

The Quarter Everything Was Different: PCS® Q1 2018 Catastrophe Bond Report

OVERVIEW

Well, it finally happened. The catastrophe bond market just changed. A lot. Original issuance climbed 34 percent from the first quarter of 2017 to the first quarter of 2018. Of more than \$3 billion in capital raised, only \$500 million covers the United States; and of the eight transactions that came to market, a collection of four accounts for more than a third of capital raised, covers Latin America, and uses parametric triggers. In fact, taken as a single unit (which one can conceive of logically, even though they're listed as separate issuances), the Latin America transactions would represent the second largest transaction completed in market history, sitting behind the \$1.5 billion Everglades Re transaction of 2014. Three transactions totaling more than \$1 billion provide protection for Japan risks.

Last year, we called the first quarter “a real head-scratcher.” After all, it looked nothing like the first quarter of 2016, despite the presence of seasoned catastrophe bond sponsors and a headline issuance number that was stable year over year. With this in mind, it's safe to call the first quarter of 2018 “jarring,” albeit pleasantly so. Emerging markets risk had a parametric trigger, and for once, North America didn't have a stranglehold on issuance activity.

However, the first quarter's issuance activity should generate more questions than answers. The first is: Where did everyone go? A lot of typical first-quarter players didn't make an appearance this time around. Even with record-setting issuance—by a significant margin—the quarter's profile looked different. A bit more than half of issuance activity came from experienced sponsors, but many more didn't show up.

And following that, will the second quarter be as frenetic as it was last year?

For now, those questions will have to wait. What's most important is that we've seen a true breakthrough quarter in the catastrophe bond market. It's clear that the insurance-linked securities (ILS) community can serve a much broader market than it has in the past, marking an important step forward.

Q1 2018 CATASTROPHE BOND ISSUANCE

According to data from the Artemis.bm Deal Directory, insurers and reinsurers sponsored approximately \$3.1 billion¹ in catastrophe bonds in the first quarter of 2018, up 34 percent from the first quarter of 2017. Sponsors completed eight transactions—the same amount as last year. Average transaction size climbed significantly for the second year in a row, reaching \$385 million (from almost \$290 million). Between the Latin America and Japan transactions, four transactions were at least \$400 million, including two from the Latin America series.

1. This does not include cat bond lite transactions, private catastrophe bonds, or transactions not focused on lines outside property.

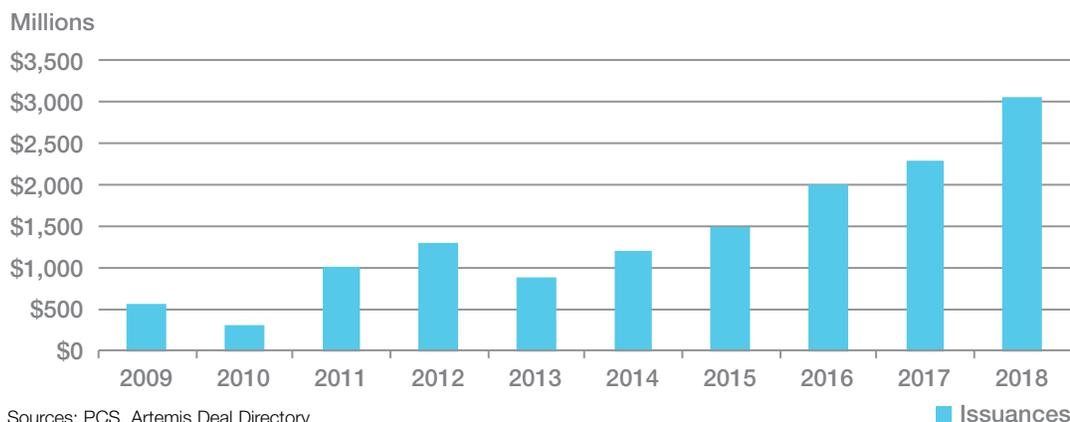
Q1 2017–18 Issuance Activity

	Q1 2018	Q1 2017
PCS trigger use (\$ millions)	50	950
PCS trigger use (# of transactions)	1	2
North American issuance (\$ millions) ²	500	1,900
North American issuance (# of transactions)	1	7
Total issuance (\$ millions)	3,100	2,300
Total issuance (# of transactions)	8	8

Sources: PCS, Artemis Deal Directory

Only one catastrophe bond completed in the first quarter had exposure to North America. The latest Sanders Re issuance has a hybrid trigger (with both indemnity and PCS Catastrophe Loss Index components). Of the remaining seven, three cover Japan and represent \$1.1 billion in protection on an indemnity basis—all from veteran sponsors. The IBRD CAR series (covering Latin America) provides close to \$1.4 billion in protection for risks in Chile, Colombia, Mexico, and Peru—all on a parametric basis.

