



# Q2 2015 Catastrophe Bond & ILS Market Report

Keeping up with demand

# ARTEMIS

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

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# INTRO

This report reviews the catastrophe bond and insurance-linked securities (ILS) market at the end of the second-quarter of 2015, looking at new risk capital issued and the composition of transactions completed during the quarter.

Q2 is typically one of the strongest quarters of the year and 2015 was no different, as strong demand for new ILS opportunities from investors led to brisk issuance as sponsors sought to take advantage of the efficient source of ILS capital in advance of the U.S. wind season.

Artemis recorded \$3.162 billion of new risk capital issued from 17 transactions completed during Q2. Seven of the transactions recorded by Artemis would be considered 'cat bond lite' transactions, showing this trend of smaller deals continues to pick up pace. Much of the issuance was focused on U.S. named storm and hurricane risks, but still some diversification opportunities emerged.

Issuance during the second-quarter of 2015 has not broken any records. However, compared with a year earlier, Q2 saw a similar number of transactions and it was the outsized Everglades deal that made last year's Q2 the record that it was. The outstanding catastrophe bond market sat at \$24.547 billion by the end of June, positioning the market to achieve outright growth again by year-end 2015.

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.

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# Transaction Recap

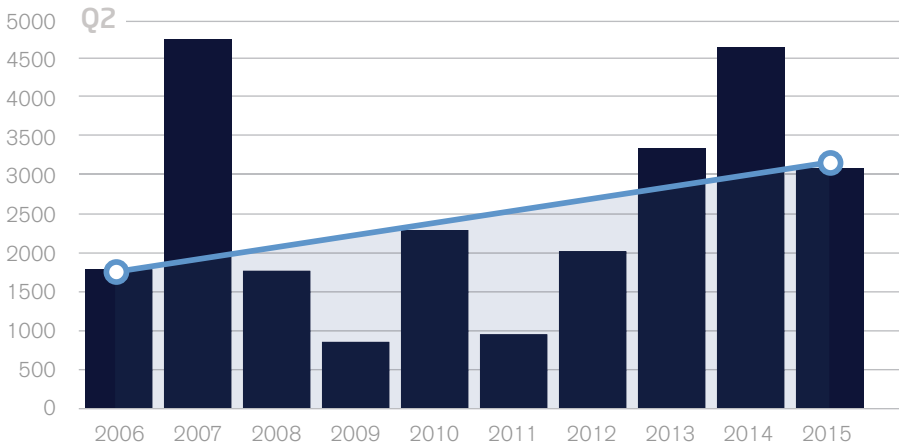
The second quarter of 2015 saw 25 tranches of ILS notes issued from a total 17 deals, as recorded by the Artemis deal directory. Issuance was dominated by returning sponsors, which contributed roughly \$2.785 billion, or 90% of second-quarter issuance. Just one new sponsor came to market, the \$223.176 million European earthquake Azzuro Re I Limited deal from UnipolSai.

A total of seven private cat bond deals consisting of ten tranches were issued during Q2 2015, providing protection for Florida named storms and property catastrophe risks, and making up \$206.321 million of total issuance.

