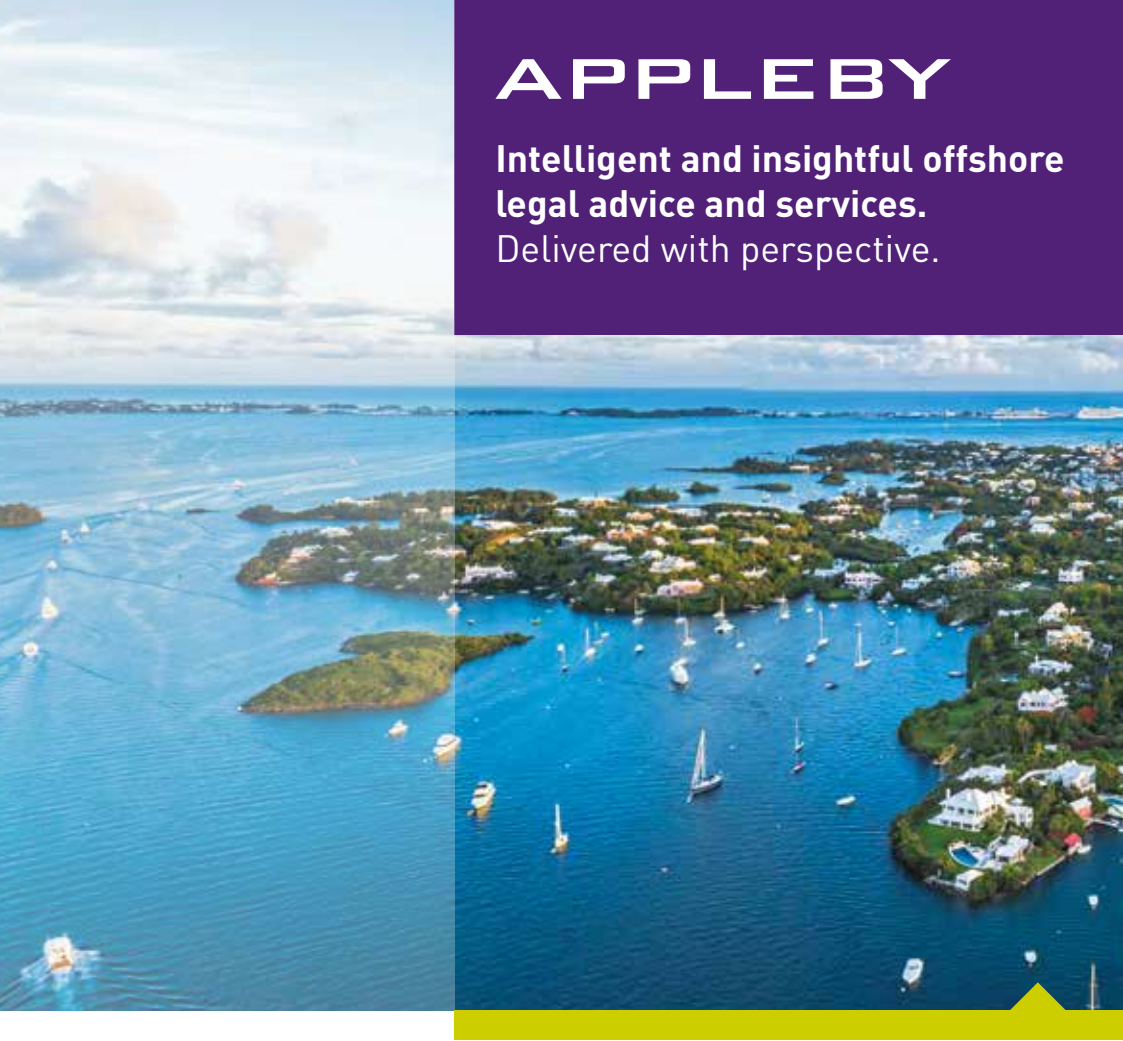
## Q3 issuance by month & year (\$M)

The amount of new risk capital issued in the month of August, at approximately \$57 million, is roughly \$164 million below the ten-year average for the month and came from just one deal. Three deals combined to bring \$143 million of risk capital in September, although this is still below the ten-year average for the month.



