

News Release

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Catastrophe Bond Market Continues to Advance In Second Quarter of 2009, According to Guy Carpenter Number of Issuances Decline Year Over Year, But Market is Rebounding

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Aided by continued stabilization in the global financial markets, the catastrophe bond market continued to advance in the second quarter of 2009, according to a report issued today by Guy Carpenter & Company, LLC, and GC Securities, a division of MMC Securities Corp.* In the first half of 2009, nine catastrophe bonds were issued, accounting for aggregate risk capital of USD1.38 billion. By comparison, there were 11 transactions in the first half of 2008, resulting in USD2.4 billion of issuance. From the first half of 2008 to the first half of 2009, risk capital issued declined 42.5 percent, due in part to pricing conditions.

The report, available at www.GCCapitalIdeas.com, indicates that six bonds were issued in the second quarter of 2009 (down 25 percent year-over-year, from eight), and risk principal issued is off 54 percent from the USD1.75 billion issued during the first quarter of 2008. However, the 2009 second quarter catastrophe bond activity represents a positive rally from the hiatus during the second half of 2008.

In addition, a total of USD1.59 billion in catastrophe bonds matured in the second quarter of 2009, bringing the year to date total of matured risk principal to just over USD2.24 billion. Another USD960 million is scheduled to mature in the second half of the year.

RISK CAPITAL OUTSTANDING

- From the first quarter of 2009 to the second quarter of 2009, net catastrophe bond risk capital outstanding fell USD779 million (6.5 percent), from USD12 billion to USD11.2 billion, as maturities outpaced issuances.
- The second quarter of 2009 was the second consecutive quarter in which total risk capital outstanding declined.
- Overall, catastrophe bond risk capital outstanding is currently at mid-year 2007 levels.

PRICING AND CAPACITY

- Catastrophe bond spreads were consistent from the first quarter of 2009 to the second – up 25 percent to 50 percent relative to 2008 levels.
- Three of the six transactions in the second quarter of 2009 upsized relative to initial announced placement targets, as the market reacted positively to the relatively high yields.

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THIRD QUARTER 2009 PIPELINE

- Two catastrophe bond transactions are currently planned for the third quarter of 2009: one with European wind exposure and one with U.S. wind exposure.
- Historically, the third quarter has accounted for only 14 percent of risk capital issued, largely a quiet period because of hurricane season and traditional renewal dates.

The report also provides a detailed overview of second quarter 2009 catastrophe bond composition by peril, trigger, sponsor type, sponsor experience and risk profile.

QUOTES

David Priebe, Chairman of Global Client Development, Guy Carpenter

“A number of converging factors could lead to an increase in catastrophe bond activity in the second half of 2009, spurring sponsors who may have postponed issuances in the first and second quarters of the year. These include a continued improvement in the broader capital markets and an increase in risk capacity.”

“Conversely, if we see an active hurricane season that generates significant insured damages, or if the financial market conditions do not continue to improve, cat bond spreads will remain high – and could even widen. Absent these two factors, and given the current supply and demand conditions, we expect catastrophe bond spreads to narrow during the second half of 2009.”

TAGS/KEYWORDS

Guy Carpenter, reinsurance, catastrophe bonds, cat bonds, property catastrophe, capital, capacity, pricing

LINKS/URLs

Cat Bond Update: Second Quarter 2009:

<http://www.gccapitalideas.com/2009/07/27/cat-bond-update-second-quarter-2009/>

Charts Available for Download: <http://www.gccapitalideas.com/category/chart-room>

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About Guy Carpenter

Guy Carpenter & Company, LLC is the world's leading risk and reinsurance specialist and a part of the Marsh & McLennan Companies. With over 50 offices worldwide, Guy Carpenter creates and executes reinsurance solutions and delivers capital market solutions* for clients across the globe. The firm's full breadth of services includes line of business expertise in Agriculture; Aviation; Casualty Clash; Construction and Engineering; Excess and Umbrella; Life, Accident and Health; Marine; Medical Professional Liability; Political Risk and Trade Credit; Professional Liability; Property; Retrocessional Reinsurance; Surety; Terrorism and Workers Compensation. GCFac® is Guy Carpenter's dedicated global facultative reinsurance unit that provides placement strategies, timely market access and centralized management of facultative reinsurance solutions. In addition, Guy Carpenter's InStrat® unit utilizes industry-leading quantitative skills and modeling tools that optimize the reinsurance decision-making process and help make the firm's clients more successful. Guy Carpenter's website address is www.guycarp.com.

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Guy Carpenter's new intellectual capital website, www.GCCapitalIdeas.com, leverages blog technology, including Real Simple Syndication (RSS) feeds and searchable category tags, to deliver Guy Carpenter's latest research as soon as it is posted. In addition, articles can be delivered directly to BlackBerrys and other handheld devices.

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