ISSUER / TRANCHE	SPONSOR	PERILS	SIZE (\$M)	DATE
Azzuro Re I Limited	UnipolSai Assicurazioni S.p.A.	European earthquake	223.176	Jun
Market Re Ltd. (Series 2015-2) Class A	Unknown	Florida named storms	70.509	Jun
Dodeka VI	Unknown	U.S. Property catastrophe risks	19.078	Jun
Market Re Ltd. (Series 2015-3)	Unknown	Florida named storms	31.074	Jun
Oak leaf Re Ltd. (Series 2015-1)	Southern Oak Insurance	Florida named storms	53.03	Jun
Compass Re II Ltd. (Series 2015-1)	AIG	U.S. wind	300	Jun
Residential Reinsurance 2015 Ltd. (Series 2015-1)	USAA	U.S. multi-peril	150	May
Dodeka V	Unknown	U.S. Property catastrophe risks	18.88	May
Long Point Re III Ltd. (Series 2015-1)	Travelers	Northeast U.S. multi-peril	300	May
Alamo Re Ltd. (Series 2015-1)	Texas TWIA	Texas named storms	700	May
Everglades Re II Ltd. (Series 2015-1)	Citizens Property	Florida named storms	300	May
Market Re Ltd. (Series 2015-1)	Unknown	Florida named storms	10	May
Cranberry Re Ltd. (Series 2015-1)	Massachusetts MPIUA	Massachusetts multi-peril	300	Apr
Benu Capital Limited	AXA Global Life	Excess mortality (France, Japan, U.S.)	304.74	Apr
LI Re (Series 2015-1)	Unknown	Property catastrophe risks	3.75	Apr
Pelican III Re Ltd. (Series 2015-1)	Louisiana Citizens	Louisiana named storms	100	Apr
Citrus Re Ltd. (Series 2015-1)	Heritage P&C	U.S. named storms	277.5	Apr

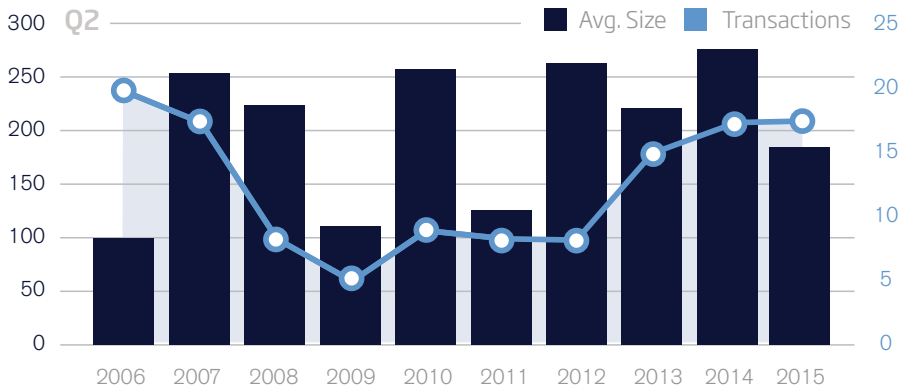
## Q2 ILS issuance by year (\$M)

During the second-quarter of 2015 \$3.162 billion of new risk capital was issued in the global catastrophe bond market, taking half-year issuance to \$5.224 billion. Although this is roughly \$1 billion less issuance than at the end of June 2014, it's important to note that Q2 2014 consisted of the record-breaking \$1.5 billion Everglades Re Ltd. (Series 2014-1) deal. In light of this, and revealing just how strong investor appetite for ILS remains in 2015, half-year 2015 issuance is the third highest ever recorded by the Artemis deal directory, exceeded only by 2014 and 2007.



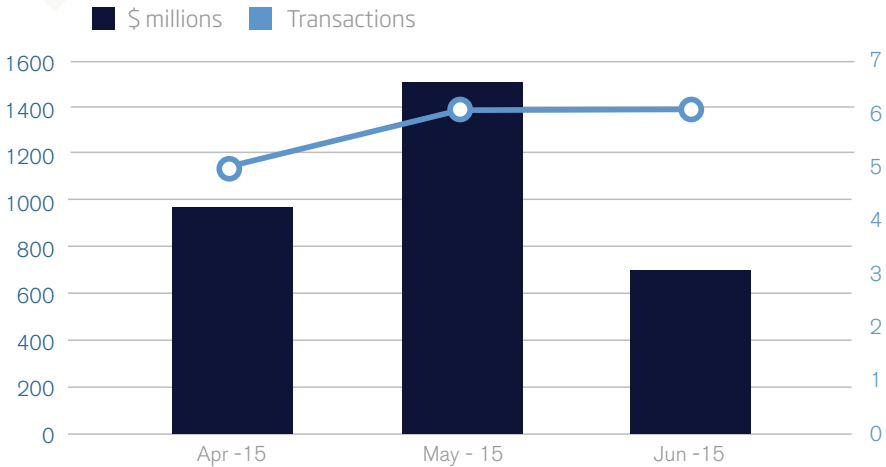
## ILS average transaction size & number of transactions by year (\$M)

