

# Back to the Grind: PCS® H1 2018 Catastrophe Bond Report

## OVERVIEW

A strong issuance year has continued. Even if a bit behind the staggering \$8.8 billion issued in the first half of last year, the 2018 total has been impressive, reaching \$7.4 billion and showing much more underlying diversity than we’ve seen in the catastrophe bond market in the past. A handful of new sponsors came to market in the second quarter, bringing the total number of transactions to 24. And once again, the first half of the year rates as one of the largest *full issuance years* on record.

Although the first quarter was undeniably unique, given the wave of transactions covering Latin America, the second quarter was more conventional. Only approximately \$600 million in fresh limit came from first-timers, with the rest from sponsors that routinely turn to the catastrophe bond market ahead of the June 1 reinsurance renewal. However, the market still provided some variety. Four transactions were of \$200 million or less in the second quarter, while three reached at least \$400 million. For the first half overall, while last year we said, “With so many catastrophe bonds completed, it’s safe to say that there’s (at least) a little of everything,” this year we can say it a bit louder!

## H1 2018 CATASTROPHE BOND ISSUANCE

According to data from the Artemis.bm Deal Directory, insurers and reinsurers sponsored approximately \$7.4 billion<sup>1</sup> in catastrophe bonds in the first half of 2018, down modestly from last year’s astounding first-half total of \$8.8 billion. Sponsors completed 24 transactions—down a bit from last year’s 29 but still far higher than the 14 seen in the first half of 2016. Average transaction size, at \$309 million, was steady year over year, but it’s worth remembering that average size surged roughly 50 percent from the first half of 2016 to the first half of 2017.

### H1 2018 Issuance Activity

	H1 2018	H1 2017
PCS trigger use (\$ millions)	\$2,100	\$4,500
PCS trigger use (# of transactions)	7	12
North American issuance (\$ millions) <sup>2</sup>	\$4,800	\$8,300
North American issuance (# of transactions)	17	27
Total issuance (\$ millions)	\$7,400	\$8,800
Total issuance (# of transactions)	24	29

Sources: PCS, Artemis Deal Directory

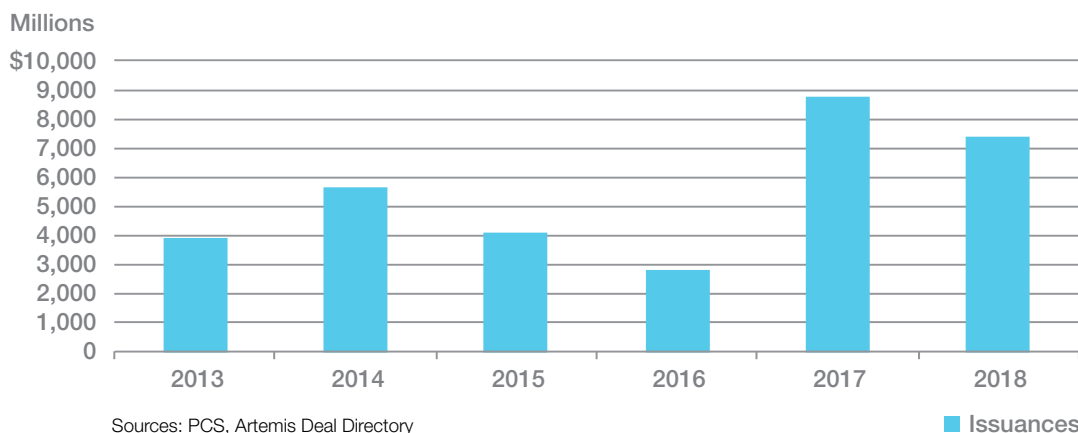
1. This does not include cat bond lite transactions, private catastrophe bonds, or transactions not focused on lines outside property.

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

While the top-line issuance numbers are reasonably steady year over year, the underlying detail couldn't be more different. The number of transactions covering North America dropped from 27 to 17, and \$1.3 billion of this year's first-half issuance activity came in the first quarter and covers Latin America. That's more than 15 percent of the year's issuance total. Seven of 24 transactions—representing \$2.6 billion in limit—cover non-North American risks only. This outcome is unprecedented. The second quarter, however, was characterized by more traditional issuance activity, although not nearly as much as we saw in the second quarter of 2017.

Use of PCS® data fell from \$4.5 billion and 12 transactions in the first half of 2017 to \$2.1 billion across seven transactions in the first half of this year. However, PCS use still featured in more than 40 percent of North American first-half activity as measured by capital raised. This appears to be a function of the fact that the issuance of catastrophe bonds focused on North America fell by almost half year over year.

