



# Q3 2014 Catastrophe Bond & ILS Market Report

A lazy summer for ILS

# ARTEMIS

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

[www.artemis.bm](http://www.artemis.bm)

---

# INTRO

This report reviews the catastrophe bond and insurance-linked securities (ILS) market at the end of the third-quarter of 2014, looking at new risk capital issued and the composition of transactions completed during Q3 2014.

As is typical, the third-quarter saw a summer lull with the risk capital issued in new cat bonds and ILS during Q3 only hitting \$364 million, according to the Artemis Deal Directory. The third-quarter, which occurs during the first three months of the U.S. hurricane season is often characterised by slower issuance as the market waits to see whether any storms develop. Q3 is also after the key June/July renewals, when many cat bonds are renewed and issued.

Artemis recorded \$364 million of new risk capital issued by 5 transactions during Q3. Three of the deals in Artemis' data for Q3 would be considered 'cat bond lite' transactions, but still a range of diversification came to market which will have been welcomed by investors at this slower time of the year.

No records have been broken in the third-quarter, yet the outstanding catastrophe bond and ILS market sat at a very impressive \$22.921 billion at the end of September. It is expected that issuance will pick up towards the end of the year with more new sponsors and some renewal cat bonds currently anticipated.

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

---

# Transaction Recap

As expected the third-quarter reflected the seasonal fears of hurricane season along with the lull between reinsurance renewals which typically ends up in a slower period of issuance. A total of 5 deals came to market, featuring 7 tranches of ILS notes from 5 issuers and totalling \$364 million of risk capital issued. 3 of the transactions are classed as private or lite cat bond deals, meaning that sponsor information is not available.

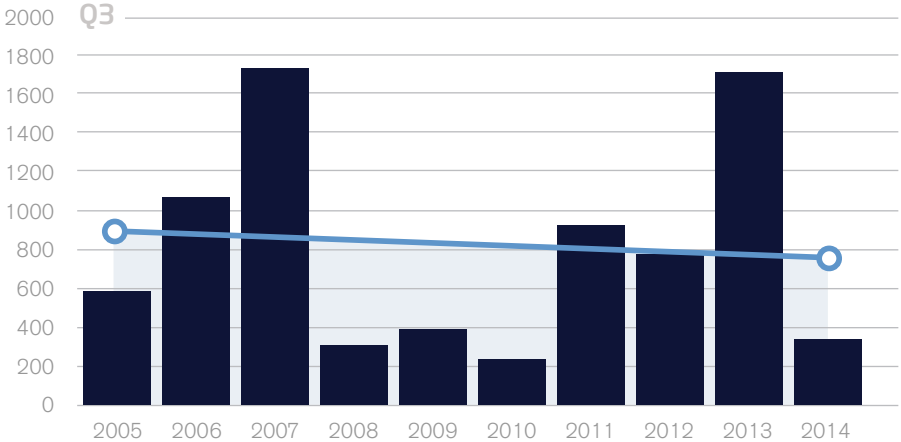
The other two transactions came from repeat sponsors, with the California State Compensation Insurance Fund demonstrating that catastrophe bond cover for its workers compensation risk is seen as a core component of its reinsurance programme as its second transaction completed. The other named sponsor, MyLotto24, demonstrated that a financial risk of loss can be transferred to the capital markets, as it repeated its Hoplon ILS deal to source protection against unexpectedly high lottery winnings.

The private transactions, or cat bond lites, brought a range of perils and triggers to the market as well. With 5 transactions in total the third-quarter saw 4 different trigger structures and 4 different peril diversification opportunities for ILS investors.

ISSUER / TRANCHE	SPONSOR	PERILS	SIZE (\$M)	DATE
Golden State Re II Ltd. (Series 2014-1)	California State Compensation Insurance Fund	Workers compensation claims resulting from California earthquakes	250	Sep
Dodeka III	Unknown	U.S. multi-peril	10	Aug
Hoplon II Insurance Ltd. Class A	MyLotto24	Lottery winning risk	33.2	Aug
Hoplon II Insurance Ltd. Class B	MyLotto24	Lottery winning risk	33.2	Aug
Market Re Ltd. (Series 2014-4) Class A	Unknown	U.S. earthquake	22	Jul
Market Re Ltd. (Series 2014-4) Class B	Unknown	U.S. earthquake	8	Jul
Kane SAC Limited (Series 2014-2)	Unknown	U.S. hurricane	7.32	Jul