The average transaction size during Q2 2015 was \$185.98 million from a total 17 deals, below the ten-year (2006-2015) average for volume but above the average number of transactions. Removing any private cat bond transactions from the quarter takes the average transaction volume to around \$296 million, which is approximately \$95 million above the ten-year average.



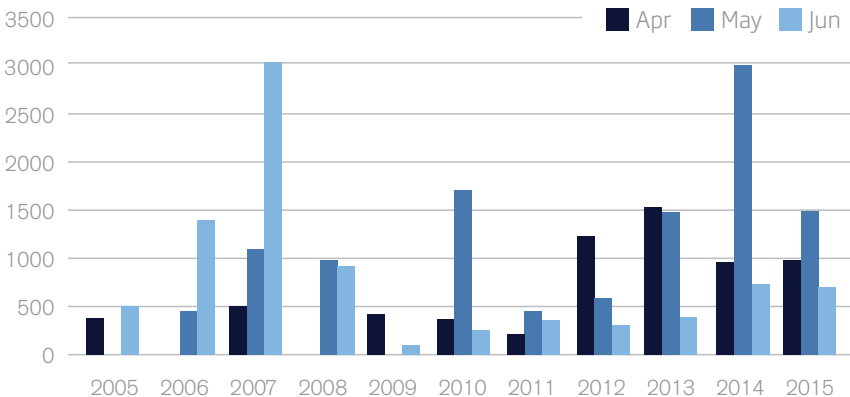
## Number of transactions and volume issued by month (\$M)

As in Q2 2014, ILS and catastrophe bond issuance during the second-quarter of 2015 was most prominent in May, the only month that saw issuance levels surpass the \$1 billion mark, although April did come close with \$985.99 million of deals closing. In fact, according to data from the Artemis deal directory total risk capital issued during April was the highest witnessed in the month during any of the last ten-years.



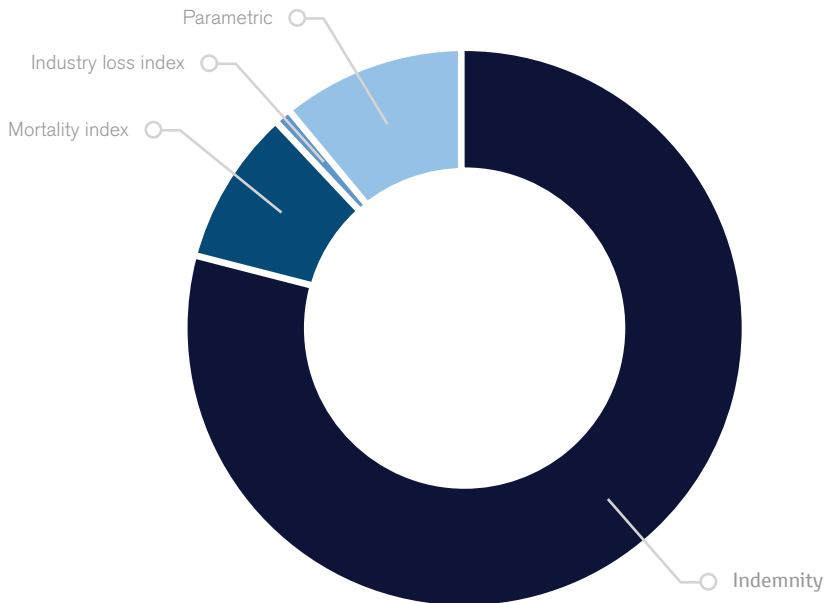
## Q2 issuance by month & year

Typically, during the second-quarter of any year May sees the highest level of issuance, but in recent years transaction volume in April has been a close second, and in some cases even experiencing greater volumes of capacity. While June is typically the quietest month of Q2, issuance levels have risen since 2013, getting closer to the \$1 billion mark and during 2015 exceeded the \$500 million mark for consecutive years.



