ILS MARKET UPDATE

ILS Issues Wakeup Call for Insurance World

WILLIS CAPITAL MARKETS & ADVISORY

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Q2 2015 Market Outlook

"If all you have is a hammer, everything looks like a nail" is a proverb/cliché of uncertain provenance. It partially captures the myopic outlook of selected ILS sector participants from investors and reinsurers, to brokers, arrangers and other intermediaries as well as ceding companies. Nor are regulators, rating agencies and even market commentators completely immune from this affliction.

"Some players are missing the chance to restructure their reinsurance programs to better integrate ILS capacity"

In practice, this traps some players in the past as their competitors move ahead. Consider the ceded re executive focused on using ILS to buy the same reinsurance program as in the past more cheaply. They are missing the chance to restructure their reinsurance program to better integrate ILS capacity and make more dramatic performance and efficiency gains instead of small ones. In the reinsurance programs of many Florida reinsurance programs, we see relatively more strategic restructuring of reinsurance programs and commensurate gains to the benefit of shareholders as well as policyholders. Of course saving 25% rather than 10% on the cost of reinsurance (with the same or better quality of coverage) has a dramatic and nonlinear effect on shareholder wealth and on the ability to offer a competitive insurance product. Many other examples come to mind and by no means are all of these limited to the U.S.

Q3 is traditionally a quiet time in the ILS market as well as in the broader reinsurance world. It is a time of post-renewal discussions, pre-Monte Carlo planning, and vacations interrupted by the odd threatening U.S. hurricane, Japanese typhoon or other cat event. While that planning can continue to focus narrowly, many will think more broadly about relevance and adding value. If not, they risk a game of musical chairs where they are left with nowhere to sit when the music stops.

"Regardless of whether we see slightly more (or fewer) cat bonds and sidecars in H2 2015, we will see further penetration of ILS capital to the insurance business (and not just for nat cat)"

Initiatives like Nephila's fronting relationship with State National to enter the U.S. direct insurance business are more toward the beginning and not the end of a wave of dramatic structural change caused by ILS moving from reinsurance to insurance. As evidenced by the State National example, this change will not look the same as the many changes to the reinsurance landscape. For example, cat bonds as currently configured have limited direct application to the insurance world (this is just simple math). One other observation: as with the changes sweeping reinsurance, while the entry of ILS into insurance may start in the U.S. and in London, it will not end there. Given this, our outlook is that regardless of whether we see a few more or slightly less cat bonds and sidecars in H2 2015, we will see further penetration of ILS capital to the insurance business – and not just for nat cat. This will in turn create substantial winners and losers (with some in each category being surprises) and begin to dramatically upset well settled market practices ultimately for the benefit of policyholders through the increased availability and affordability of insurance. This is change that will impact the larger world and not just a handful of industry insiders whose fortunes rise and fall from the cyclical rhythm of the insurance and reinsurance marketplaces. It will be noticed.

Q2 2015 Cat Bond Market Issuance Overview

The second quarter of 2015 saw $2.7 billion of non-life catastrophe bonds issued through 9 transactions (Q2 2014 saw $4.5 billion through 10 deals). This follows on the heels of a historically strong first quarter in which the market saw $1.5 billion of issuance, and brings total non-life capacity issued year-to-date to $4.1 billion.

"UnipolSai was the only new sponsor in Q2 2015 "

Eight out of the nine catastrophe bond sponsors were repeat issuers, with UnipolSai Assicurazioni representing the only new sponsor with its Italian earthquake bond, Azzurro Re I. Repeat sponsors included serial issuers USAA, Travelers, Florida Citizens and other well-known market participants such as AIG and Heritage.

It is worth noting that indemnity deals dominate the second quarter of 2015 as all the 144A transactions issued during the period are using an indemnity trigger.