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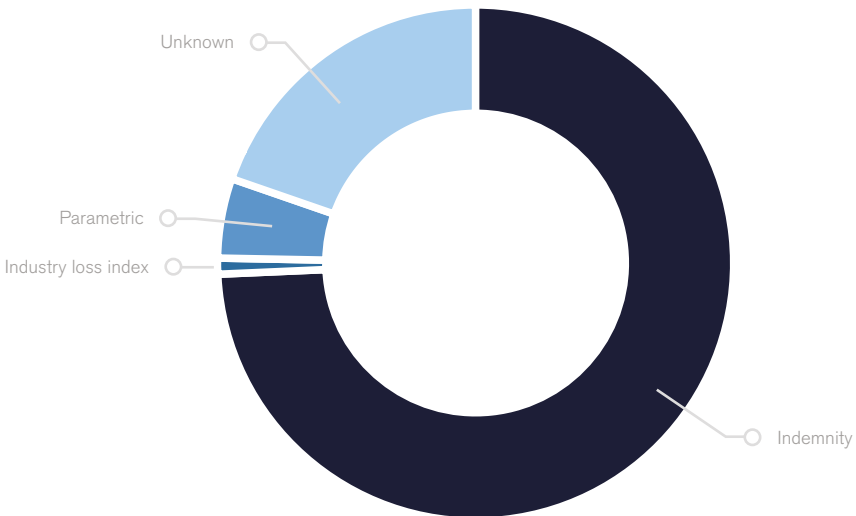
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## Q3 2019 ILS issuance by trigger type

For the eighth consecutive quarter, indemnity protection dominated issuance in the third-quarter of 2019. More than \$1 billion, or approximately 74% of Q3 issuance featured an indemnity trigger structure.

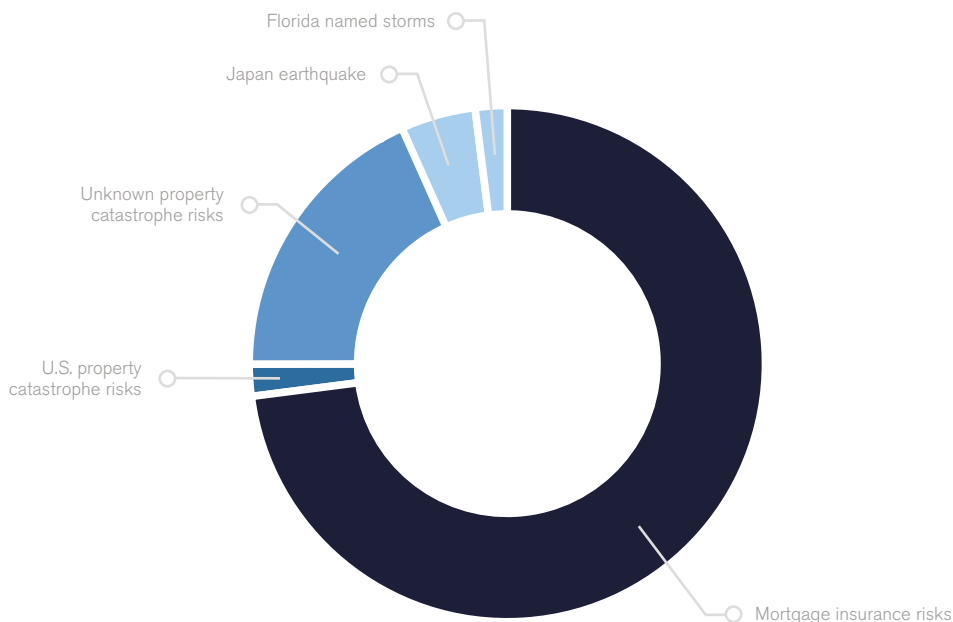


For the first time since Q3 2018, a deal structured utilising a parametric trigger featured in Q3 2019, providing investors with \$70 million of trigger diversification, and which accounted for 5% of quarterly issuance. Approximately 1%, or \$11.4 million of Q3 issuance utilised an industry loss index trigger, while more than 19%, or \$283 million of issuance we do not have trigger information for.