## Q2 2015 ILS issuance by trigger type

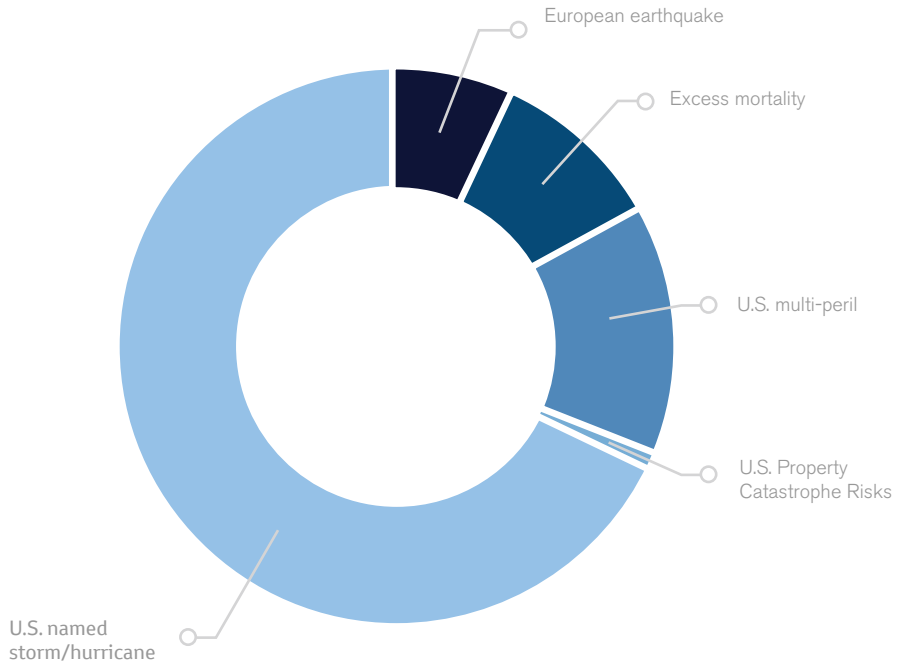
Q2 2015 saw just over \$2.5 billion of indemnity protection secured by sponsors, accounting for roughly 80% of the total risk capital issued and tracked by Artemis using this trigger.



AIG returned to the market in Q2 with a \$300 million Compass Re II Ltd. (Series 2015-1) deal, the first and only cat bond transaction of 2015 so far to use a parametric trigger. A common feature of ILS issuance in recent years has come from Twelve Capital via its Dodeka series, this was again the case in Q2 2015 bringing \$37.958 million of industry loss cat bonds to investors. The remaining issuance came from AXA Global Life and brought some diversification to the market utilising a mortality index trigger.

## Q2 2015 ILS issuance by peril

Issuance during the second-quarter was dominated by U.S. named storm/hurricane protection, a typical trend during this period as it coincides with the U.S. and Florida renewal season and the beginning of the Atlantic hurricane and tropical storm season. In total, U.S. named storm/hurricane peril made up roughly 68%, or \$2.14 billion of Q2 issuance.

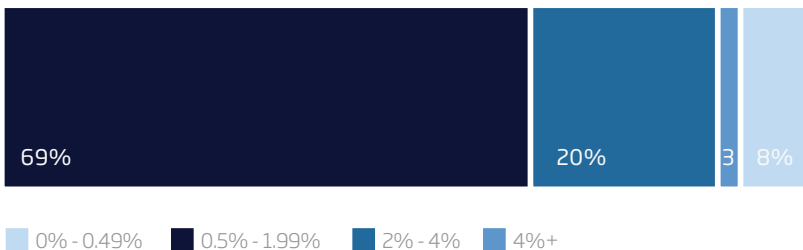


Unknown sponsors added some U.S. property catastrophe risk diversification to the market, totalling \$41.7 million of total risk capital issued through the Dodeka and LI Re platform.