($ in millions)

Q2 2015 Cat Bond Issuance[a]

Sponsor	Issuer / Tranche	Issue	Maturity	Amount	EL	Spread	Basis	Risk	Trigger
UnipolSai	Azzurro Re I Ltd.	Jun-15	Jan-19	$225	0.31%	2.15%	OCC	Italian Earthquake	Indemnity
AIG	Compass Re II Ltd. 2015-1[b]	Jun-15	Dec-15	$300	1.94%	5.00%	OCC	US Wind	Parametric Index
USAA	Residential Re 2015-1 11	May-15	Jun-19	$100	2.50%	6.00%	Ann. Agg.	Tropical Cyclone, EQ, Sev. T / Winter Storm, Wildfire, Volcanic Eruption, Meteorite	Indemnity
USAA	Residential Re 2015-1 10	May-15	Jun-19	$50	7.28%	11.00%	Ann. Agg.	Tropical Cyclone, EQ, Sev. T / Winter Storm, Wildfire, Volcanic Eruption, Meteorite	Indemnity
Travelers	Long Point Re III 2015-1	May-15	May-18	$300	1.18%	3.75%	OCC	Tropical Cyclone, EQ, Sev. T / Winter Storm	Indemnity
TWIA	Alamo Re 2015-1 A	May-15	Jun-18	$300	2.68%	5.90%	Ann. Agg.	Named Storms	Indemnity
TWIA	Alamo Re 2015-1 B	May-15	Jun-19	$400	1.58%	4.60%	Ann. Agg.	Named Storms	Indemnity
FL Citizens	Everglades Re II 2015-1	May-15	May-18	$300	1.55%	5.15%	Ann. Agg.	US Wind	Indemnity
MPIUA	Cranberry Re Ltd. 2015-1	Apr-15	Jul-18	$300	1.38%	3.80%	Ann. Agg.	Named Storms, Sev. T / Winter Storm	Indemnity
LA Citizens	Pelican III Re Ltd. 2015-1	Apr-15	Apr-22	$100	3.51%	6.00%	OCC	Named Storm	Indemnity
Heritage	Citrus Re Ltd. 2015-1 A	Apr-15	Apr-18	$150	1.41%	4.75%	OCC	Named Storms	Indemnity
Heritage	Citrus Re Ltd. 2015-1 B	Apr-15	Apr-18	$98	2.79%	6.00%	OCC	Named Storms	Indemnity
Heritage	Citrus Re Ltd. 2015-1 C	Apr-15	Apr-18	$30	5.64%	9.00%	OCC	Named Storms	Indemnity
			Q2'15 Total:	$2,653					

"Citrus Re 2015-1 is the first bond to replace coverage provided by the Florida Hurricane Cat Fund"

Citrus Re 2015-1 represents Heritage's third time accessing catastrophe bond capacity. It provides Heritage with $277.5 million of fully collateralized protection for personal residential and commercial policies against Florida hurricanes for a three-year term. The transaction features an indemnity trigger on a per occurrence basis. This is the first catastrophe bond to replace coverage provided by the Florida Hurricane Cat Fund ("FHCF"): it offers investors three classes of notes, two of which - Class B and Class C – replace a portion of Heritage's FHCF reinsurance participation.

Source: WCMA Transaction Database as of 06/30/2015.
(a) All issuance amounts reported in or converted to USD. EL for hurricane deals is based on WSST conditioned catalog for AIR and medium-term catalog for RMS.
(b) Expected loss is per annum but the spread is an absolute number.
Note: Data excludes private ILS deals with a size smaller than $100 million.

Q2 2015 Cat Bond Market Issuance Overview (Continued)

Louisiana Citizens Q2 issuance, Pelican Re 2015-1, secured $100 million of per occurrence coverage for hurricanes impacting the State of Louisiana. It is a three-year bond with an indemnity trigger and a 3.51% expected loss. The attachment point of $175 million is slightly lower than the maturing Pelican Re 2012 deal, which attached at $200 million of losses. The transaction priced at a spread of 6.00% dropping below the low-end of the initial guidance range of 6.25% to 7.00%.

