



Q3 2020 Catastrophe Bond & ILS Market Report

Positive momentum continues
in above-average Q3

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INTRO

The Artemis third-quarter 2020 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.

In total, 21 tranches of notes from 11 transactions came to market in the third-quarter of 2020, resulting in catastrophe bond and ILS issuance of \$1.63 billion. Year-on-year, issuance grew by roughly \$214 million and, despite financial market uncertainty and volatility as a result of the Covid-19 pandemic, Q3 2020 issuance is the third highest of the past decade.

As was the case in Q3 2019, mortgage deals accounted for a sizeable portion of issuance this year. Approximately 46% of new risk capital brought to market in the period covered mortgage insurance risk. Private deals, or cat bond lites were also a feature of the third-quarter of 2020, with five privately placed deals accounting for \$142 million of quarterly issuance.

Catastrophe bond and ILS issuance in the third-quarter of 2020 is above the ten-year average for the period and, at \$1.63 billion, ensures issuance for the first nine-months of the year has exceeded \$10 billion for the third time in the past four years, 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.

Transaction Recap

11 deals consisting of 21 tranches of notes came to market in the third-quarter, resulting in \$1.63 billion of new catastrophe bond and ILS risk capital issuance.

Mortgage deals from Arch Capital and National Mortgage Insurance Corp dominated the quarter, in terms of the volume of risk capital issued, which totalled more than \$745 million across nine tranches of notes. However, in terms of the number of deals, 46% were privately placed. Combined, four of these deals brought almost \$132 million of unknown property catastrophe risks to market in Q3, while the remaining \$10 million provided protection against U.S. named storm risk.

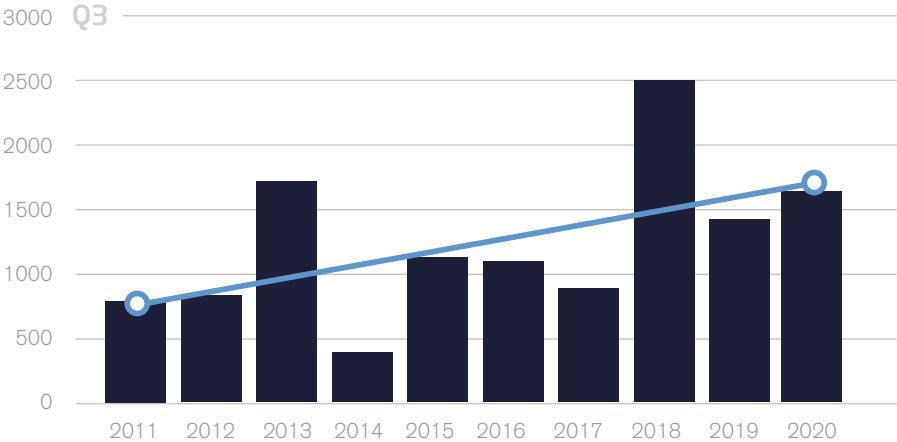
Convex Re, part of Stephen Catlin and Paul Brand's Convex Group, was the only new sponsor to feature in Q3. The \$300 million deal, Hypatia (Series 2020-1), offered protection against U.S. named storm, U.S. and Canada earthquake risks.

The remainder of Q3 2020 issuance came from repeat sponsors, including reinsurance giant Swiss Re, who sponsored its fourth Matterhorn Re of the year, a \$240 million U.S. named storm deal. Sempra Energy returned to the market after its entry in 2018, with a \$90 million deal to support certain third-party California wildfire property liability claims. UnipolSai Assicurazioni S.p.A. also returned to the market in Q3, with \$113 million of coverage for earthquakes impacting Italy and neighbouring countries.

