



GC Capital Ideas.com

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Catastrophe Bond Update, Fourth Quarter 2013

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GC Editor

Influence from direct capital markets' participation in reinsurance programs, coupled with catastrophic insured losses well below historical averages in 2013, put significant pressure on global catastrophic reinsurance pricing. As a result of significantly reduced pricing (relative to recent years), approximately USD7.1 billion worth of new property/casualty (P&C) catastrophe bonds were issued in 2013 - the second largest record year for P&C issuance. The year included seven new sponsors - American Coastal, American Modern, AXIS Capital, the Metropolitan Transportation Authority (MTA), QBE, Renaissance Re and the Turkish Catastrophe Insurance Pool - who collectively secured USD1.46 billion of catastrophe bond capacity. In addition to new sponsors, another prevalent change in the market was the increasing use and acceptance of indemnity-based triggers. Given that spreads have tightened between indemnity and other trigger types, sponsors were inclined to take advantage of investors' openness to indemnity triggers to reduce coverage basis risk without a material increase in pricing relative to non-indemnity trigger pricing.

While capital markets pressured pricing through the first three quarters of 2013, traditional reinsurers responded to protect their market share and limit further pricing impact by offering attractive pricing, expanded structural features and in some cases collateralized capacity and/or limited multi-year capacity. Some insurers even started lining up capacity for their January 1, 2014 renewals before the end of the third quarter, given the desirable pricing seen in the traditional market. Despite the traditional market's response, insurance-linked securities (ILS) issuance in the fourth quarter of 2013 remained robust, as sponsors issued USD1.82 billion of capacity, a level of issuance consistent with the fourth quarters in previous years.

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