Q1 2024 Catastrophe Bond & ILS Market Report

Record setting trend continues with strongest ever Q1

ARTEMIS

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

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INTRO

In this report, we dissect another record-breaking quarter for the catastrophe bond and related insurance-linked securities (ILS) market, during which over $4.2 billion of new risk capital came to market, beating the previous Q1 record by more than $168 million.

The opening quarter of the year picked up where 2023 left off, driven by strong interest in cat bonds as a source of reinsurance from repeat and four new sponsors which combined sponsored 24 transactions comprised of 34 tranches of notes.

Q1 2024 is just the second time in the market's history that first quarter issuance has exceeded $4 billion, and at $4.23 billion, issuance was 30% higher than Q1 2023 and is above the 10-year average for the period by roughly $1.1 billion.

It's been an especially busy quarter for the traditional 144A property catastrophe bond market, which accounted for 92% of Q1 2024 issuance. In addition, there was a $200 million health insurance linked deal from Aetna and $159 million of private cat bonds issued during the quarter.

Readers will be aware that in 2023 investors were treated to record high spreads in the cat bond market. Evidenced by tightening early in 2024, the average spread of Q1 2024 issuance is slightly lower than in Q4 2023, and the same is also true for the excess spread above expected loss. Despite this, both metrics remain healthy compared to prior years and it's clearly still a very attractive asset class to investors.

Despite the record level of issuance in the quarter, the outstanding catastrophe bond market size has shrunk by roughly $431 million from the end of 2023 to $44.53 billion, which isn't too surprising as January and February are often busy months for deal maturities. At that level the market is still near a record size and outright growth is anticipated over the course of the full-year.

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

Four new sponsors entered the cat bond market in the opening quarter of this year, with 144A deals from Texas Farm Bureau Insurance, Tower Hill Insurance Exchange, PURE, and Brookfield Property Group bringing a combined $860 million of risk capital to market.

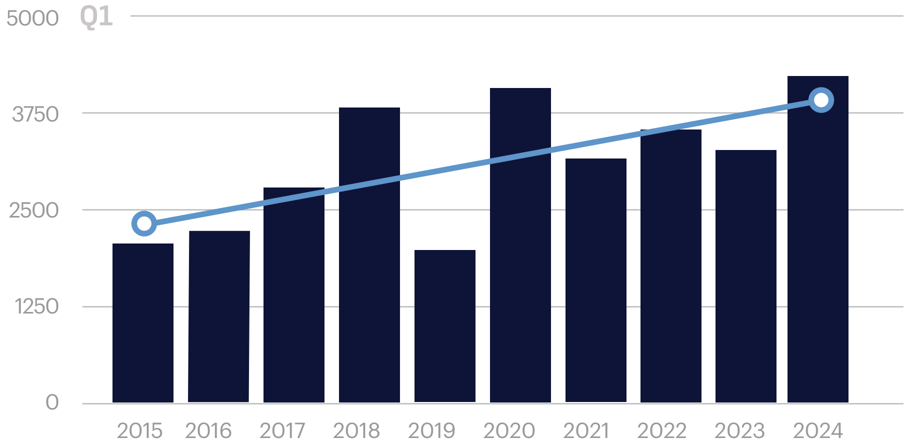
As well as the debutants, GeoVera and Arch Capital returned with their second 144A transactions in Q1 2024, while Inigo sponsored its third. All of the other issuers have sponsored at least five transactions before, so are well-known repeat sponsors of cat bonds.

As you can see from the table, which is based on data from the Artemis Deal Directory, the majority of the tranches of notes to feature in Q1 2024 cover property catastrophe risks, with no mortgage deals issued in the quarter and just one deal covering non-catastrophe risks, a familiar $200 million Vitality Re healthcare transaction from Aetna.

ISSUER / TRANCHE	SPONSOR	PERILS	$M	DATE
Aragonite Re Ltd. (Series 2024-1)	Brookfield Property Group	International multi-peril	100	Mar
Tomoni Re Pte Ltd. (Series 2024-1)	Mitsui Sumitomo Insurance Co. Ltd., Aioi Nissay Dowa Insurance Co., Ltd.	Japan multi-peril	200	Mar
Ashera Re Ltd. (Series 2024-1)	PURE	International multi-peril	105	Mar
Gateway Re Ltd. (Series 2024-1)	SageSure underwriting entities	US named storm	250	Mar
Azzurro Re II DAC (Series 2024-1)	UnipolSai Assicurazioni S.p.A.	European earthquake (covers portfolio in Italy)	109	Mar
Cape Lookout Re Ltd. (Series 2024-1)	North Carolina Insurance Underwriting Association	North Carolina named storm	450	Mar
Citrus Re Ltd. (Series 2024-1)	Heritage Property and Casualty Insurance Co.	US named storm	100	Mar
Kizuna Re III Pte. Ltd. (Series 2024-1)	Tokio Marine & Nichido Fire Insurance Co. Ltd.	Japan earthquake	100	Mar
Integrity Re Ltd. (Series 2024-1)	American Integrity Insurance Company of Florida, Inc. via Hannover Rück SE	Southeast US named storm	305	Mar
FloodSmart Re Ltd. (Series 2024-1)	FEMA / NFIP via Hannover Re	US flood risk (from named storms)	575	Mar
Ramble Re Ltd. (Series 2024-1)	Arch Capital Group Ltd.	International multi-peril	100	Feb
Herbie Re Ltd. (Series 2024-1)	Fidelis Insurance	International multi-peril	150	Feb
Winston Re Ltd. (Series 2024-1)	Tower Hill Insurance Exchange	Florida named storm	400	Feb
Veraison Re Ltd. (Series 2024-1)	GeoVera Insurance Holdings, Ltd.	US earthquake	175	Feb
Vitality Re XV Ltd (Series 2024)	Aetna	Medical benefit claims levels	200	Jan
Eclipse Re Ltd. (Series 2024-1A)	Unknown	Unknown property catastrophe risks	100	Jan
Sanders Re III Ltd. (Series 2024-1)	Allstate	US multi-peril	400	Jan
Seaside Re (Series 2024)	Unknown	U.S. property catastrophe risks	59	Jan
Fish Pond Re Ltd. (Series 2024-1)	Texas Farm Bureau Insurance	Texas named storm	255	Jan
Montoya Re Ltd. (Series 2024-1)	Inigo Insurance (Syndicate 1301)	International multi-peril	100	Jan

