A Real Head-Scratcher: PCS® Q1 2017 Catastrophe Bond Report

Overview

The first quarter of 2017 was a real head-scratcher. It was packed with veteran catastrophe bond sponsors—but looked nothing like the first quarter of 2016, aside from the headline number. Some major players didn't return to the market, and others moved their issuance activity up to the first quarter from the second. Half the transactions were small (under $200 million), and it took two large transactions of around $500 million to lift aggregate limit to year's record-setting issuance of $2.3 billion.

So, issuance was up a bit roughly the same year over year. But a lot of the players were different—even though they were different only for the first quarter.

The quarter brought a certain strangeness, therefore, that the headline numbers don't reflect. If you're looking for patterns or trends, they're hard to come by. We'll have to see what the rest of the year brings.

Q1 2017 Catastrophe Bond Issuance

According to data from the Artemis.bm Deal Directory, insurers and reinsurers sponsored approximately $2.3 billion[1] in catastrophe bonds in the first quarter of 2017, consistent with last year's record result. Sponsors completed eight transactions—down a little from nine in the first quarter of 2016. Average transaction size climbed significantly (31 percent) to $292 million due to the disproportionate effects of Galilei Re, Aozora Re, and Sanders Re.

Q1 2017 Issuance Activity

	Q1 2017	Q1 2016
PCS trigger use ($ millions)	900	950
PCS trigger use (# of transactions)	2	4
North American issuance ($ millions)[2]	1,900	1,600
North American issuance (# of transactions)	7	7
Total issuance ($ millions)	2,300	2,000
Total issuance (# of transactions)	8	9

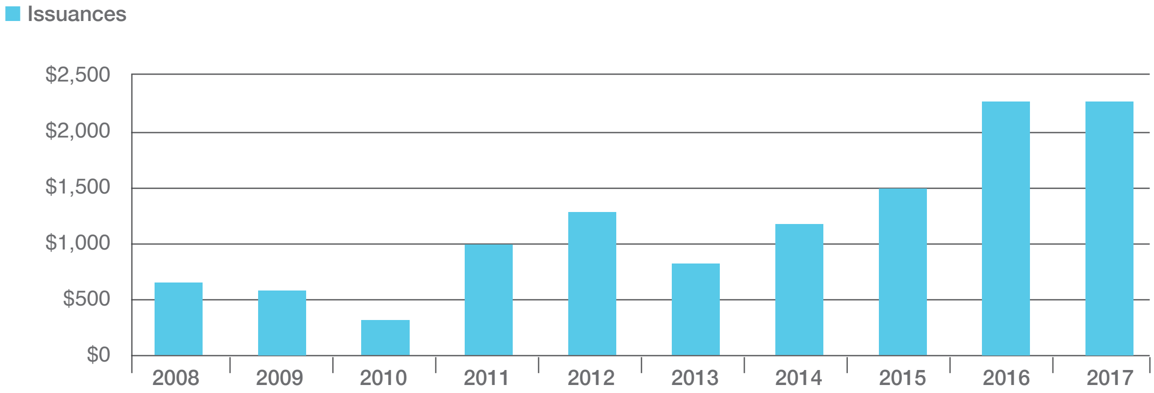
Sources: PCS, Artemis Deal Directory

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.

Seven of the eight catastrophe bonds completed so far this year had exposure to North America. Galilei Re included Canada (using the PCS Catastrophe Loss Index) as well as Europe. One catastrophe bond with no North American exposure came to market, covering risks in Japan.

Historical Q1 Issuance Activity



Sources: PCS, Guy Carpenter & Company, LLC

Use of PCS® data in first-quarter catastrophe bonds was consistent year over year, moving down slightly from $950 million in 2016 to $900 million this year. While Galilei Re used the PCS Catastrophe Loss Index, Sanders Re used a mix of industry loss index and indemnity with independent catastrophe definition (both by PCS). Past issuances used only PCS loss estimates for personal auto and personal property. The 2017 transaction integrated more indemnity coverage with PCS catastrophe event definition while still using the loss index for certain parts of the cover. Sanders Re was the only first-quarter catastrophe bond to use PCS for independent catastrophe designation.
Last year, two transactions did, with aggregate limit of $350 million.