First time sponsor UnipolSai Assicurazioni S.p.A. introduced \$223.176 million of European earthquake protection to investors, while \$304 million of U.S. multi-peril diversification came from returning sponsor USAA through its comprehensive Residential Reinsurance platform and Travelers, via its latest issuance under its Long Point Re series. Remaining issuance during the second-quarter of 2015 came from AXA Global Life, which brought \$304 million of excess mortality protection to the market.

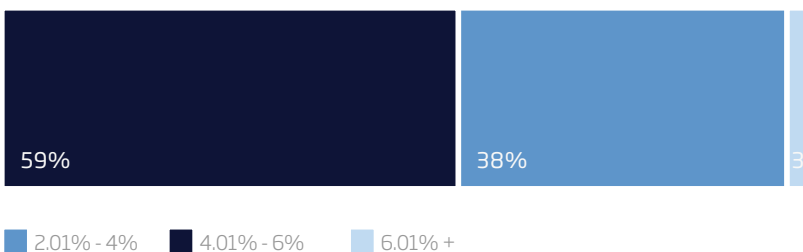
## Q2 2015 ILS issuance by expected loss

Perhaps signalling that investors are willing to accept slightly more risk than seen in the closing period of 2014 and the start of 2015, and for deals that we have expected loss figures for (which equals \$2.955 billion of total risk capital issued), 70%, or \$2.05 billion of issuance during Q2 has an expected loss of between 0.5% - 1.99%. The lowest level of risk seen during the second-quarter came from new sponsor UnipolSai Assicurazioni S.p.A. and its Azzuro Re I Limited EU earthquake transaction, which has an expected loss of 0.31%. While the riskiest tranche of notes was issued by USAA through the Class 10 tranche of its latest Residential Reinsurance Ltd. (Series 2015-1) deal, which offered investors an expected loss of 6.20%.



## Q2 2015 ILS issuance by coupon pricing

Moving away from the trend seen towards the end of 2014 and the first-quarter of 2015 and in line with the more common target level for investors, the majority of catastrophe bond and ILS issuance during Q2 that we have pricing data for (this amounts to \$2.955 billion of total risk capital issued), pays investors a coupon of between 4.01% - 6%.