ISSUER / TRANCHE	SPONSOR	PERILS	\$M	DATE
Isosceles Insurance Ltd. (Series 2020-C1)	Unknown	Unknown property cat risks	25	Sep
ILN SAC Ltd. (US-W-0CC-30B-40B)	Unknown	U.S. named storm	10	Sep
Bellemeade Re 2020-2 Ltd.	Arch Capital Group Ltd.	Mortgage insurance risks	423.42	Sep
Eclipse Re Ltd. (Series 2020-04A)	Unknown	Unknown property cat risks	40	Jul
Eclipse Re Ltd. (Series 2020-03A)	Unknown	Unknown property cat risks	16.59	Jul
Oaktown Re IV Ltd.	National Mortgage Insurance Corp	Mortgage insurance risks	322.1	Jul
Hypatia Ltd. (Series 2020-1)	Convex Re	International multi-peril	300	Jul
Randolph Re (Series 2020-1)	Unknown	Unknown property cat risks	50.25	Jul
Azzurro Re II DAC (Series 2020-1)	UnipolSai Assicurazioni S.p.A.	European earthquake (covers portfolio in Italy)	113	Jul
SD Re Ltd. (Series 2020-1)	Sempra Energy	California wildfire	90	Jul
Matterhorn Re Ltd. (Series 2020-4)	Swiss Re	U.S. named storm	240	Jul

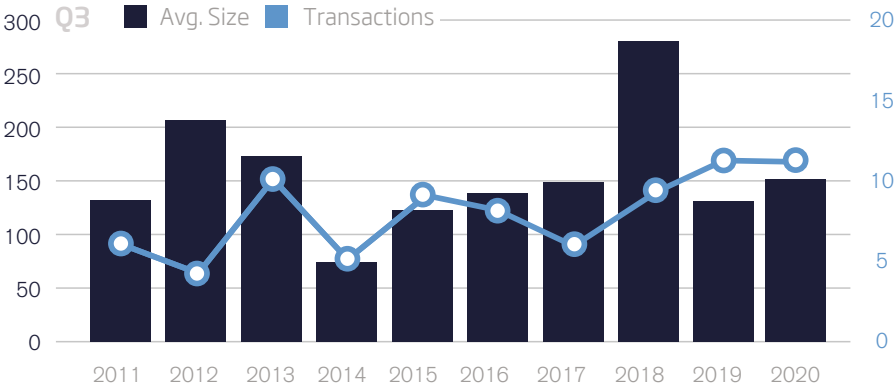
Q3 ILS issuance by year (\$M)

Catastrophe bond and ILS issuance of \$1.63 billion in Q3 2020 is roughly \$214 million higher than the prior year quarter, and also 33% higher than the ten-year average of \$1.2 billion. For just the third time in the past decade, issuance levels surpassed the \$1.5 billion mark in Q3, making it the third most active Q3 ever, as shown by the Artemis Deal Directory.



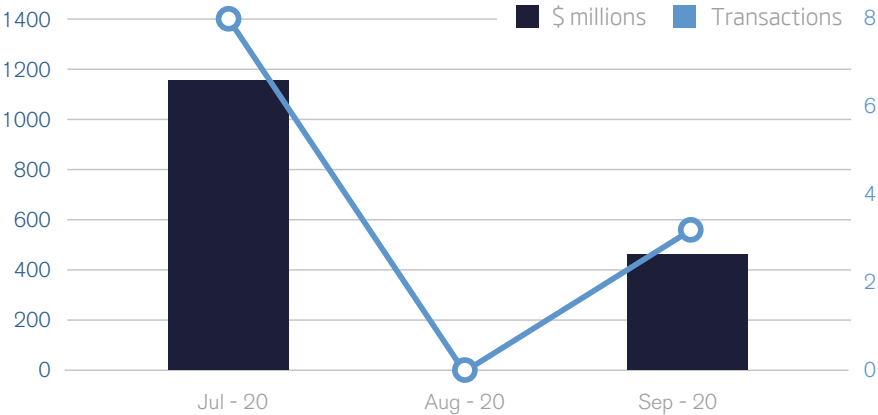
ILS average transaction size & number of transactions by year (\$M)

Year-on-year, the average transaction size of Q3 issuance increased to approximately \$148 million in 2020, which is below the average of the past ten years by roughly \$5 million. In terms of the number of deals, the 11 issued in Q3 2020 is in line with last year, but above the ten-year average of eight deals.