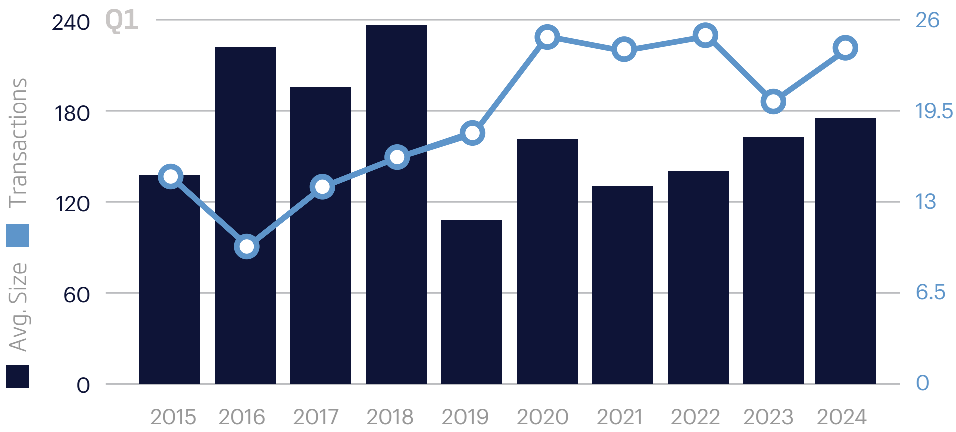
Q1 issuance by year ($M)

Q1 2024 issuance of $4.23 billion is a record for the cat bond market, coming in 37% above the 10-year average for the quarter, 30% above Q1 2023's total of $3.3 billion, and 4% above the previous Q1 record of $4.1 billion set in 2020. After the huge level of issuance in 2023 it's promising to see the market get off to such an active start once again. Highlighting just how strong Q1 issuance has been in recent times, it has only failed to breach $3 billion in four of the last 10 years, the last being in 2019, which was a particularly quiet year for the space.



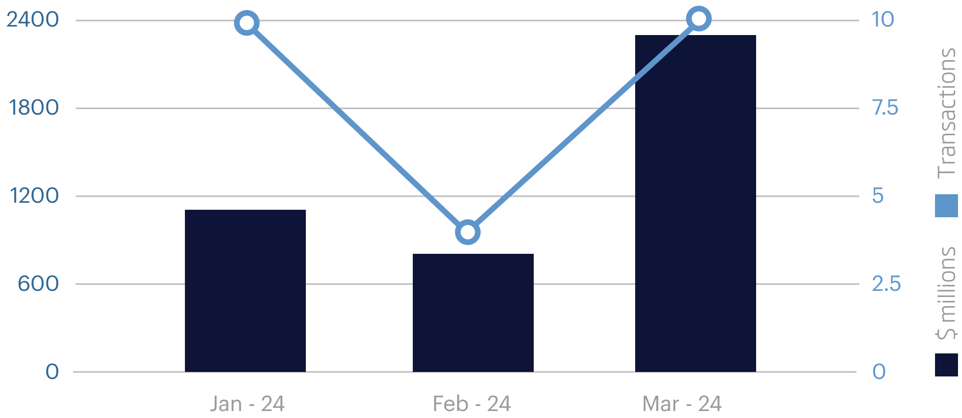
Q1 average transaction size & number of transactions by year ($M)

24 new cat bond transactions came to market in the first quarter of 2024, which is below the high of 25 seen in 2020 and 2022 but above the 10-year average for the quarter of 19. In fact, since 2020, there has been at least 20 deals issued in the first quarter, with the lowest of the past decade being 10 deals in 2016. In terms of size, the average size of cat bond issuance in Q1 2024 rose to $176 million from $163 million in Q1 2023 and is above the 10-year average of $168 million.



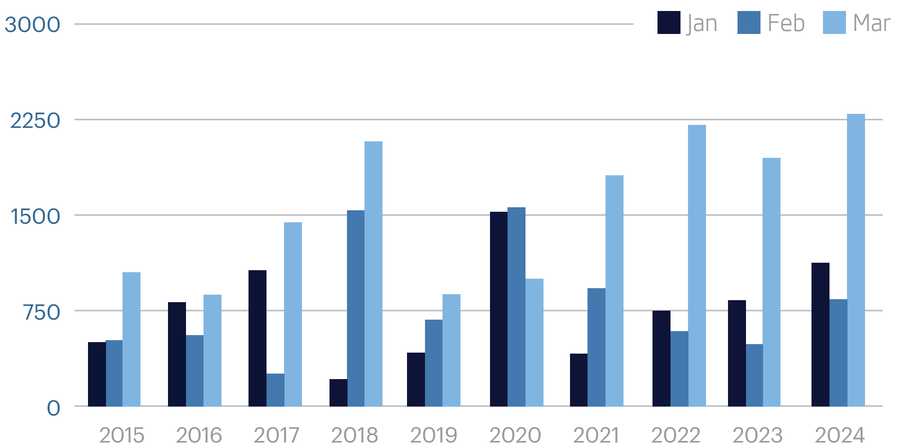
Number of transactions and volume issued by month ($M)

The cat bond market started the year strongly with 10 deals in January with a combined size of more than $1.1 billion, making it the second most active January in the market's history after 2020.