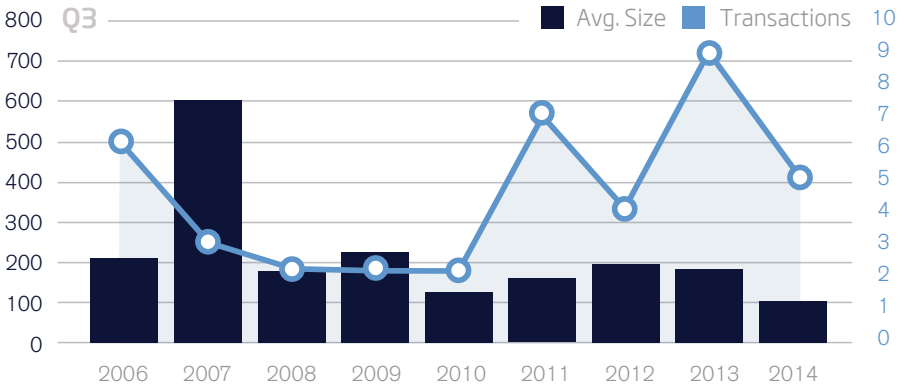
## Q3 ILS issuance by year (\$M)

The third-quarter of 2014 saw a below average level of risk capital issued, even for this typically slow quarter. The \$364 million of risk capital issued is considerably lower than the level seen in recent years, in fact the lowest Q3 total since 2010. Coming off the back of the largest single quarter in the market's history it is perhaps no surprise.



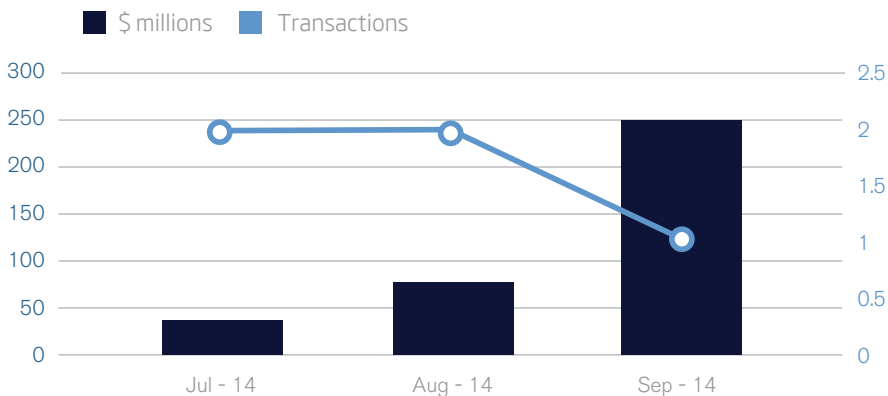
## ILS average transaction size & number of transactions by year (\$M)

For Q3 2014 the average transaction size recorded in the Artemis Deal Directory was the lowest ever seen, at just \$72.7m as the high proportion of private ILS deals influenced the figure. The number of transactions recorded, at 5, was slightly above the long-term average. Removing the cat bond lites takes the average transaction size up significantly to \$158m from the 2 transactions, however these figures are still below average.



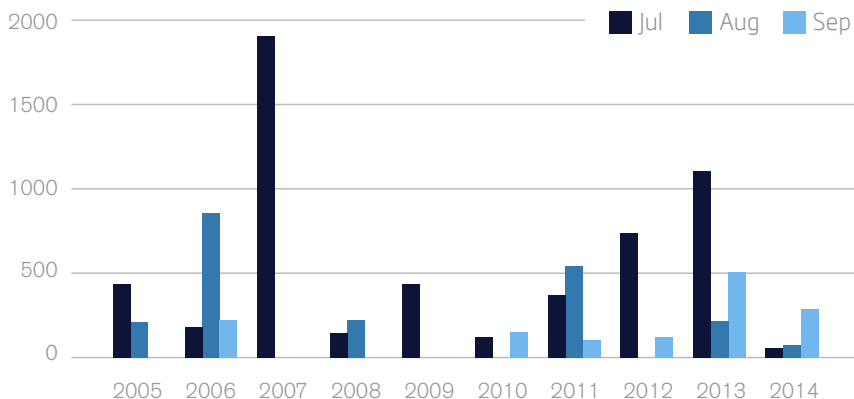
## Number of transactions and volume issued by month (\$M)

No single month was remarkable in Q3, as the ILS space witnessed a slow-down in issuance after the busiest first-half year on record. July and August are the two slowest months of 2014 so far and September beat February to now be the fourth lowest for risk capital issued.