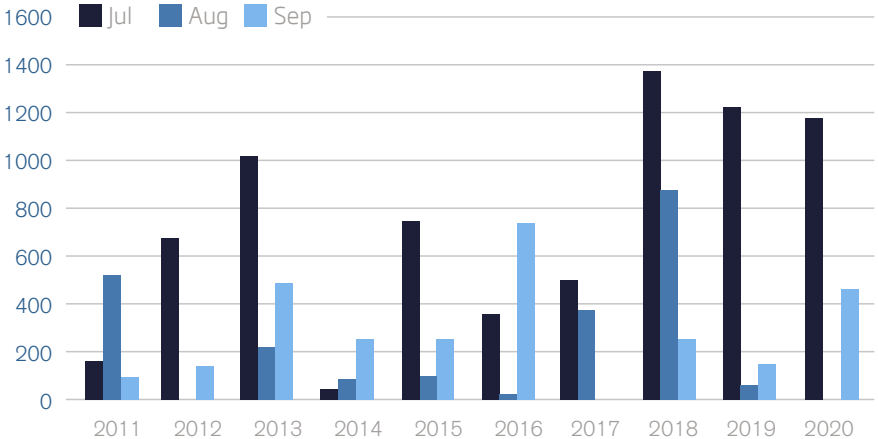
Number of transactions and volume issued by month (\$M)

For the third consecutive year, catastrophe bond and ILS issuance in July exceeded \$1.1 billion, and was almost \$450 million above the ten-year average for the month. 73%, or eight of the 11 deals issued in Q3 2020 came to market in July.



Q3 issuance by month & year (\$M)

Over the past decade, issuance in August has averaged roughly \$221 million. However, for the first time since 2012, no deals were issued in August of 2020. In September, three deals were issued, bringing a further \$458 million of new risk capital to market, which is \$179 million higher than the average of the past ten years for the final month of the quarter.



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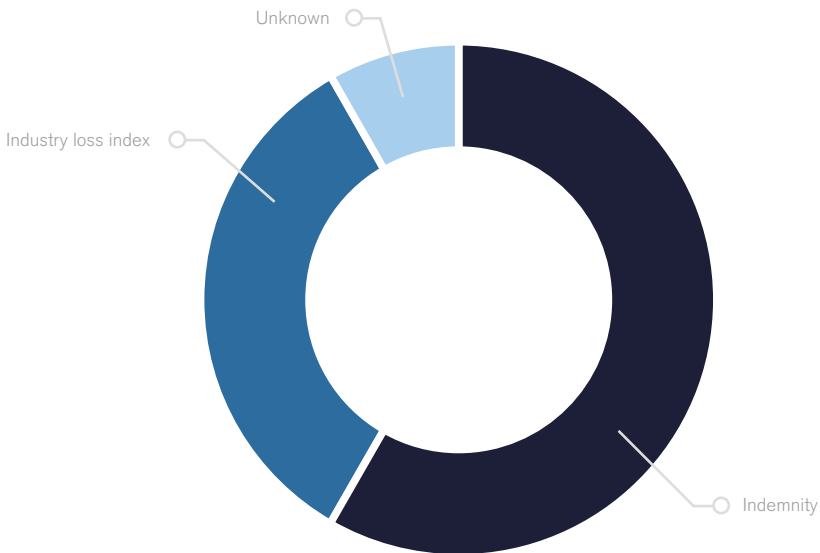
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Q3 2020 ILS issuance by trigger type

More than 58%, or approximately \$949 million of third-quarter 2020 issuance utilised an indemnity trigger structure. As shown by the Artemis Deal Directory, indemnity deals typically dominate third-quarter issuance of any year.