Q1 issuance by month & year ($M)

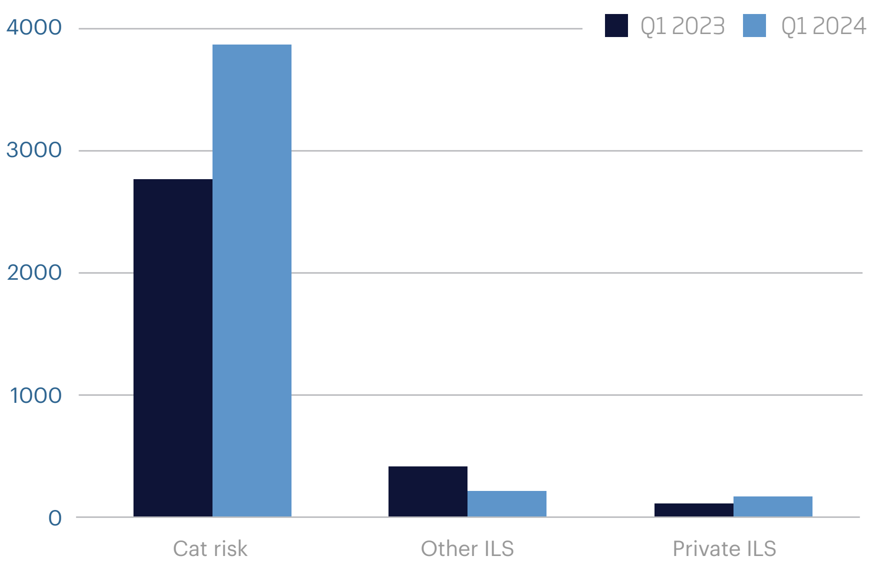
In February, just four deals came to market but together these transactions did bring $825 million of risk capital to market, ensuring it was still an above-average month for the marketplace and the highest level of February issuance since 2021. In March, things really picked up again and 10 transactions were issued with a combined value of almost $2.3 billion, which is a record for the month and also just the third time ever that March issuance has exceeded $2 billion, beating the 10-year average for the month by $738 million.



Q1 issuance by type

Of the $4.23 billion of total issuance in Q1 2024, 92% or $3.87 billion were traditional 144A property catastrophe bond transactions, which is a record for Q1, and continues the trend of 2023 when a record $15 billion of issuance came from these types of deals. Q1 2024 property cat bond issuance is above the previous high of $3.76 billion seen in Q1 2020 and is 41% higher than last year's total.

Year-on-year, Q1 2024 private cat bond issuance has also increased, from $98.6 million to $159 million, and as ever we assume that all of the privately placed, or cat bond lite transactions issued this quarter also cover property catastrophe risks.



In terms of other ILS issuance, so deals covering non-catastrophe risks, just one transaction featured in Q1 2024, a $200 million healthcare transaction from repeat sponsor Aetna. Year-on-year, other ILS issuance has come down by approximately 52% from Q1 2023's $417 million.

As was the case last year, no mortgage ILS deals were issued in the first quarter of 2024, despite somewhat of a resurgence in this part of the market in 2023 after some quiet years.

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LACK OF NEW PLAYERS IS SUPPORTING STRONG INTEREST IN ILS: ADDERLEY, APPLEBY

All signs point to another very strong year for the catastrophe bond and related insurance-linked securities (ILS) market, and a lack of new capital entering the commercial reinsurance space suggests interest in ILS will remain strong, according to Brad Adderley, Bermuda Managing Partner, Appleby.

Cat bond issuance in the opening quarter of this year picked up where the record-breaking 2023 left off, hitting a new Q1 high of $4.23 billion in a busy period for both repeat and new sponsors.

"Obviously, the volume of issuance and the number of new sponsors is good for the market, and it will be really interesting to see whether it continues, especially with the talk about rates starting to come down," said Adderley in an interview with Artemis.

Given the amount of new sponsors in 2023 and so far in 2024, and the arrival of new risks such as cyber, Adderley is positive on the market outlook and the fact the sector has shown it can do new risks without breaking the bank.

After reaching new heights in 2023, cat bond spreads have come down somewhat so far in 2024 but still remain attractive, and this is expected to fuel interest throughout the year.

"With spreads last year hitting record highs, if you're a private equity firm or similar that's active in the space, you're pretty happy with your return in what's a short tail and liquid asset class.

"Now, compare that to a new start-up which in the first year isn't liquid, and has all the costs of moving forward, so administration costs, talent, and everything else. And if anything, the cost of setting up a new reinsurer has become more expensive," said Adderley.

"If investors like the re/insurance space, are willing and interested, and they sufficiently understand the risk, they know that they can get their feet wet by doing cat bonds first. It's a type of re/insurance risk, it's quicker and more liquid and easier to get into than a commercial re/insurer and last year the rates were good. And, even if they go down slightly this year, you're still going to get a good return," he continued.

In spite of the improved returns in the traditional reinsurance and alternative risk space, there's been a notable lack of new market entrants, and capital raising from existing players has been limited.