## Q3 2019 ILS issuance by peril

More than \$1 billion, or approximately 73% of third-quarter cat bond and ILS issuance covered mortgage insurance risks. Repeat sponsor National Mortgage Insurance Corp. brought nearly \$327 million of mortgage insurance risks to market in Q3, while Arch Capital also returned, with a \$700 million deal through its familiar Bellemeade Re issuer platform.



The second largest slice of third-quarter 2019 issuance, at just under \$260 million and which accounts for roughly 18% of issuance, was a combination of five private deals which offered protection against unknown property catastrophe risks. Combined, private transactions from the Dodeka and Cerulean Re SAC issuer platforms, brought just over \$34 million of U.S. property catastrophe risks to market.

Florida Citizens returned in Q3 and provided investors with \$25 million of Florida named storm diversification. While another unknown sponsor brought \$70 million of Japan earthquake risk to market, which accounts for 5% of Q3 2019 issuance, as shown by the Artemis Deal Directory.

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## The important role of Directors when ILS loss events arise

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The role of fit and proper persons on the Board of Directors of insurance and ILS structures has become increasingly important as both the nature of the insured risk evolves and the regulatory regime continues to develop.

In Bermuda, given its long history of innovation and acceptance as a leading jurisdiction and domicile of choice for insurance and ILS, the availability of sophisticated directors is broad. The development of the industry in Bermuda has necessarily fostered competent, commercial executive and independent directors with a broad level of experience, and diversity of backgrounds. One of the strengths of the Bermuda value proposition has always been the incredible level of expertise that has evolved.

Another principal reason for the evolution of a concentrated pool of fit and proper persons is the requirement of the Bermuda Monetary Authority, as part of the licensing process, as well as whenever changes to an existing board is proposed, to vet any persons that is proposed to fill a Board seat on a licensed insurer. That person has to meet, and continue to meet the fit and proper person

test promulgated by the relevant legislation. This is an incredibly powerful and necessary control given the complexity of the industry and the need to continue to protect and grow the market in a responsible and efficient manner.

The industry and the regulatory framework demands diversification on boards. As loss events creep into ILS, more recent issue such as trapped capital, and the general move to more creative ways in which to employ excess capital evolve, it is more and more important that both the right level of general skill is present on a Board but perhaps even more critically, the right diversity of skill and industry experience and background is present to assist in governing the entity through the new risks. One might even use this as a move towards the need for professional directors in the industry.



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**Alison Dyer-Fagundo**  
Managing Director



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**James Maitland**  
Head of Americas & Caribbean



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**Sonal Patel**  
Managing Director

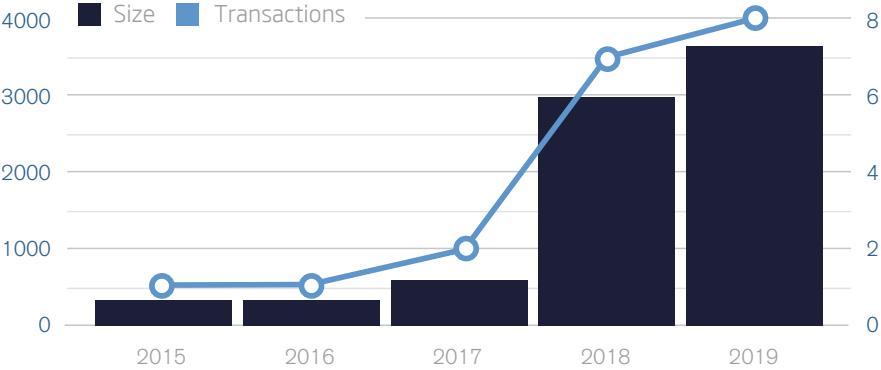
If one looks at more recent examples, for example in late 2016, the Gator Re Ltd cat bond encountered significant losses from severe thunderstorm activity in the United States. Given the nature of the transaction, there was understandable concern that the matter would become contentious, and there would be challenges around ascertaining the total loss and attachment levels. However, it was shown that this was not the case as the board, with appropriate advisors, efficiently guided the SPI through the loss events that Gator Re Ltd encountered. The direction that was provided clearly would have provided investors with an enhanced level of confidence.