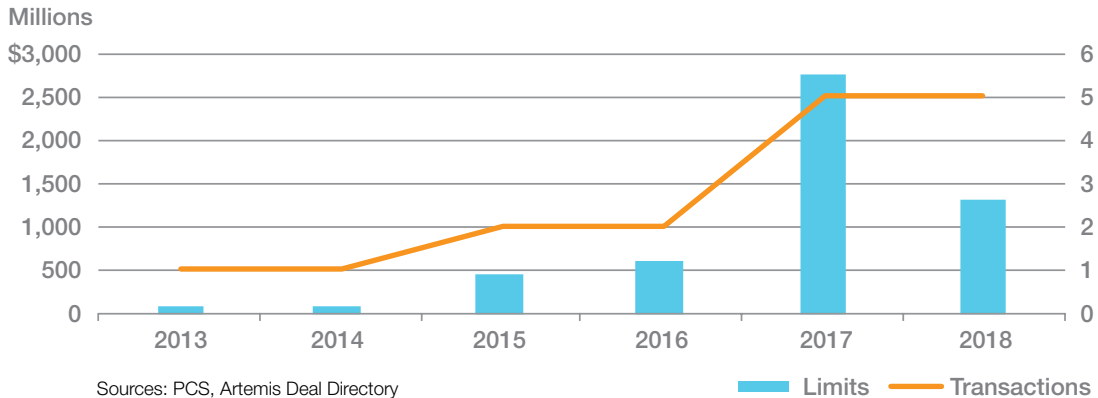
### Historical H1 Issuance Activity



### CATASTROPHE BONDS COVERING CANADA

Sponsors completed five catastrophe bonds with coverage for Canada in the first half of 2018, consistent with the first half of last year. All five came in the second quarter, with four of them from experienced sponsors. Catastrophe bonds that included Canada added up to \$1.3 billion—down year over year but in a manner consistent with the overall shift in issuance activity. Four came from experienced sponsors and amounted to just over \$1 billion in capital. The fifth, Bowline Re, was a \$250 million transaction from a first-time sponsor. All five transactions featured the PCS Catastrophe Loss Index for both the United States and Canada.

## H1 Historical Canada Issuance Activity



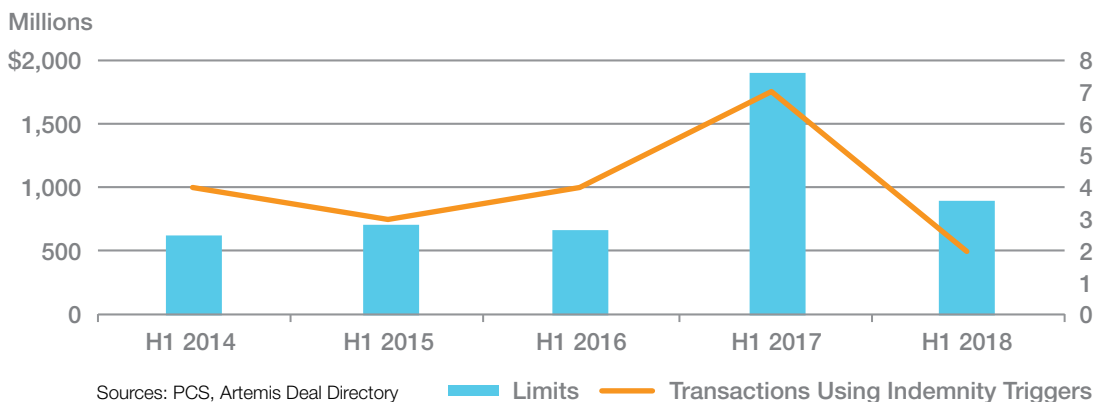
PCS launched its core service in Canada in late 2009, marking our first operation to estimate catastrophe losses outside the United States, Puerto Rico, and the U.S. Virgin Islands. PCS has designated more than 50 catastrophe events in Canada since the inception of the service. Five came in the first half of 2017, with seven occurring so far in 2018.

To get started with PCS Canada®, please contact Ken Donakey at **+1 801 932 8612** or **kddonakey@verisk.com**.

## INDEPENDENT CATASTROPHE DESIGNATION

Only two of the seven transactions using PCS in the first half of 2018 had indemnity triggers, down from seven in the first half of 2017. One was the latest Sanders Re catastrophe bond, which uses a hybrid approach—with both industry loss index and independent catastrophe definition components. While \$1.9 billion in new limit used PCS for independent catastrophe definition in the first half of last year, only \$800 million did this year, as more PCS activity came from the industry loss index approach.

## Historical Use of PCS for Catastrophe Designation





For PCS to designate an event a catastrophe in the United States, it must generate an industry insured loss of at least \$25 million and affect a significant number of insurers and insureds (the threshold for Canada is C\$25 million and Turkey is TRY30 million). The PCS team generally reviews 50 to 60 events in North America every year that have the potential to become catastrophes.

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