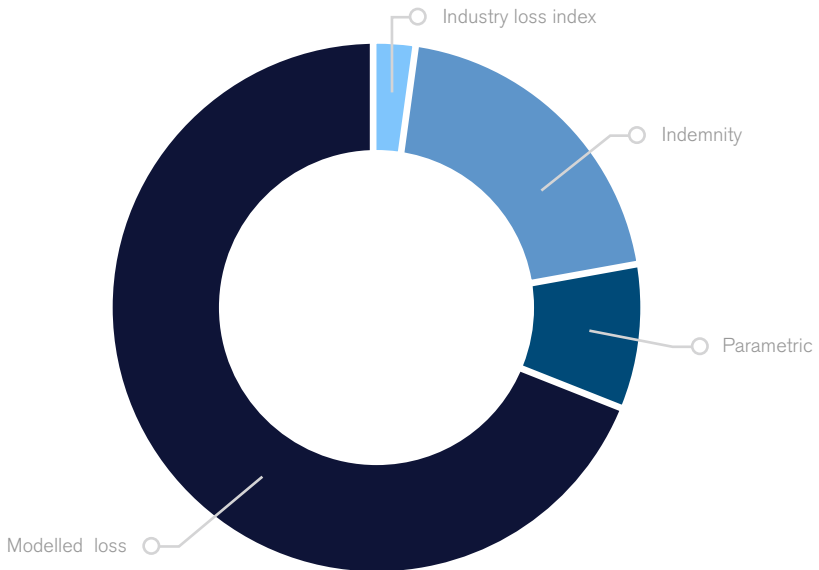
## Q3 issuance by month & year

Looking at Q3 ILS issuance by month and year really shows how slow 2014 has been in the summer months. It is possible that as ILS and cat bond issuance has become more efficient deals in 2013 have been completed earlier, meaning that there was less spill-over into July, which has typically been a stronger month. September, however, has actually seen above average issuance thanks to the single deal upsizing.



## Q3 2014 ILS issuance by trigger type

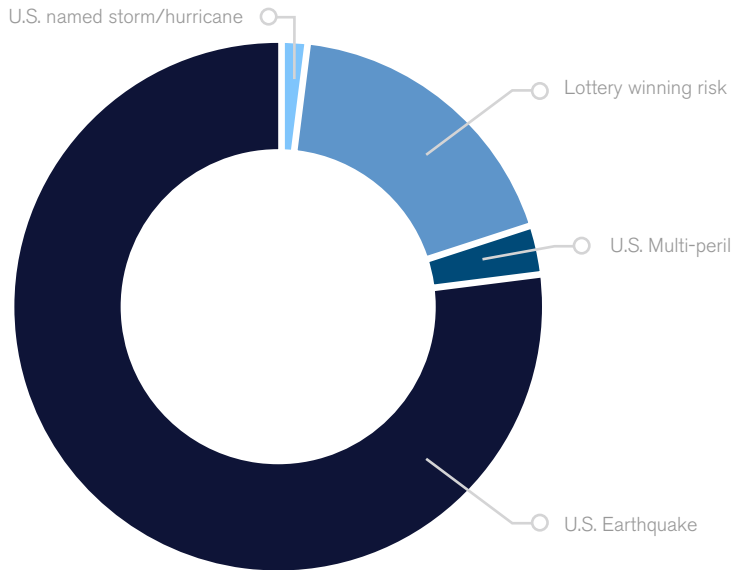
Q3 2014 issuance saw a diverse range of structures being brought to market, despite the slow level of issuance. The modelled loss trigger dominated, thanks to the Golden State Re II cat bond, but industry loss, indemnity and parametric all featured.