Given the large amount of capital at risk, it is natural for investors in catastrophe exposed ILS to become unsettled by the prospect of losses attaching to their investments during potential loss events. However, the evolution of the Bermuda domiciled director, both in terms of regulatory requirements and framework and general skill set, continues to provide robust governance for the industry.

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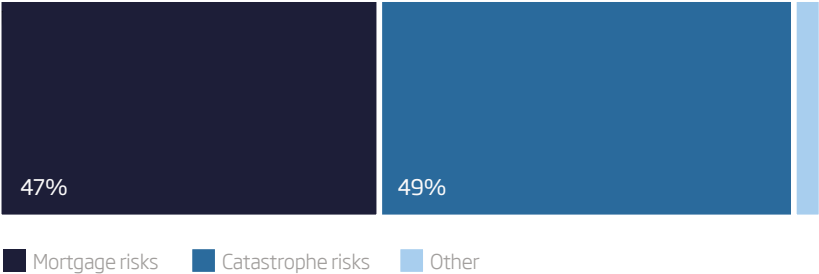
## Mortgage ILS issuance by year

Since the issuance of the first mortgage ILS deal in 2015, a \$298.88 million Bellemeade Re (Series 2015-1) transaction, the transfer of mortgage insurance risks to ILS investors has become increasingly common. As shown by the Artemis Deal Directory, mortgage ILS issuance remained flat in 2016 followed by a slight uptick in 2017. However, the following year saw more sponsors come to market as well as larger deal sizes, a trend which has persisted into 2019 and shows little sign of slowing.

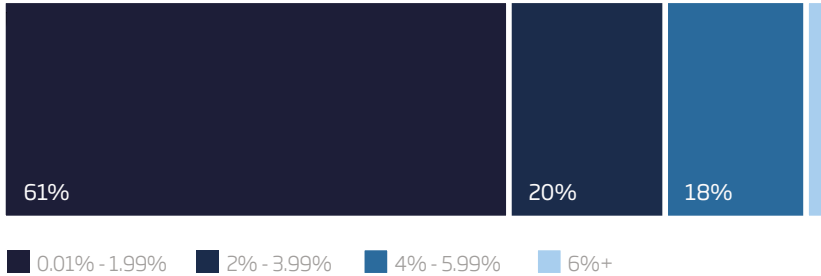


## 9M 2019 ILS issuance split

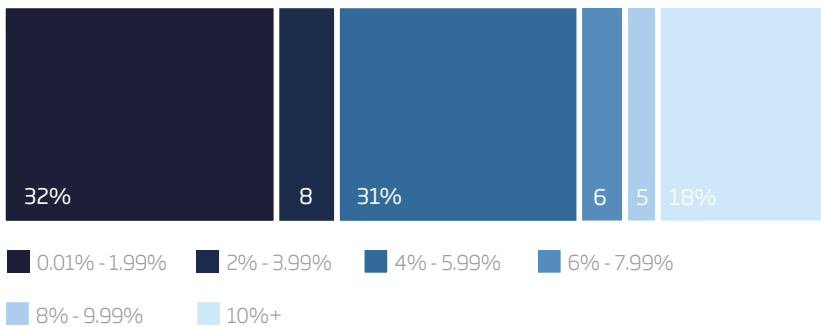
So far in 2019, approximately \$3.7 billion of mortgage insurance risk has come to market from eight deals, accounting for around 47% of all ILS issuance in the first nine months of the year. During the same period, 39 catastrophe focused deals have been issued amounting to approximately \$3.8 billion, or 49% of total ILS issuance so far this year. The remainder of 2019 issuance includes a terrorism deal and a transaction covering medical benefit claims levels.