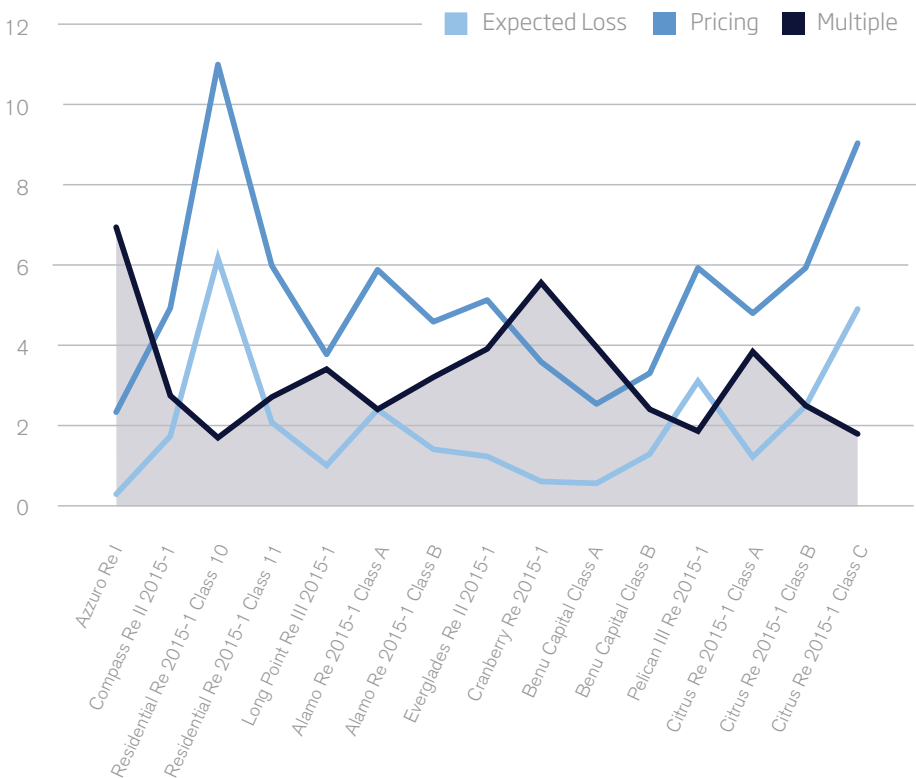




## Pricing Multiples

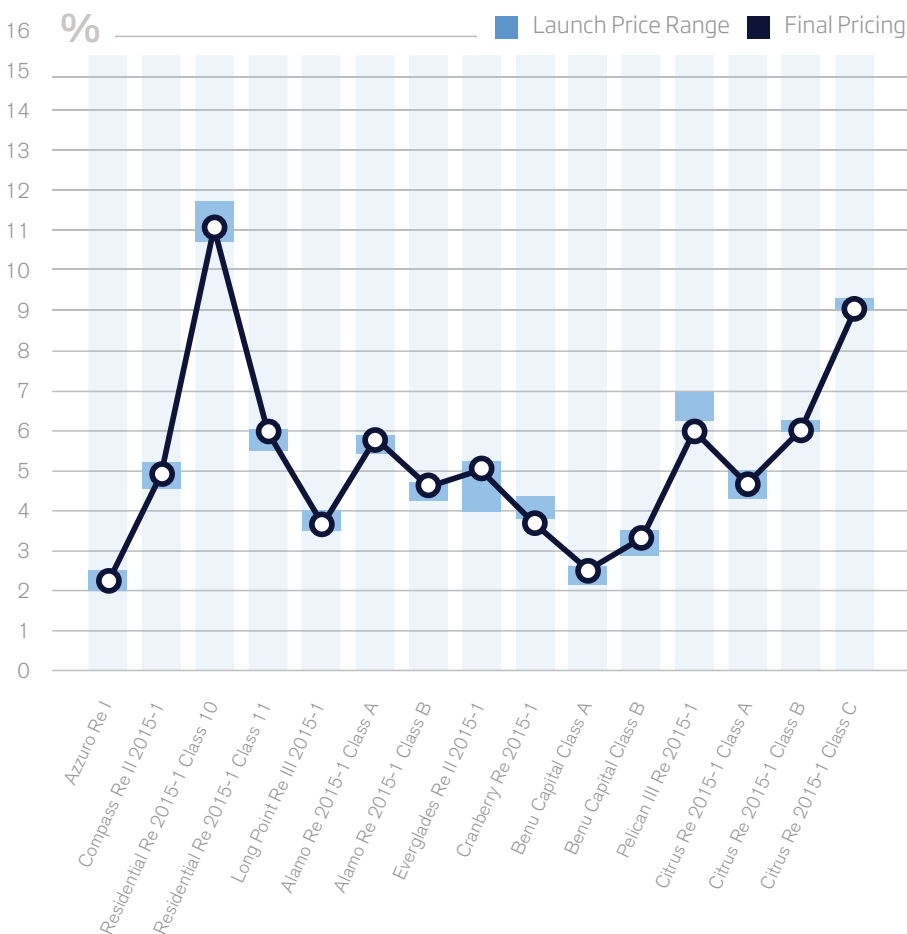
Of the deals we have pricing and expected loss data for (which amounts to \$2.955 billion of total risk capital issued), the average multiple (price coupon divided by expected loss) during Q2 was 3.28. This is somewhat higher than the average multiple seen in Q1 and slightly below the average multiple witnessed in Q2 a year earlier. The majority of deals during the quarter priced at or above the initial launch price midpoint, while 40%, or \$801 million of transactions priced below the initial price midpoint, representing a shift from pricing behaviour seen in Q1 2015.