"There's been quite a lot of talk about various players in the ILS and reinsurance markets, but let's be honest, how many of them have actually raised capital? And until they do, are other, potential new entrants really going to take note? I would say no. In the discussions I've had, no one has told me a good story about raising capital," said Adderley.

Interestingly, Adderley suggests that the now more protracted market cycle could be contributing to the lack of new capital entering the industry.

"In the past, the market would turn immediately, and people came in immediately to take advantage of that. Now, though, it seems more drawn out and over the last few years people have been saying it's a hard market, when in fact, it's only recently been a true hard market, and already you're hearing talk of it starting to turn again.

"So, if you're a potential new entrant on the side-lines and you've waited for the market to be truly hard, but you waited so long that it's now not quite as good, have you missed the boat?"

"What you really need to do is come in during a soft market, say two years early into the cycle, and during those years focus on getting your systems and people in place. Of course, you try not to lose too much money while you're gearing up, and then in year three, hopefully, the hard market hits and you're in a perfect position with a clean balance sheet and you've worked out all the growing pains," he explained.

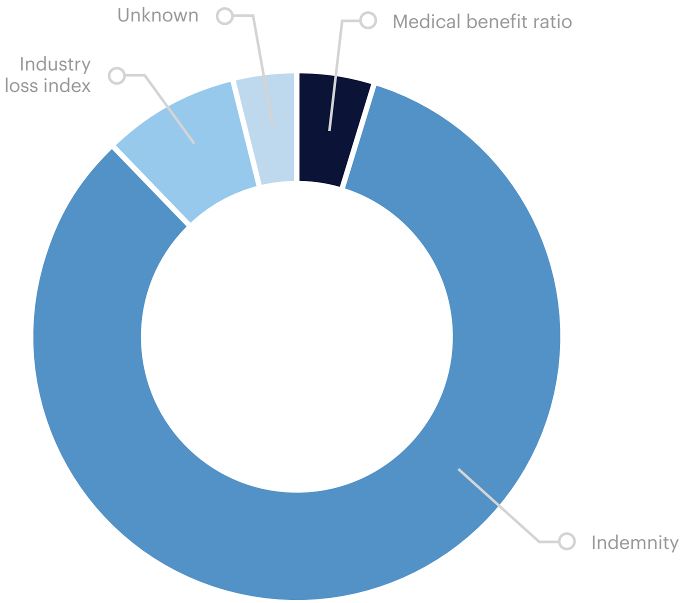
"On the other side, more capital entering the commercial re/insurance space could be bad for the cat bond market, as it could drive down pricing faster. So, it's a delicate balance," concluded Adderley.

BRAD ADDERLEY
BERMUDA MANAGING PARTNER

Q1 issuance by trigger type

Indemnity trigger structures once again dominated issuance in the opening quarter of the year, accounting for 83% of the total, as over $3.5 billion of deal volume utilised an indemnity trigger structure. This is in contrast to Q1 2023 when just 52% of total issuance had an indemnity trigger, as last year's quarter had greater trigger diversification than this year.

In Q1 2024, the industry loss index trigger accounted for 8% of issuance as just two transactions with a combined size of $350 million were structured on an industry loss basis. Last year, the industry loss trigger accounted for more than 29% of issuance.



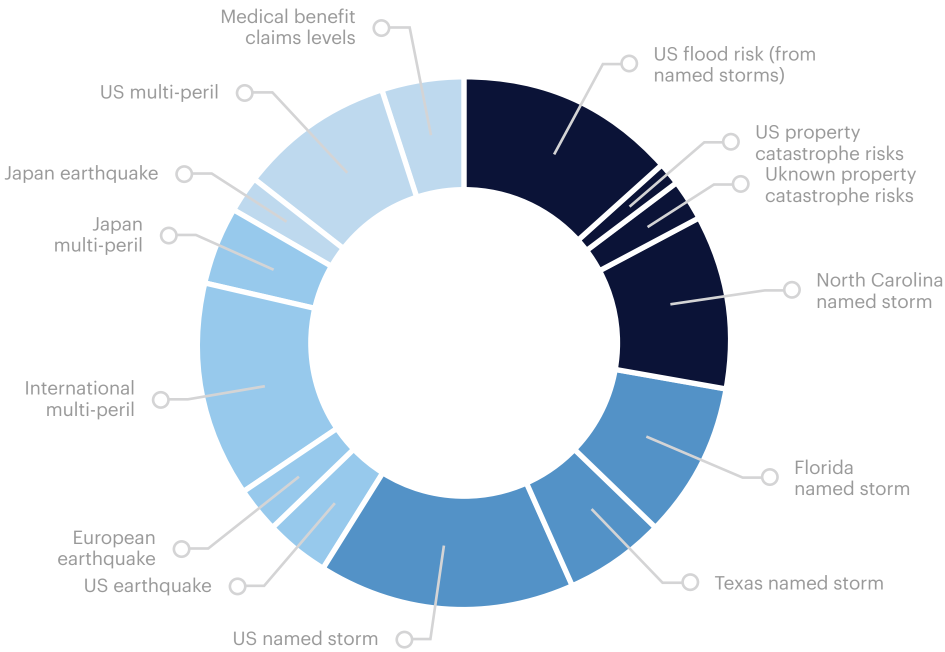
Aetna's $200 million healthcare transaction, a common feature of any Q1, again brought $200 million of trigger diversification in the form of a medical benefit ratio trigger, which accounted for almost 5% of issuance.

We do not have trigger information for the $159 million of privately placed cat bond transactions in Q1 2024.