"MPIUA utilizes a double trust structure"

Massachusetts Property Insurance Underwriting Association (MPIUA) sponsored a $300 million transaction which utilizes a double trust structure. Hannover Re, as fronter of MPIUA under the transaction, is the party effectively reinsured by Cranberry Re. However the double trust structure ensures that the collateral is deposited in a reinsurance trust account to the benefit of MPIUA and not of Hannover Re. This effectively allows MPIUA to benefit directly from the cat bond collateral. Cranberry Re will provide protection on an indemnity and annual aggregate basis over a three-year period against losses from Massachusetts named storms. The deal was oversubscribed and upsized from $200 million while pricing at the bottom of the initial guidance, offering a 3.80% spread.

Following last year's $1.5 billion placement, Florida Citizens sponsored a new $300 million indemnity, annual aggregate bond in Q2, providing 3 years of coverage against Florida named storms. Everglades Re II 2015-1 is the first of the Everglades cat bonds to cover named storms instead of just Florida hurricane risks. The deal has an expected loss of 1.55% and priced at a spread of 5.15% while upsizing 20%. The initial spread guidance increased by 75 basis points to allow a higher coupon after investors pushed back on the deal.

"After sponsoring a $400m bond in 2014, TWIA returned to the market with a $700m deal"

After sponsoring a $400 million transaction in 2014, Texas Windstorm Insurance Association (TWIA) returned to the market with a $700 million deal which covers named storms in Texas. The cat bond has two tranches, using an indemnity trigger on an annual aggregate basis. The Class A tranche with a 2.68% expected loss is the riskier of the two and will cover TWIA for three years. The Class B tranche has a 1.58% expected loss and a four-year duration. Alamo Re 2015-1 upsized by almost 56% in total size before closing: the Class A tranche grew by 50% to $300 million while the Class B tranche by 60% to $400 million. The spread closed near the upper end of the initial range with the Class A notes settling at 5.90% and the Class B notes at 4.60%.

Longpoint Re III 2015-1 is Travelers' first multi-peril deal as it provides cover against U.S. tropical cyclone, U.S. earthquake, severe thunderstorm and winter storm over a three-year term. This $300 million per occurrence bond features an indemnity trigger with an initial attachment of $2.0 billion. The bond was upsized from an initial size of $200 million due to strong investor demand. The bond priced at a spread of 3.75%, the mid-point of the initial guidance of 3.50% - 4.00%.

Q2 2015 Cat Bond Market Issuance Overview (Continued)

"Class 10 notes with a 1.51x EL multiple highlight the appetite of investors to access higher yielding cat bond notes"

True to form, USAA returned to market with their well established Residential Re franchise. Residential Reinsurance 2015 was established in the Cayman Islands for the purpose of issuing catastrophe bonds during the course of the year. USAA secured $150 million of annual aggregate cover over a four-year period. The issuance was comprised of two classes of notes, the Class 10 notes and the Class 11 notes. The Class 10 notes secured $50 million of annual aggregate coverage against U.S. tropical cyclones, earthquakes, severe thunderstorm, winter storm, wildfire, volcanic eruption and meteorite impact. The notes priced at a spread of 11.00%, which was in the lower end of the initial guidance of 10.75% - 11.75%. This tranche has a particularly low multiple of 1.51 times the expected loss, which highlights the appetite of investors to access higher yielding cat bond notes. The Class 11 notes, secured $100 million against the same perils as the Class 10 notes. The notes priced at a spread of 6.00% at the top end of the initial guidance of 5.50% - 6.00%.

AIG accessed $300 million of protection from the issuance of Compass Re II, a six-month zero coupon bond covering US wind risk along the Gulf and East coasts, from Texas to Massachusetts. The transaction is on a per-occurrence basis and uses a parametric index trigger. This is the first time AIG structured a parametric cover for its ILS transactions. The deal upsized by 50% while the spread, which had initial guidance of 4.50% to 5.25%, closed at 5.00%.