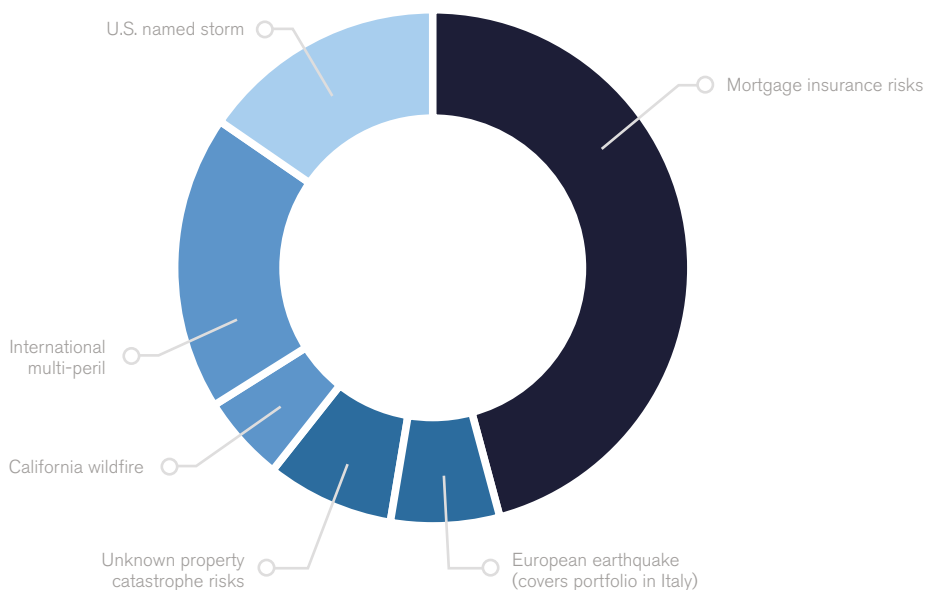


When compared with the first six months of the year, trigger diversification was lacking in Q3 2020, with no parametric structured deals coming to market in the period. Almost 34% of quarterly issuance, or \$550 million featured an industry loss index trigger in Q3. We do not have trigger information for just over 8%, or nearly \$132 million of issuance.

Going forward, we could see more industry loss trigger issuance as retrocessional reinsurance prices harden. This could push some of the larger reinsurers to look to the cat bond market as an alternative source of retro capacity.

Q3 2020 ILS issuance by peril

Over 45%, or roughly \$746 million of quarterly issuance covered mortgage insurance risks, as Arch Capital Group returned with its second Bellemeade Re transaction of the year, alongside the first Oaktown Re deal of 2020 from National Mortgage Insurance Corp.



The first ever cat bond issuance from Convex Re accounted for the second largest slice of Q3 2020 issuance, a \$300 million Hypatia Ltd. deal offering protection against U.S. named storm, and U.S. and Canada earthquake risks. A further \$240 million of U.S. named storm risks came to market in the period from Swiss Re, the reinsurer's fourth Matterhorn Re deal of the year. This, combined with a \$10 million private deal, saw U.S. named storm protection account for more than 15% of total issuance.

Sempra Energy returned for its second deal covering California wildfire risks in Q3, while UnipolSai Assicurazioni S.p.A. brought \$113 million of European earthquake risk to market. Combined, four privately placed deals brought almost \$132 million of unknown property catastrophe risks to market in the period.