Q1 issuance by peril

This chart shows how dominant 144A property cat bond issuance has been in Q1 2024. Deals from Heritage, SureChoice, North Carolina IUA, American Integrity, Tower Hill Insurance, and Texas Farm Bureau Insurance brought $1.76 billion of US named storm risk to market.

Deals from Brookfield, PURE, Arch, Fidelis, and Inigo covered multiple international perils, accounting for 13% of issuance, and all of these deals include US named storm risks, as well as Canada named storms and earthquake risks in the US and Canada.



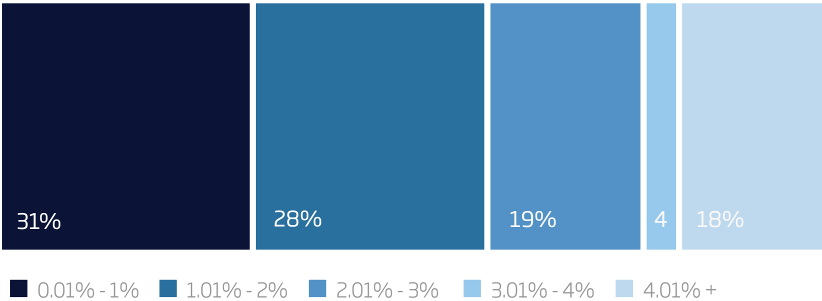
GeoVera Insurance provided investors with $175 million of US earthquake diversification, while FEMA returned with $575 million of US flood risk protection for the NFIP. Allstate also returned with a $400 million US multi-peril deal. Mitsui Sumitomo sponsored a $200 million deal covering Japan typhoon, flood, and earthquake risks, while Tokio Marine issued a $100 million Japan earthquake deal.

Investors also took advantage of European earthquake risk in Q1, as UnipolSai Assicurazioni sponsored a $109 million transaction covering claims related to quakes impacting Italy and neighbouring countries.

The only non-cat risk deal to feature from Aetna provided $200 million of medical benefit claims levels exposure. The $159 million of private deals covered a mix of unknown and US property catastrophe risks.

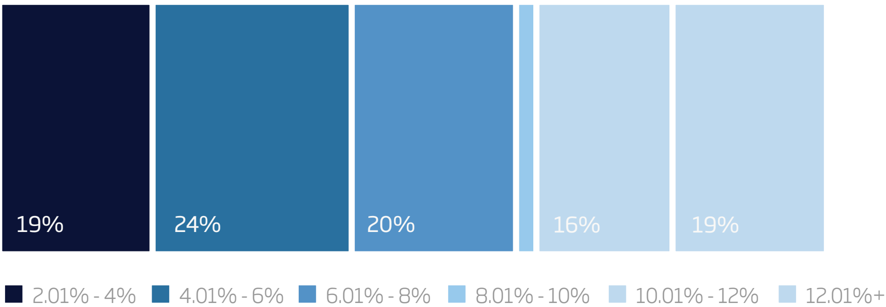
Q1 issuance by expected loss

The majority, 59% or $2.4 billion of Q1 2024 cat bond issuance that we have expected loss data for, had an expected loss of less than 2%, with $1.25 billion of this having an expected loss of 1% or less, which is in line with last year. 23% of issuance had an expected loss of more than 2% but less than 4%, and 18% of issuance had an expected loss of more than 4%. The average expected loss in Q1 2024 is 2.07%, which is down on Q4 2023 and similar to the 2.08% seen in Q1 2023. As is always the case with Aetna's deals, the Class A tranche of Vitality Re notes had the lowest expected loss of 0.01%. At 6.29%, the Class B of FloodSmart Re notes had the highest expected loss.



Q1 issuance by spread pricing

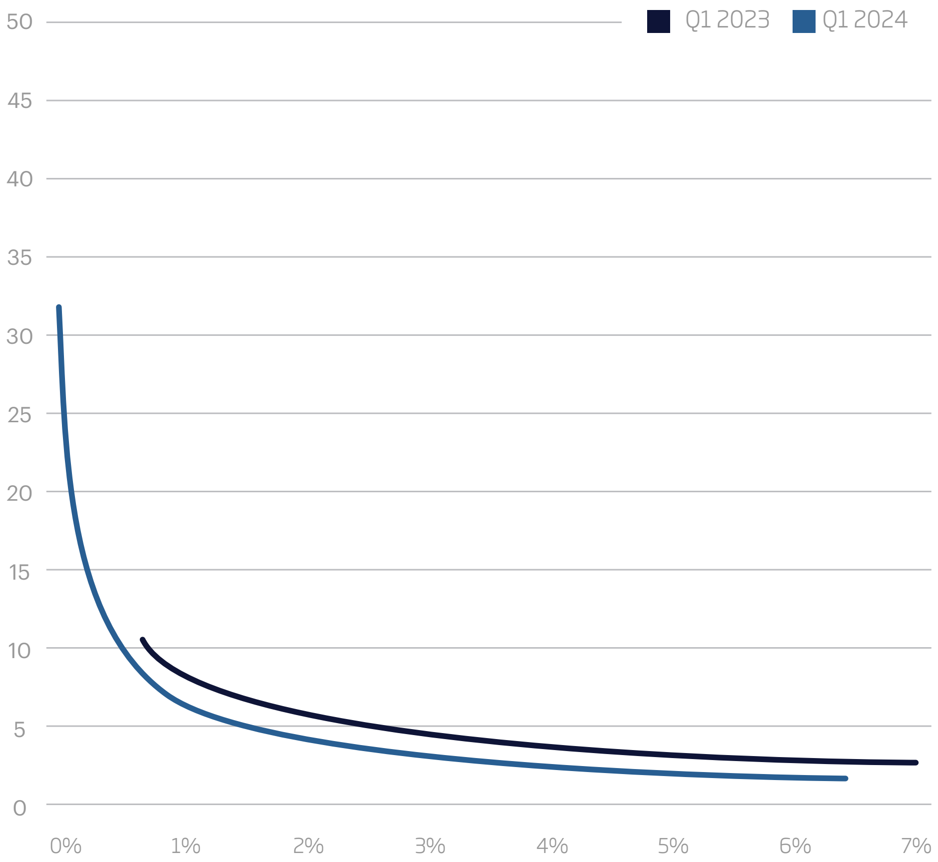
In terms of pricing, it was another strong quarter as 57%, or $2.34 billion of issuance that we have full pricing data for, paid investors a spread of more than 6%. In fact, 19%, or $760 million of issuance paid a spread of more than 12%, satisfying investor demand for higher returning cat bond opportunities. After falling from a high of 11.49% in Q1 2023, the average spread of quarterly issuance in Q1 2024 declined to 8.49% but remains attractive. The highest spread on offer in the quarter was 23% from the Class D tranche of Integrity Re notes, and the lowest was 2.5% from the Class A tranche of Vitality Re notes.