Some industry analysts in recent months have discussed signs that pricing appears to be stabilising somewhat as we move into the final two quarters of the year, highlighted by the fact that more deals witnessed price increases than declines during the quarter.



## Cat bond and ILS price changes during Q2 2015 issuance

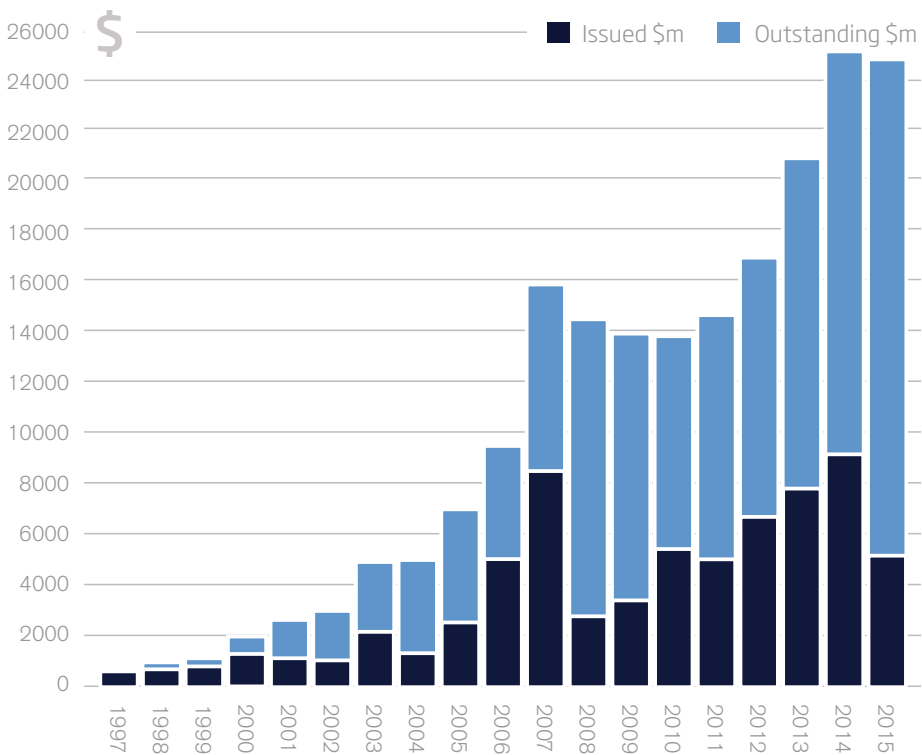
Continuing the trend seen in Q4 2014 and a reverse of behaviour seen in Q1 2015, more cat bond deals issued in the quarter priced right at the midpoint of guidance, or above it, than witnessed price declines while at market. This again signals that the market and its participants are increasingly aware that a pricing floor is being reached. The average price change during the second-quarter was 0.86%, an improvement from the average -2% price change witnessed in Q1 2015 and significantly higher than the average price change during Q2 2014, which was -3.6%.



## Issued Outstanding

Catastrophe bond and ILS issuance remained strong during Q2 of 2015, securing \$3.162 billion of protection from a diverse range of perils. This makes it the fourth highest Q2 issuance volume recorded. Investor appetite ensured half-year issuance reached \$5.224 billion, the third strongest first-half issuance seen.

Issuance failed to keep up with the very high level of maturities leaving the outstanding catastrophe bond and ILS market at \$24.547 billion, some \$811 million smaller than the record-breaking volume at the end of 2014. Investor and sponsor willingness to utilise the cat bond sector's risk transfer capabilities suggests further strong issuance ahead. Maturities will be much lower through the rest of the year, meaning 2015 could approach record issuance levels once again.



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.

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