Catastrophe Bonds Covering Canada

Sponsors completed one catastrophe bond with coverage for Canada in the first quarter of 2017 (Galilei Re). As it was a large transaction, capital raised by catastrophe bonds that included cover for Canada fell only slightly year over year from $600 million in the first quarter of 2016. Galilei Re used the PCS Catastrophe Loss Index for both the United States and Canada.

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 50 catastrophe events in Canada since the inception of the service. Nine came in 2016, including the Fort McMurray wildfire, with none occurring so far in 2017.

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

Cat Bond Lite Continues

Sponsors completed three cat bond lite transactions in the first quarter of 2017. None were completed in the first quarter of 2016. The transactions ranged from $5 million to $63 million, with the total for the quarter reaching $118 million. Two had indemnity triggers, and one trigger was not disclosed. One, AlphaTerra, covered non-U.S. risk only (Brazil).

PCS Global Marine and Energy Comes to Market

We're excited to announce the formal launch of PCS Global Marine and Energy. This is our first entry into the nonelemental large risk loss space and will be followed by several other specialty lines loss aggregation solutions. Currently, PCS Global Marine and Energy has losses for 11 events going back to 2009, with efforts in progress to complete the historical database for this period.

Representative PCS Global Marine and Energy Loss Events

Event Name	Date	Location
SpaceX	1-Sep-16	Florida
Jubilee	18-Feb-16	Ghana
Pemex	1-Apr-15	Gulf of Mexico
Costa Concordia	13-Jan-12	Italy
Deepwater Horizon	20-Apr-10	Gulf of Mexico
Siri	31-Aug-09	North Sea

Source: PCS Global Marine and Energy

The PCS Global Marine and Energy loss estimate process begins with the designation of a marine and energy loss event. When PCS believes that an event is likely to cause more than $250 million in damage, we assign a four-digit serial number, and the event becomes a "PCS Identified Marine and Energy Event."

For each loss event, PCS issues an event designation bulletin, indicating that we believe the loss likely to exceed $250 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). At the end of the second quarter following the loss event, we issue a bulletin with our preliminary loss estimate (for example, the first estimate for a March 15 event would come out in July). 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 Marine and Energy 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.

For more information on PCS Global Marine and Energy, please contact Tom Johansmeyer at **+1 201 469 3140** or **tjohansmeyer@verisk.com.**

Trend Tracking

The top trends in the catastrophe bond market right now suggest a dynamic market with the potential to mature based on the needs and interests of its participants. Ultimately, the future growth of the insurance-linked securities (ILS) space will depend on the ability for original risk to enter the market, providing for both a broadening of engagement and the ability to deliver depth within each line.

1. Changing of the guard? Many first-quarter familiar faces didn't return to the catastrophe bond market this year, and most transactions were smaller and from primary market sponsors. This stands in stark contrast to the past several years of first quarters, which featured more large retrocessional transactions and even larger primary market issuance activity. Only one first-quarter sponsor was a new entrant. Historically, the second and fourth quarters are the busiest of the year, so it can be difficult to use the first quarter as a reference point for the rest of the year.

2. Private transactions grow: Sponsors completed five private transactions—two of them not categorized as cat bond lite (in this report). The broadening use of private catastrophe bonds (of which cat bond lite is a subset) suggests a continued interest in increased flexibility and frictional cost reduction while still maintaining access to capacity from providers that have liquidity mandates.

3. Demand for new lines: ILS market demand for new risk areas and types remains significant. Conversations throughout the January 1, 2017, renewal and after have emphasized the interest the ILS market has in lines such as global marine and energy, terror, and cyber, among others. The launch of PCS Global Marine and Energy should help satisfy this need by bringing more original risk to market, with subsequent loss aggregation solutions likely to help the market expand further.

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