## 9M 2019 ILS issuance by expected loss



## 9M 2019 ILS issuance by coupon pricing

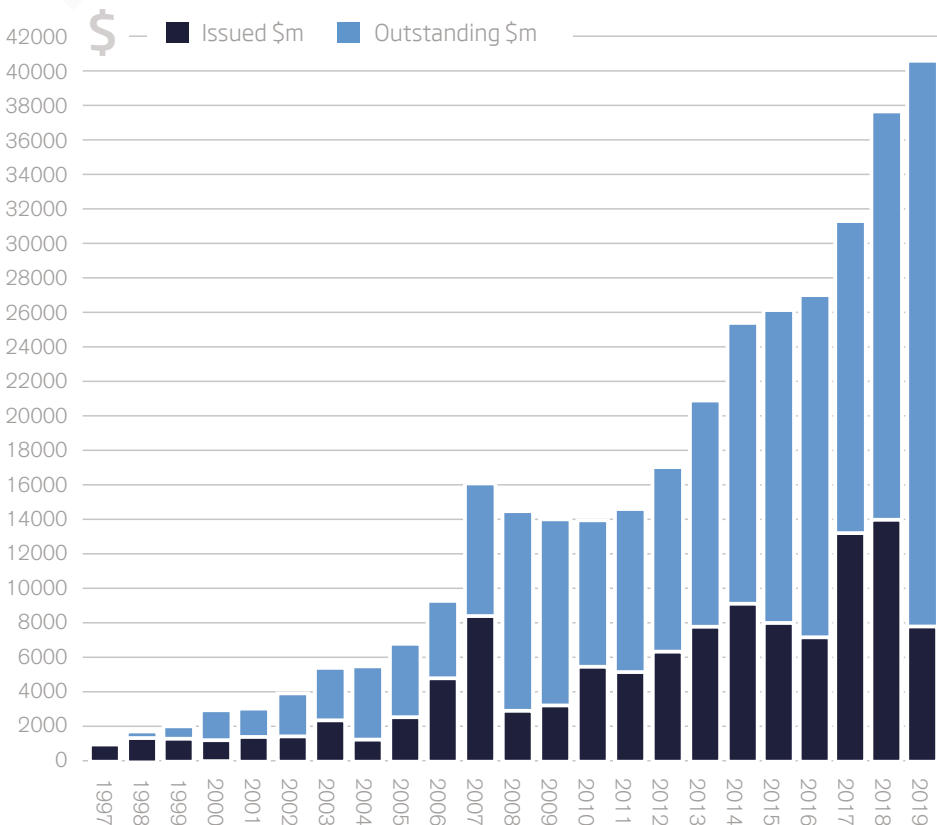


## Issued / Outstanding

At the end of the third-quarter of 2019, the size of the outstanding catastrophe bond and ILS market sits at just over \$40 billion, which is roughly \$700 million larger than at the end of the second-quarter. Year-on-year, the market has achieved outright growth of approximately 10%, expanding from the \$36.57 billion recorded at the end of Q3 2018 to reach a new end of quarter high.

Despite recording growth over the last 12 months, catastrophe bond and ILS issuance in the third-quarter of 2019 declined by approximately 43% when compared with the third-quarter of last year, from \$2.5 billion to \$1.42 billion. Mortgage issuance was strong in both Q3 2018 and Q3 2019, but where Q3 2018 featured some large cat-focused deals from repeat sponsors, Q3 2019 issuance included a host of smaller, private deals.

As shown by the Artemis Deal Directory, approximately \$2.3 billion of in-force catastrophe bond and ILS transactions are scheduled to mature before the end of the year. Over the last ten years, issuance in the fourth-quarter has averaged \$2 billion, meaning that an above average level of issuance is required in the final three months of the year to ensure the market expands from the end of Q3.



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

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