The three cat bond lite private deals all used different trigger types and even the Hoplon transaction, which is indemnity in nature, brought something a little different to the market as it is linked to financial loss rather than losses caused by a natural disaster event.

## Q3 2014 ILS issuance by peril

The third-quarter was dominated by U.S. earthquake risks, with the Golden State Re II deal bringing the bulk to market through its workers compensation losses from earthquakes linked cat bond deal. In the end 77% of the risk capital issued is linked to earthquake events.

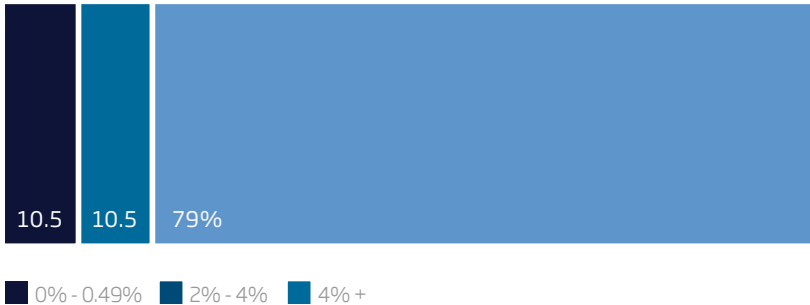


Perhaps as would be expected the Q3 issues saw very little hurricane risk come to market, given the U.S. hurricane season was underway. At just 2% of the risk capital issued, named storm risks were the smallest peril in Q3 cat bond issuance.

The Hoplon ILS transaction brought some interesting diversification in the form of lottery winning risks to market, making up 18% of the risk capital issued in Q3. U.S. multi-peril made up the rest, at just 3% of risk capital issued. Despite the diverse range of deals the low amount of risk capital issued means investors will not have found it sufficient to really aid their portfolio mix.

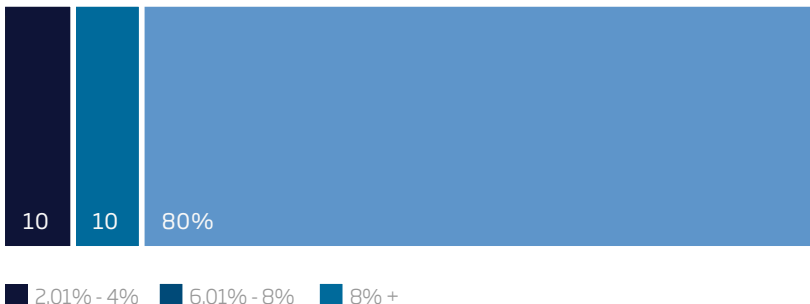
## Q3 2014 ILS issuance by expected loss

Q3 2014 only saw three tranches of notes where we have the expected loss figures to analyse. One transaction, the \$250m Golden State Re II, was an extremely low risk cat bond with an expected loss of just 0.25%. The two tranches of lottery winning risk linked notes from Hoplon brought a much higher level of risk to market.



## Q3 2014 ILS issuance by coupon pricing

A range of yields were available from the small amount of issuance in Q3 2014. The lowest pricing was 2.2% from the Golden State Re II cat bond, reflecting the very low expected loss. The highest priced deal was the Class B tranche of the Hoplon lottery winning risk-linked deal, which pays investors an attractive coupon of 12%.