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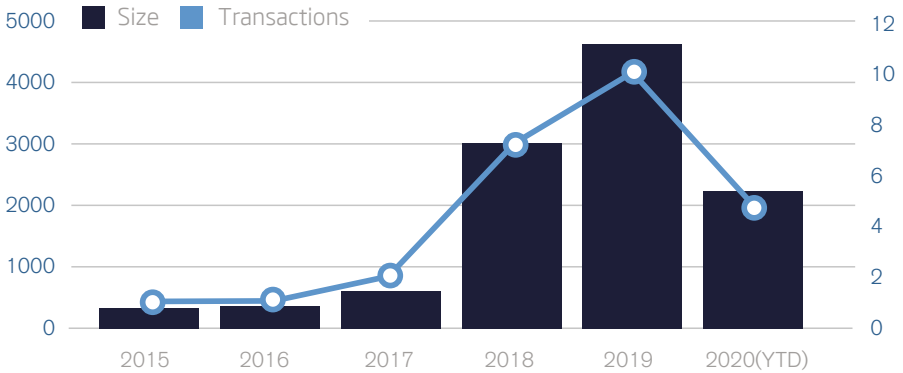
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Mortgage ILS issuance by year

The transfer of mortgage insurance risks to the capital markets has been a common feature of quarterly cat bond and ILS issuance over the past five years, amounting to a significant \$10.9 billion from 26 transactions. As shown by the Artemis Deal Directory, the total volume of annual mortgage ILS deals has surpassed \$2 billion for the third consecutive year in 2020. And, in recent years, mortgage issuance has been strong in the final quarter of the year so there might well be more to come.



9M 2020 ILS issuance split

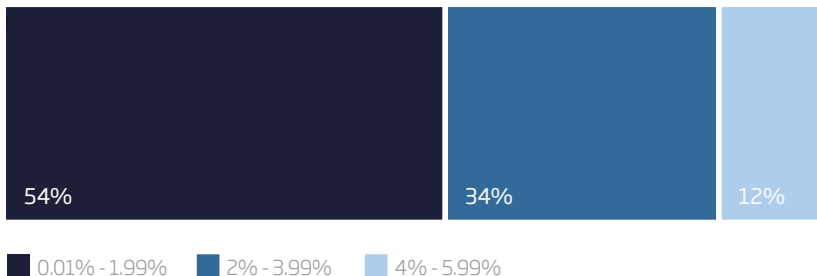
The majority, 73% or roughly \$7.6 billion of deals issued during the first nine months of the year were catastrophe risk focused, compared with a 49% contribution for the same period in 2019. As of September 30th, 2020, five mortgage ILS deals have been issued with a combined value of just under \$2.2 billion, which translates to almost 21% of 9M 2020 total cat bond and ILS issuance. The remaining 6%, or \$661 million of 9M issuance offered protection against operational risks and medical benefit claims levels.



Mortgage risks
 Catastrophe risks
 Other

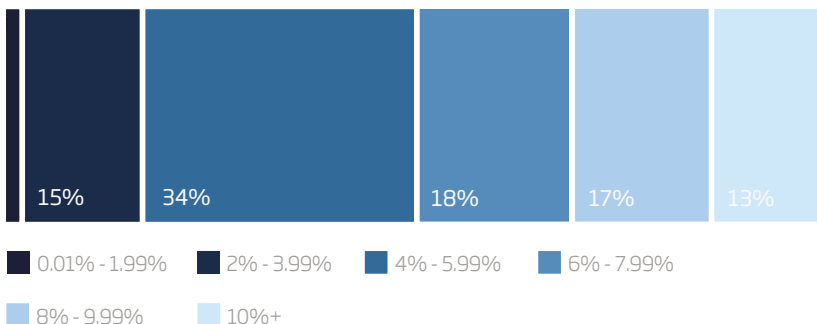
9M 2020 ILS issuance by expected loss

For the first nine months of the year, more than half of cat bond and ILS issuance had an expected loss of under 2%. When compared with the same period in 2019, the Artemis Deal Directory shows that investors were willing to assume a higher proportion of riskier deals in 9M 2020.



9M 2020 ILS issuance by coupon pricing

Reflecting higher pricing, almost half, or 48% of 9M 2020 issuance paid investors a coupon of more than 6%, compared with 29% of deals issued in the same period last year. Just 3% of issuance offered investors a coupon of less than 2% in 9M 2020, versus a significant 32% in 9M 2019.