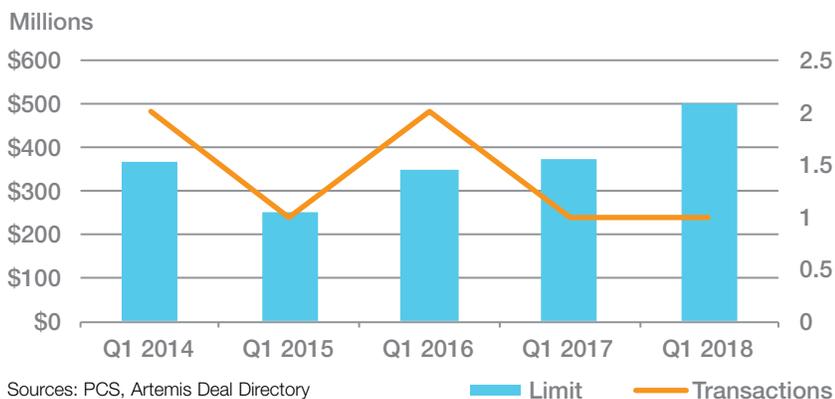
Historical Q1 Issuance Activity



Use of PCS® data in first-quarter catastrophe bonds fell year over year, from \$950 million in 2017 to \$500 million this year. Last year saw a large Galilei Re transaction in addition to Sanders Re. Sanders Re was the only first-quarter catastrophe bond to use PCS for independent catastrophe designation, as was the case in the first quarter of 2017. In 2016, two transactions did, with aggregate limit of \$350 million.

2. This includes catastrophe bonds that included the United States and other regions.

Catastrophe Bonds Using PCS for Independent Designation



CAT BOND LITE CONTINUES

Sponsors completed four cat bond lite transactions in the first quarter of 2018. That's up from three in the first quarter of 2017 and none in the first quarter of 2016. The transactions ranged from a renewal of the \$5 million AlphaTerra transaction to the \$60 million Resilience Re deal.³ Aggregate issuance activity for the quarter reached \$132.6 million, up from \$118 million in the first quarter last year. Two had indemnity triggers, and two triggers were undisclosed.

The cat bond lite structure aims to provide a route to securitization that doesn't involve the onerous issuance requirements of traditional catastrophe bonds—while still providing the structural discipline and transparency that have characterized catastrophe bonds since the market's inception. As a result, sponsors can use increased flexibility to complete smaller and more targeted transactions quickly while managing their cost of capital. Additionally, the cat bond lite structure enables more participants to enter the ILS sector. Funds with a mandate to participate only in securitized transactions, for example, can use cat bond lite instead of collateralized reinsurance or industry loss warranties (ILW) to issue and consume risk.

PCS GLOBAL TERROR™ COMES TO MARKET

We're excited to announce the formal launch of PCS Global Terror™, our latest entry into the specialty lines space. Currently, PCS Global Terror has losses for 14 events going back to 1992, and we've already begun to review recent events, including a pipeline bombing in Turkey (which seems unlikely to reach the event designation threshold).

3. PCS has chosen to exclude the \$100 million Panthera Re transaction from this analysis given the paucity of information available about the transaction.

Representative PCS Global Terror Loss Events

Event Name	Year	Location
Brussels Airport	2016	Brussels, Belgium
Southeastern Turkish terror attacks	2016	Turkey
Kenya shopping mall	2013	Nairobi, Kenya
Madrid-Barajas Airport parking garage	2006	Madrid, Spain
7/7 attacks	2005	London, United Kingdom
Bishopsgate bombing	1993	London, United Kingdom

Source: PCS Global Terror

The PCS Global Terror loss estimate process begins with the designation of a terror loss event. When PCS believes that an event is likely to cause more than \$25 million in damage, we assign a four-digit serial number, and the event becomes a “PCS Identified Global Terror Event.”

For each loss event, PCS issues an event designation bulletin, indicating that we believe the loss is likely to exceed \$25 million. The bulletin also includes information about the event, such as location, likely cause of loss, type of event, and other anecdotal information (as available), along with supplemental terror event information whenever available from Verisk Maplecroft, such as fatality and casualty counts. At the end of the second quarter following the loss event, we issue a bulletin with our preliminary loss estimate. We then publish quarterly updates until we believe the loss estimate is stable, based on feedback from companies providing underlying loss data to PCS. All PCS Global Terror events are subject to a resurvey process. We conduct resurveys quarterly to arrive at as accurate a number as possible.

Based on conclusions from the PCS team, we publish a preliminary estimate of the event through the subscription-based ISONet® platform. Although PCS estimates for the largest events may find their way into the public domain, it's important to remember that they're the property of PCS and that PCS publishes estimates exclusively for the benefit of our customers, who invest their resources in the service to advance their own businesses.

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