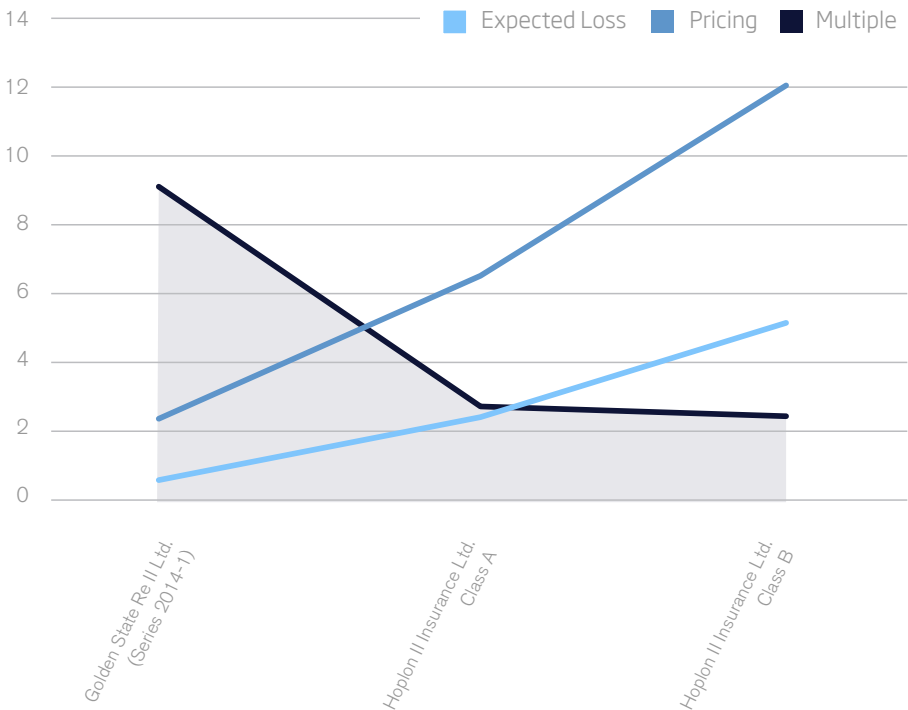




## Pricing Multiples

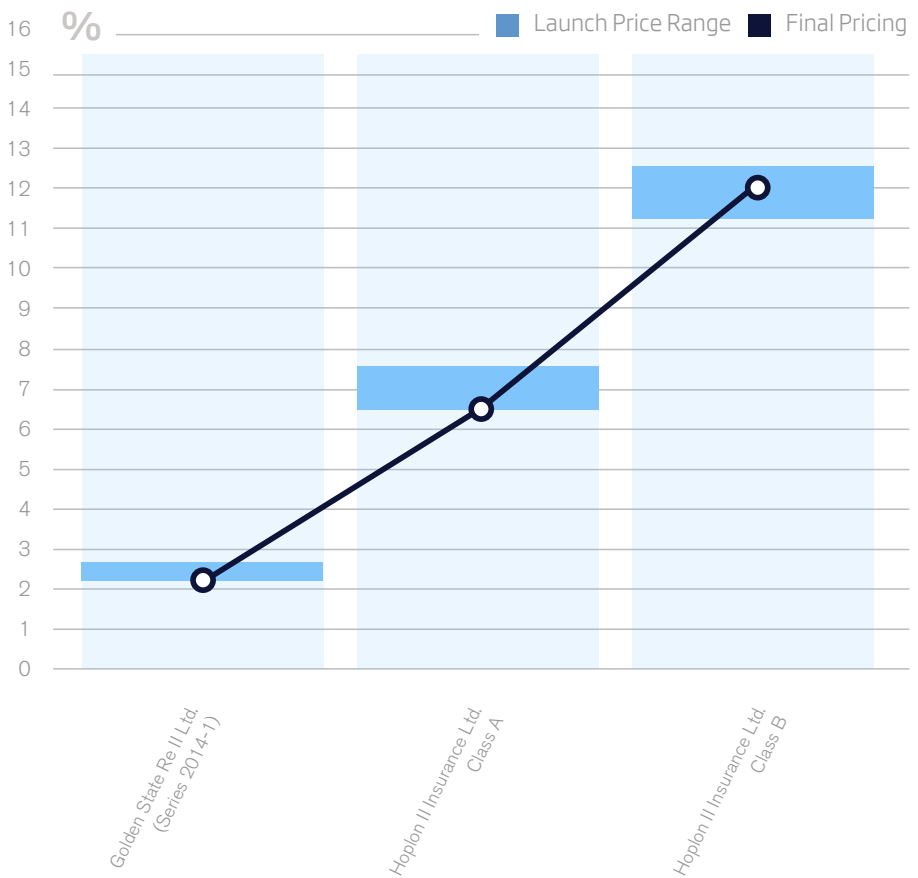
The average multiple (price coupon divided by expected loss) of Q3's catastrophe bond and ILS issuance was 4.61. This is actually higher than in recent quarters, but is skewed by the very low coupon of the Golden State Re II cat bond which has a high multiple, showing that investors will not reduce the coupon so low as to keep the multiple aligned with other transactions.