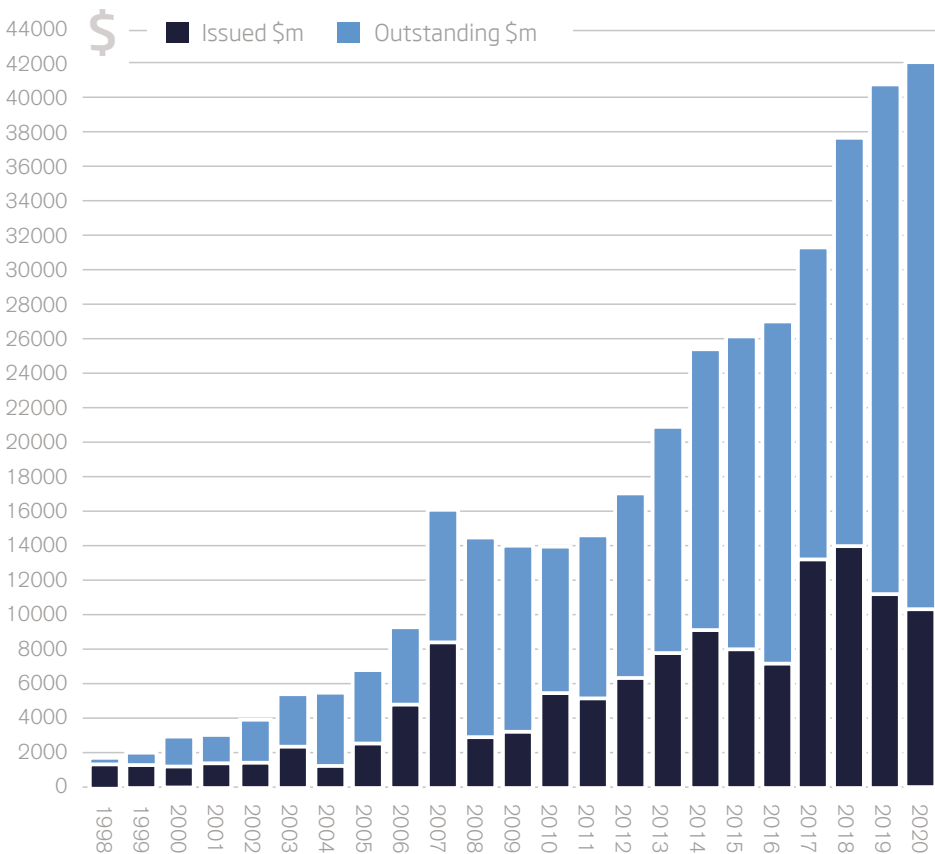


Issued / Outstanding

In spite of the uncertainty and volatility caused by the ongoing Covid-19 pandemic, catastrophe bond and ILS issuance totalled \$1.63 billion in Q3 2020, the third highest for the period over the past decade. As at the end of September 2020, cat bond and ILS issuance reached an impressive \$10.44 billion, which is roughly \$2.64 billion higher than the level of issuance witnessed in 9M 2019.

The Artemis Deal Directory shows that as at the end of Q3 2020, the outstanding cat bond and ILS market size stood at \$41.97 billion, which, while up on the end of Q2, remains lower than the \$42.4 billion outstanding market size recorded at the end of Q1 2020. However, year-on-year, the market has grown by approximately \$2 billion.

Regardless of what happens in the final quarter of the year, the annual volume of new cat bond and ILS risk capital issuance has exceeded \$10 billion for the fourth consecutive year. Over the past decade, Q4 issuance has averaged more than \$2.1 billion, and with roughly the same volume scheduled to mature in the final three months of the year, it will be interesting to see if the market ends the year at a record size.



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/

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