"Azzurro Re I is the first cat bond exposed to Italian earthquake and ensuing perils"

Through Azzurro Re I, UnipolSai Assicurazioni (the largest Italian non-life insurer) secured €200 million of fully collateralized protection against earthquakes in Italy and neighbouring countries for 3.5 years. Azzurro Re I is the first European risk of the year in the market while UnipolSai Assicurazioni is the first European primary insurer of the year to sponsor a cat bond. The structure features an indemnity trigger on a per occurrence basis. Azzurro Re I is the first cat bond for the company and the first ever indemnity trigger cat bond primarily exposed to Italian earthquake and ensuing perils. Investors were particularly interested in the fully diversified exposure that Azzurro Re I will provide them: the deal was oversubscribed and upsized from the initial €150 million. The Notes pay a risk spread of 2.15%.

WCMA Interview: Franco Urlini and Mirko Sartori (Assicurazioni Generali)

Q: How do you view cat bond and collateralized reinsurance capacity within the context of your total reinsurance purchase and overall risk transfer strategy?

Mirko Sartori: ILS and collateralized reinsurance are definitely part of the protection and risk transfer strategy of Generali Group. As a result we always investigate potential opportunities emanating from the traditional and alternative markets with the clear objective to optimize capital allocation and risk protection in the best interest of our shareholders.

Franco Urlini: The unique features of our portfolio do not always make the ILS market the most attractive and competitive tool available, but we are constantly exploring opportunities.

***Franco Urlini** (Group Head of Reinsurance at Assicurazioni Generali)*

***Mirko Sartori** (Head of Insurance Liability Management at Assicurazioni Generali)*

Q: What are your considerations when approaching the ILS market? What features of cat bonds and collateralized reinsurance are more appealing to Generali?

Mirko Sartori: The ILS market certainly provides a good contribution to traditional reinsurance cover or risk transfer in general. Depending on the market conditions and the peril/region combination, ILS products may be purchased at competitive terms for cedants in comparison to the traditional reinsurance market. The ideal set-up depends on the kind of risk, but generally speaking indemnity cat bonds with variable reset on one hand and reliable/flexible counterparties for collateralized capacity on the other are usually preferable.

"ILS market has already progressed a lot since the early days, but now it would be good to see more different perils being placed"

Q: What impact have you seen on pricing (ROL) of catastrophe reinsurance programs overall (if any) given recent growth in non-traditional capacity?

Franco Urlini: Overall, the current trend of the reinsurance market is quite evident and has shown a softening of prices for traditional reinsurance protections and for catastrophe risk in particular. The fast growing interest of investors for reinsurance products has certainly played a major role in such a trend but the lack of significant losses in the market over the last few years has had also an important impact. Abundant capacity, traditional and non-traditional, opposed to a stagnant economy and consequently stable demand for capacity, originated a market currently favourable for buyers. Double digit ROL reductions for programmes unaffected by losses have been common over the last few years.

Q: Are there features of the cat bond or collateralized reinsurance product that you would like to see change or evolve?

Mirko Sartori: The ILS market has already progressed a lot since the early days, but now it would be good to see more different perils being placed, as it is currently happening from time to time, to expand the scope of the space. To foster that we also need to promote constant dialogue with specialized investors as it currently happens in traditional and collateralized reinsurance.

Note: Franco Urlini is Group Head of Reinsurance while Mirko Sartori is Head of Insurance Liability Management at Assicurazioni Generali and are not affiliated with Willis Capital Markets & Advisory or its affiliates. The views expressed herein by Mr. Urlini and Mr. Sartori are their personal and do not reflect the views of Assicurazioni Generali or Willis Capital Markets & Advisory or their respective affiliates.

WCMA Interview: Franco Urlini and Mirko Sartori (Assicurazioni Generali)

"The ILS space has the potential to become a more comprehensive tool, available to primary insurers as well"

"The development of the ILS market share is very much driven by the level of remuneration that buyers are able to recognize to the providers"

Franco Urlini: Additionally our experience within the ILS market has proved to be quite demanding in terms of wordings, documentation and formalities; in general more complex. The lack of a certain degree of flexibility in line with the traditional market attitude could compromise opportunities for investors.