Q1 expected loss & multiple year-on-year

By plotting quarterly issuance by expected loss against the multiple (spread divided by expected loss), it's clear that investors continue to receive a higher multiple the lower the expected loss. The light blue line represents Q1 2024 and the dark blue line Q1 2023, and clearly shows the tightening of spreads and decline in prices year-on-year at every point along the risk curve.

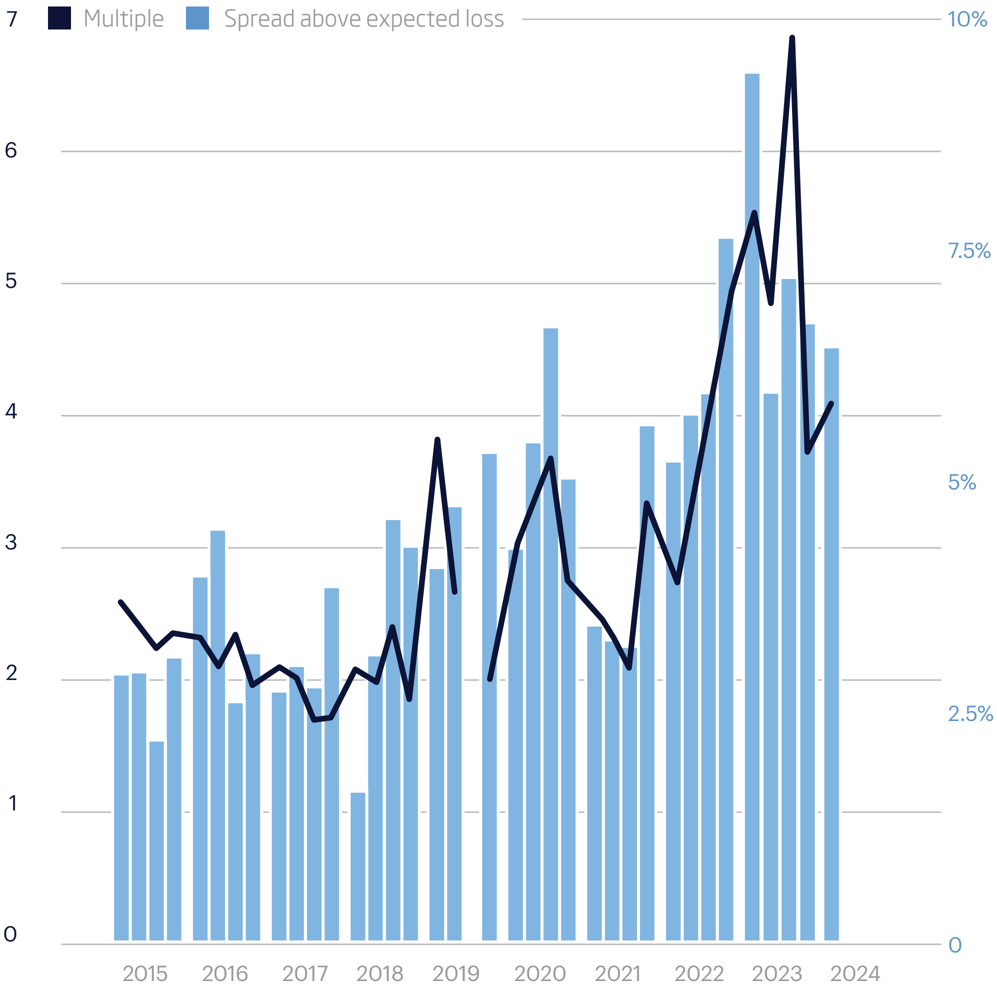
The average expected loss of Q1 2024 issuance is down year-on-year and so too is the average spread, ensuring that the average multiple has come down from 5.52 in Q1 2023 to 4.10 in Q1 2024. In spite of the decline, which is another reflection of spread tightening so far in 2024, investors will be pleased that the average multiple is still above 4.



Multiple and spread above expected loss by quarter

This chart shows the average multiple (the line) and the spread above expected loss (the bars) of quarterly issuance, revealing that in Q1 2024 the average multiple has risen but the average spread above expected loss has fallen from Q4 2023, with both metrics declining year-on-year.