This seems to reflect the ILS and cat bond pricing floor, which appears to be around the 2% mark. Had the Golden State Re II multiple been more aligned with other transactions the coupon would have been below 1%. We believe this shows that ILS investors are not prepared to continue lowering pricing at any cost and the asset class needs to have a certain level of return in order to provide an alternative to other fixed income bonds and treasuries.



## Cat bond and ILS price changes during Q3 2014 issuance

With only three transactions during the quarter which we have full details on launch and final pricing for, insight into pricing trends is limited for Q3. The trend towards pricing settling at the lower end of guidance continued on the Golden State Re II bond, as well as on the lower-risk tranche of Hoplon. However the higher risk Hoplon tranche showed that investors will demand a reasonable return for their capital allocations, as it priced nearer the upper end of initial guidance.

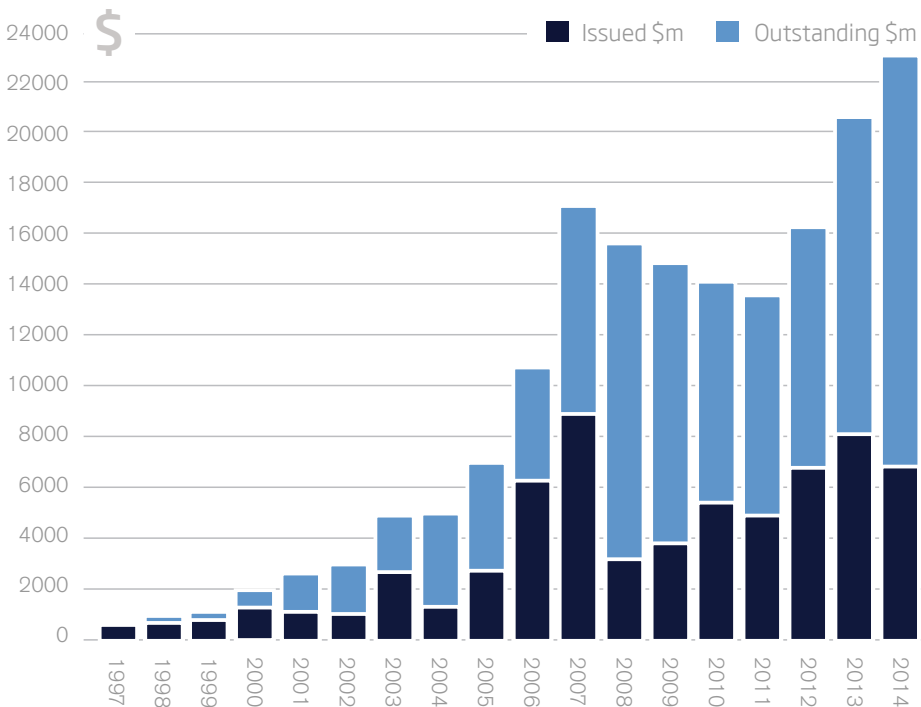


## Issued Outstanding

Issuance of new catastrophe bond and ILS risk capital could not keep up with maturities through the third-quarter, which has resulted in the outstanding market shrinking very slightly, by \$140m, to end Q3 2013 at \$22.921 billion.

Issuance to date in 2014 now stands at \$6.633 billion, which is the third highest annual issuance ever seen in the market's history. Only \$1.1 billion more issuance is required to beat the total seen in 2013 and \$1.61 billion of Q4 issuance would see 2014 become the highest single year of issuance on record.

Despite having shrunk slightly during Q3, the outstanding ILS and cat bond market remains approximately \$2.4 billion larger than it was at the start of the year. At this stage, based on conversations with market participants about the deal pipeline, we would expect issuance in 2014 to at least be comparable to 2013 and perhaps to beat it. \$8 billion remains a possibility, although the slow Q3 has perhaps hurt the market's aspirations of breaking another record.



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/)



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

Opportunities exist to work with Artemis to increase your profile to this segment of the global reinsurance and risk transfer market. Advertising opportunities, sponsorship, content development and partnership opportunities are available. Contact us to discuss.

**CONTACT ARTEMIS:**

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

To download a media pack visit:  
[www.artemis.bm/advertise/](http://www.artemis.bm/advertise/)