Q: What factors do you see shaping the ILS market currently? Where do you see the ILS market heading in over the next five years?

Mirko Sartori: Solvency II provides opportunities for the optimization of protection and capital allocation, also through innovative techniques; perhaps it will take some time but it is certainly going to accelerate the development of the securitization market. In a few years the ILS space has the potential to become a more comprehensive tool to protect insurers' balance sheets, available to primary insurers as well.

Q: Do you expect the amount of non-traditional capacity available to buyers such as Generali to continue to increase or to reach some natural level whereby additional growth will be difficult?

Franco Urlini: I believe that the amount of non-traditional capacity available is ample and growing; I would instead comment more on the development of its market share which is very much driven by the level of remuneration that buyers are able to recognize to the providers.

In fact, opportunities for investors in terms of achievable returns outside of the ILS space are, of course, at the expenses of the traditional reinsurance industry which seems, as a consequence, quite defensive on its consolidated position especially in non-catastrophe lines. It will be interesting to see the reaction of both the ILS and traditional reinsurance markets when and whether a significant loss will hit the industry in an important way. Whilst it could discourage investors to put money in a very volatile business such as reinsurance, it may also impact the level of expected returns on ILS products, and attract new capital and new investors. However, at the moment, we still see a disproportion between supply and demand, with clear signs of over-supply.

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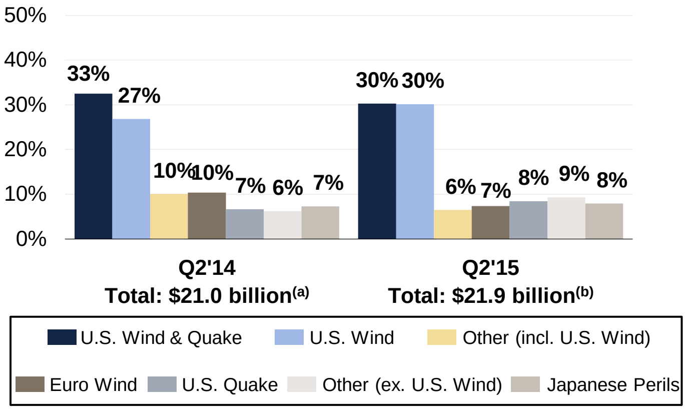
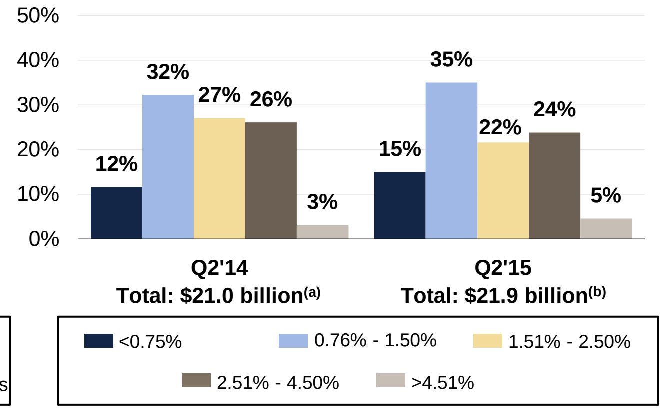
ILS MARKET UPDATE