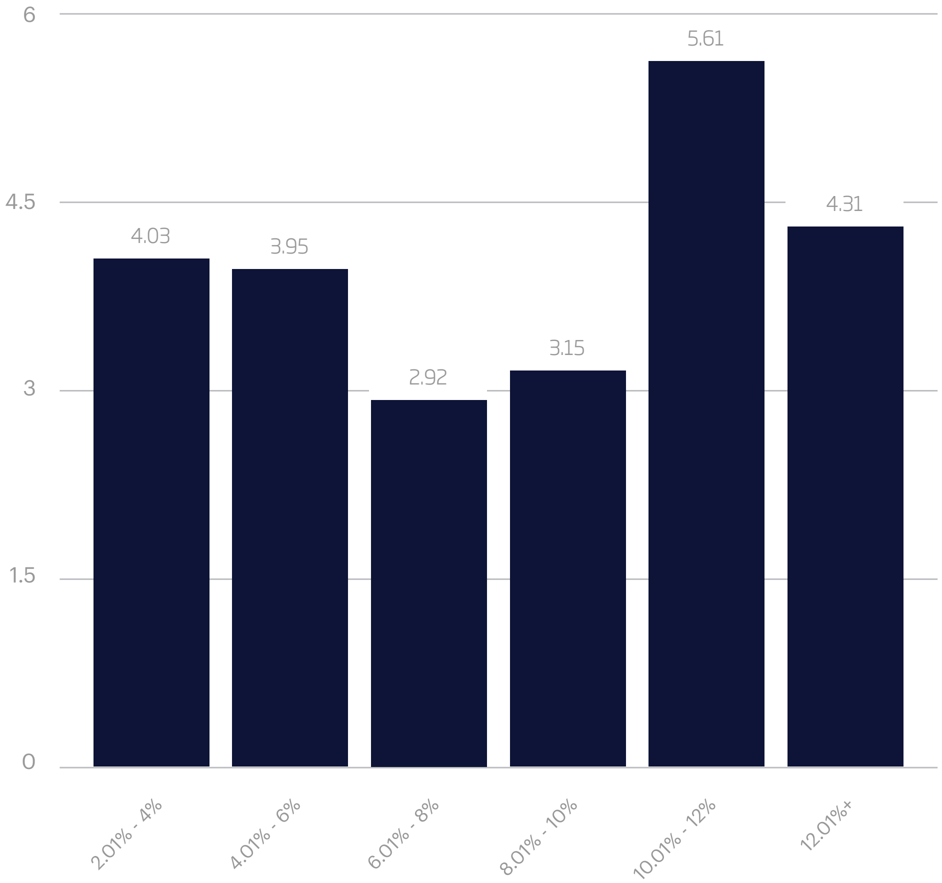
2023 was a record year for cat bond spreads, and although they have come down from the highs of last year, so far in 2024 investors have benefited from still favourable pricing dynamics. The average spread above expected loss ended Q1 2024 at 6.42%, so down on Q4 2023's 6.7% and the high of 9.41% in Q1 2023.



Q1 average multiple by spread pricing

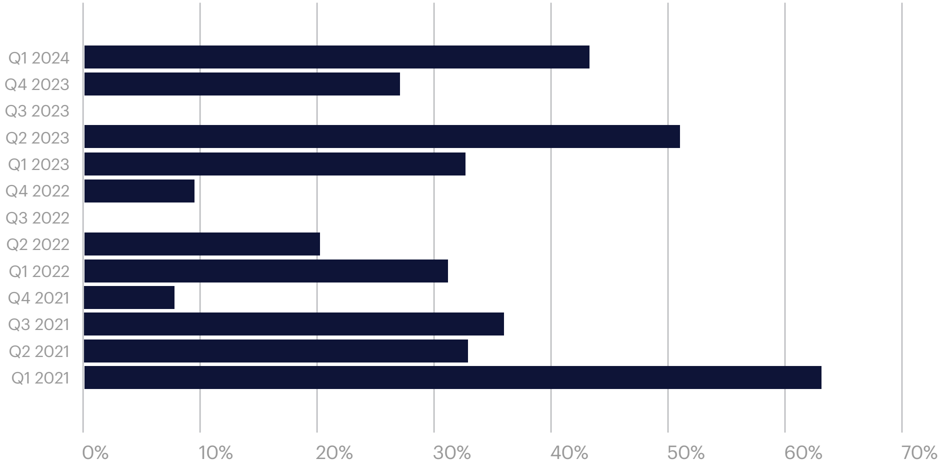
By plotting the average multiple of Q1 2024 issuance by the spreads on offer, you can see that with the exception of some of the highest priced deals, the lower spreads generally achieved higher multiples across the tranches of notes on offer.

This quarter, there were some very high spreads on offer, with many tranches paying a spread of more than 10%, three offering a spread of 17% or more, one of which had a spread of 23%. You can see from the chart that the especially higher priced notes had a higher average multiple than some of the mid-priced notes and the lowest priced ones in the quarter.