Q2 2015 Cat Bond Market Statistics

Par Outstanding by Risk Peril

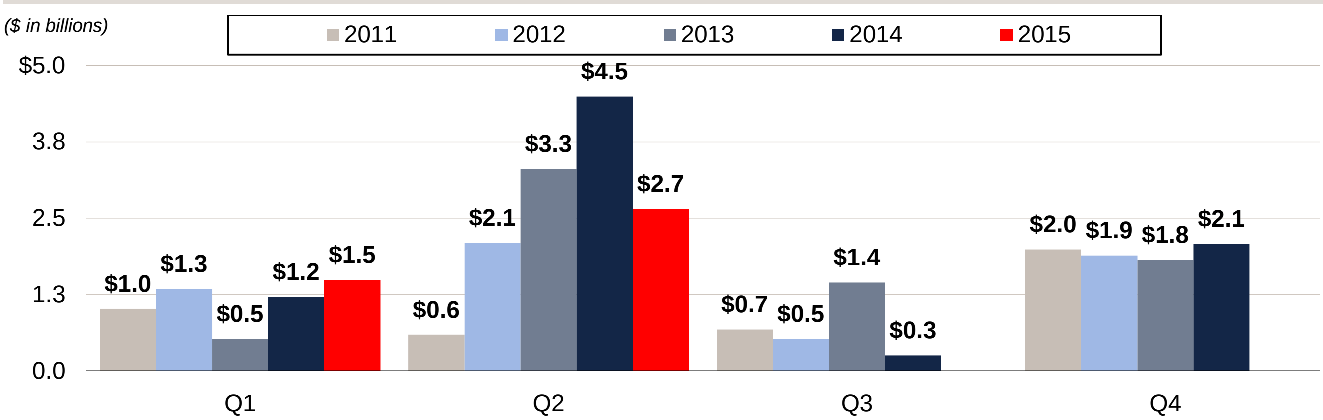


Par Outstanding by Expected Loss at Issuance

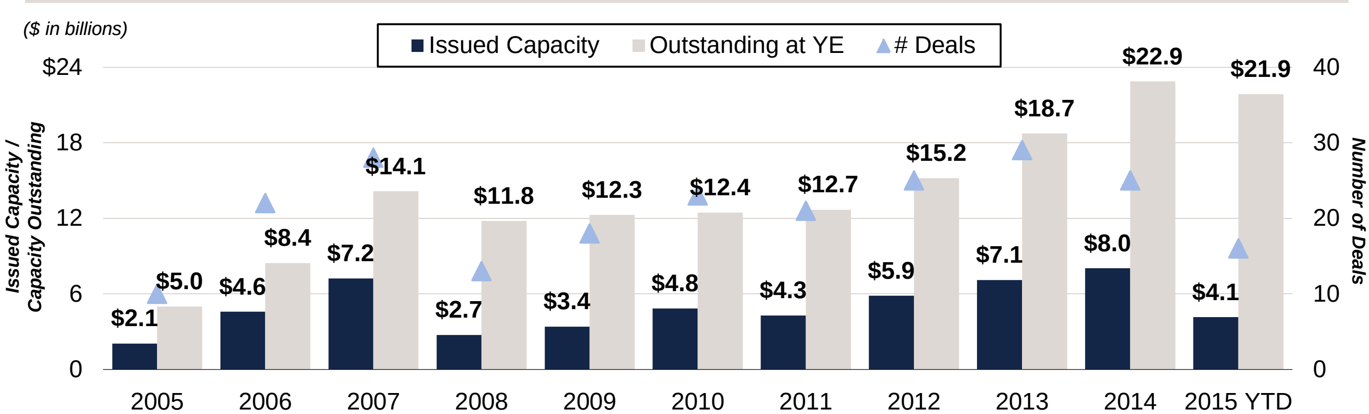


Source: WCMA Transaction Database as of 6/30/2015.
(a) In aggregate, 70% of all capacity outstanding exposed to U.S. Wind.
(b) In aggregate, 66% of all capacity outstanding exposed to U.S. Wind.

Non-Life Cat Bond Issuance by Quarter (2011 – Q2 2015) (c)



Capacity Issued and Outstanding by Year (c)



(c) All issuance amounts reported in or converted to USD on date of issuance.
Source: WCMA Transaction Database as of 06/30/2015.
Note: Data excludes private ILS deals.

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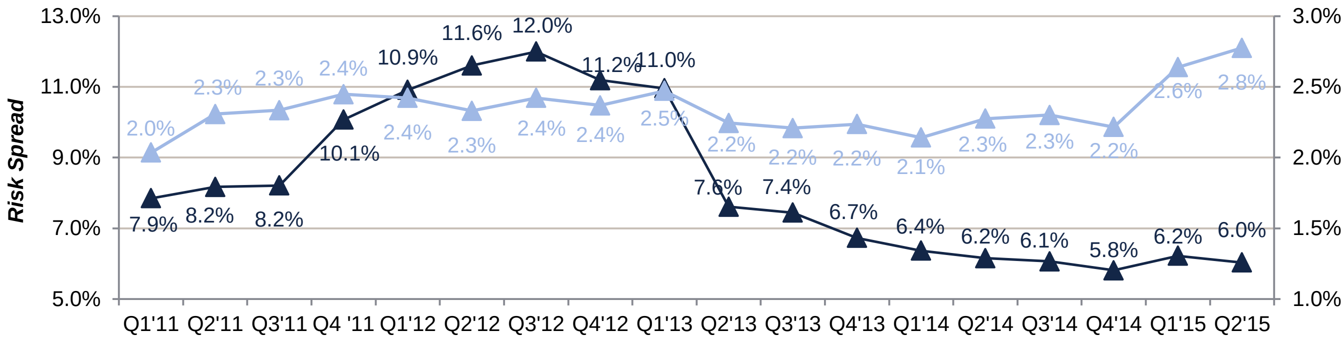
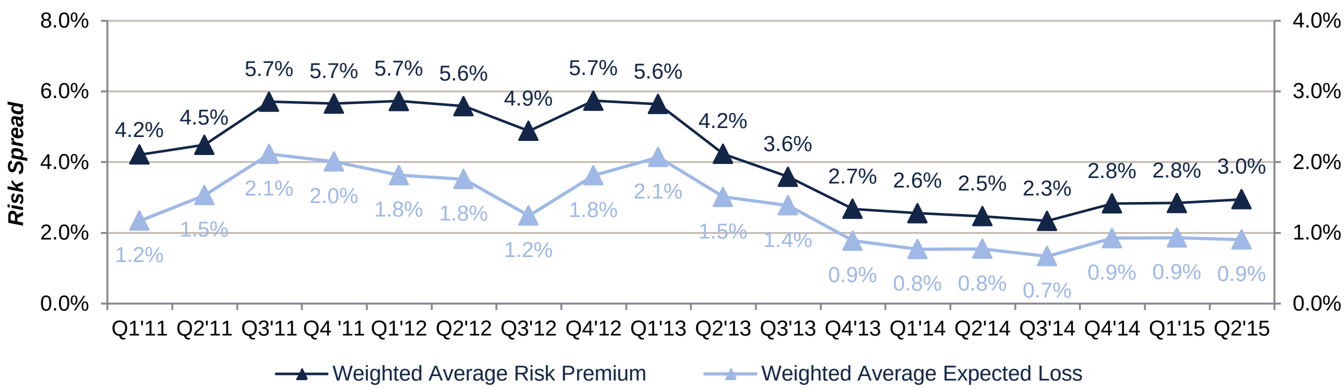
Q2 2015 Cat Bond Market Statistics (Continued)

Quarterly LTM U.S. Wind Exposed Weighted Average Risk Premium & Expected Loss



Quarterly LTM Non-U.S. Wind Exposed Weighted Average Risk Premium & Expected Loss



Source: WCMA Transaction Database as of 06/30/2015.
LTM = Last twelve months. Data is for primary issuance and does not reflect secondary trading.
Note: Data excludes private ILS deals which, in some cases, have the potential for some of the liquidity present in more traditional Rule 144A cat bonds.

Secondary Market Trading Overview

"With a healthy pipeline of risks, portfolio adjustment was the name of the game"

Q2 was an interesting time in the cat bond space. Investors were met with a healthy pipeline of risks to choose from and with the wind season approaching, portfolio adjustment was the name of the game. For the first time in a while, we saw the mark-to-market prices of the bonds follow seasonality with relative accuracy. Additionally, ILS funds have enjoyed better access to collateralized risk this year; as a consequence, we saw the secondary market being used as a liquidity source which freed up quite a few names for secondary trading.

Source: WCMA Transaction Database as of 06/30/2015.
Note: Data excludes private ILS deals.

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