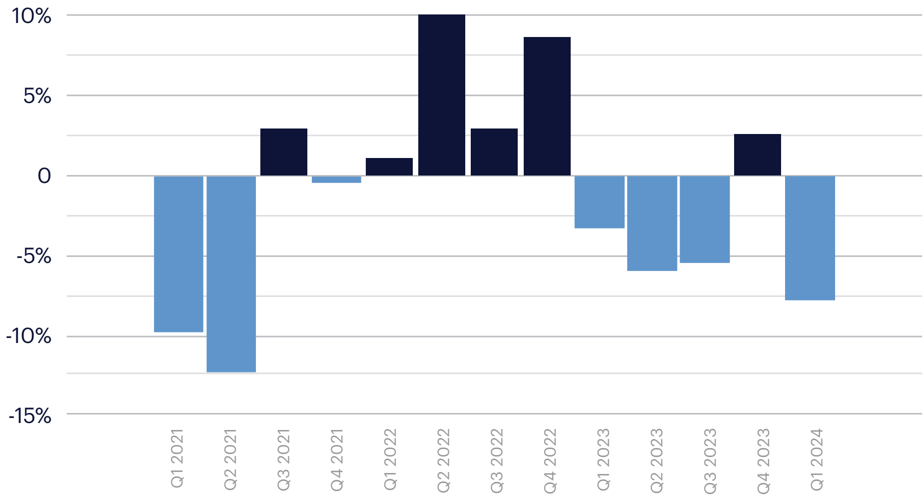


Issuance size and price changes

Sponsor and investor appetite was very strong in the opening quarter of the year thanks to the availability of cash, inflows, and maturities, with 14 tranches of cat bond notes growing in size while marketing, some of which more than doubled in size from their initial target. On average, deals upsized by 43.3% while marketing, which is the most since Q2 2023 and higher than the average of 32.6% seen in Q1 2023.



Reversing the positive average spread change of 2.7% in Q4 2023, on average, in Q1 2024 spreads declined by 8.2% from the mid-point of initial guidance, which is line with the first three quarters of last year as all but four tranches of notes that we have full pricing data for priced below the mid-point this quarter. It suggests that sponsors took advantage of investor appetite for re/insurance risk in Q1 2024, achieving strong execution on many of the deals that also upsized.

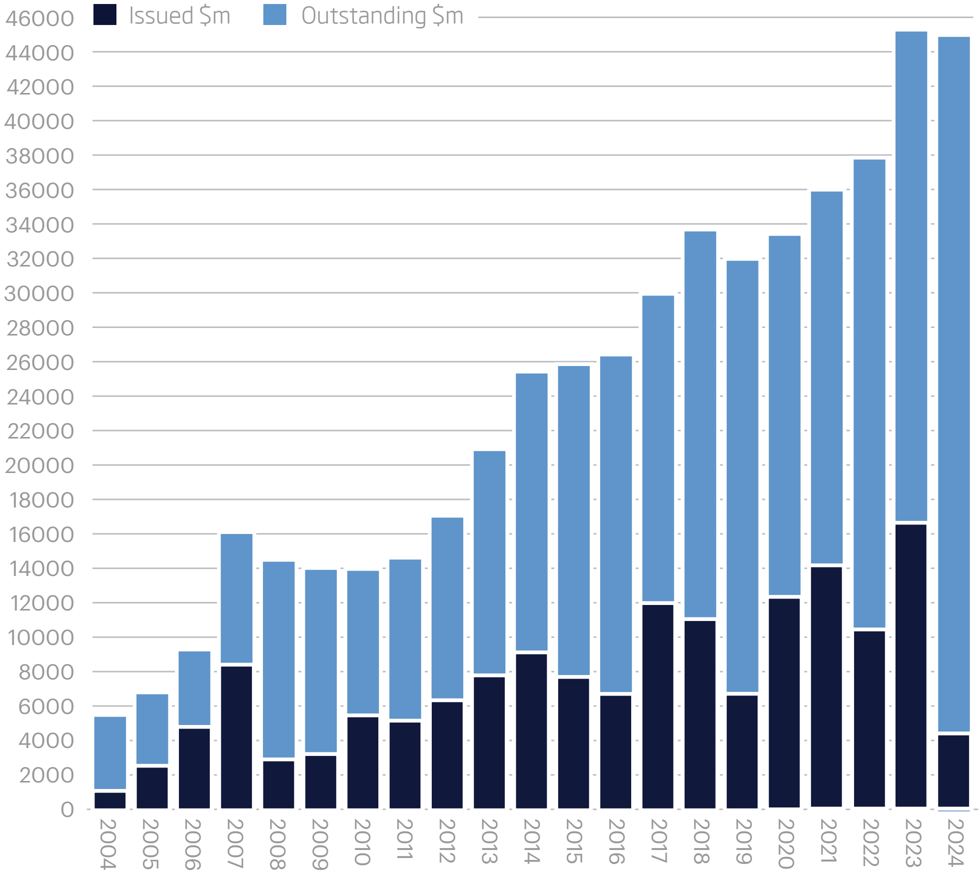


Issued / Outstanding

Despite the record $4.23 billion of issuance in Q1 2024, the outstanding market size has shrunk by $431 million from the record $44.96 billion as at the end of 2023, driven by a large number of maturities in the quarter, which is typical. However, at $44.53 billion, the outstanding market size is still very impressive and is $6 billion larger than it was at the end of Q1 2023.

For the market to achieve outright growth in 2024, Artemis' data shows that it will require an additional $7.7 billion of issuance in the nine months to December 31st as there's a further $7.3 billion of maturities scheduled by year-end. The average level of April-December issuance since 2015 is $7.7 billion, meaning that slightly above-average issuance for the rest of the year would take the outstanding market to a new high.

The Artemis Deal Directory already has numerous deals listed for April and Q2 is typically the busiest month of the year for the cat bond market as sponsors work to secure protection ahead of the hurricane season. It remains to be seen whether H1'24 can beat 2023's record of $10.33 billion, which would require more than $6.1 billion of issuance in Q2, but with the pipeline building and sources suggesting 2024 issuance could go as high as $20 billion, there's every chance the market grows again this year.



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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