

## News Release

Contacts:

**Alexis Levenson**

Guy Carpenter

917.937.3264

[alexis.levenson@guycarp.com](mailto:alexis.levenson@guycarp.com)

**Matt Conroy**

DeMartine Group

203.221.2790

[mconroy@demartinegroup.com](mailto:mconroy@demartinegroup.com)

### Positive Conditions Persist in Catastrophe Bond Market During First Quarter of 2010, According to Guy Carpenter Strong Demand Results in Two Upsized Transactions; Issuance Activity Lighter Than Expected, But Outlook Remains Bullish

**New York, April 13, 2010**

Catastrophe bond issuance conditions saw sustained improvement in the first quarter of 2010, reflecting the increase in prominence of the insurance linked securities (ILS) asset class, according to a briefing issued today by Guy Carpenter & Company, LLC, and GC Securities, a division of MMC Securities Corp.\* Despite the continued improvement in market conditions, however, catastrophe bond issuance relative to the first quarter of 2009 was lighter than might have been expected.

The briefing, *Cat Bond Update: First Quarter 2010* (available at [www.GCCapitalIdeas.com](http://www.GCCapitalIdeas.com)), states that sponsors posted two catastrophe bond transactions during the first quarter of 2010, resulting in USD300 million of risk capital issued. Responding to strong investor demand, both transactions closed within initial price guidance and were upsized relative to their announced placement targets. By comparison, the first quarter of 2009 saw three transactions totaling USD575 million in risk capital issued.

#### FIRST QUARTER ISSUANCE

- Foundation Re III Ltd, a USD180 million transaction, was announced in January. Sponsored by The Hartford, it provides PCS-index-based protection for North Atlantic hurricanes causing insured losses along the U.S. gulf and eastern coasts. GC Securities served as co-manager on the transaction, which was upsized from the initially announced target of USD100 million.
- Swiss Re's USD120 million Successor X Ltd transaction provides multi-peril protection with different trigger types and different risk profiles, depending on tranche. The bond priced at initial guidance and also was upsized from an initial target size of USD75 million. It was the first catastrophe bond to utilize a PERILS-based trigger for its European windstorm exposure. (Guy Carpenter is a founding shareholder of PERILS, which aggregates and distributes industry-wide European natural catastrophe insurance data.)

#### RISK CAPITAL OUTSTANDING

- Total risk capital outstanding declined during the first quarter to USD 11.92 billion – a decrease of USD588 million, as USD300 million of new issuance was outstripped by USD888 million in maturities.
- USD4.08 billion of risk capital is scheduled to mature prior to the end of 2010.

# Positive Conditions Persist in Catastrophe Bond Market During First Quarter of 2010, According to Guy Carpenter

April 13, 2010

## **ISSUANCE COMPOSITION**

- Of the USD300 million issued in the first quarter of 2010, USD180 million had exposure exclusively to U.S. hurricane peril, while USD80 million had exposure to both U.S. hurricane and European windstorm perils.
- An additional USD40 million had exposure to U.S. hurricane, European windstorm, California earthquake and Japanese earthquake perils.

## **INDUSTRY LOSS WARRANTIES**

- ILW pricing fell by 20 percent for U.S. hurricane-only and by 30 percent for U.S. earthquake-only protection.
- Mindful of market conditions, protection sellers offered substantial reductions to secure renewal orders.
- All sellers, with the exception of IPC Re, returned to the ILW market in 2010.

## **2010 CATASTROPHE BOND OUTLOOK**

- Cat bond spreads are roughly approximate with the traditional market and are acting as a spur to further issuance.
- Though the rate of spread tightening may moderate, net cash inflows to sector – coupled with more than USD4 billion of scheduled maturities – should continue to exert downward pressure on spread levels.
- Losses resulting from events such as the earthquake in Chile and European storm Xynthia have exerted a strain on reinsurers' earnings but have not put cat bond layers in jeopardy.
- Taking all factors into consideration, the second quarter of 2010 should prove significantly more active than the first, with the potential for 5 to 10 transactions, while total issuance for the year is expected between USD3 billion and USD5 billion.

## **QUOTES**

### **David Priebe, Chairman of Global Client Development, Guy Carpenter**

“Though we have continued to see issuance conditions improve across the ILS market, there was somewhat less activity during the first quarter than many had anticipated. However, this should not be taken as an indicator of what to expect over the coming months, as the peak issuance periods for catastrophe bonds historically have been the second and fourth quarters. Our outlook for the remainder of the year remains bullish. ”

### **Chi Hum, Global Head of Distribution, GC Securities\***

“The argument in favor of locking significant amounts of multi-year fixed price capacity has become even more compelling in the context of the earthquake and winter storm activity we witnessed during the first quarter of the year. With this in mind, our issuance outlook for the second quarter of 2010 is positive, with between 5 to 10 new transactions expected across a wide variety of perils. We also anticipate more activity later in the year.”

## **TAGS/KEYWORDS**

Guy Carpenter, reinsurance, catastrophe bonds, cat bonds, ILS, ILW, property catastrophe, capital, capacity, pricing, Priebe, Hum

# Positive Conditions Persist in Catastrophe Bond Market During First Quarter of 2010, According to Guy Carpenter

April 13, 2010

## LINKS/URLS

**Cat Bond Update: First Quarter 2010:** <http://www.gccapitalideas.com/2010/04/13/catastrophe-bo...itions-persistcatastrophe-bond-update-first-quarter-2010—heavy-smoke-some-fire...encouraging-conditions-persist/>

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

**GCCapitalIdeas.com Registration:** <http://feeds2.feedburner.com/gccapitalideas>

## RSS FEED SUBSCRIPTION

<http://feeds2.feedburner.com/gccapitalideas>

## 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](http://www.guycarp.com).

Guy Carpenter's intellectual capital website, [www.GCCapitalIdeas.com](http://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.

\* Securities or investments, as applicable, are offered in the United States through GC Securities, a division of MMC Securities Corp., a US registered broker-dealer and member FINRA/SIPC. Main Office: 1166 Avenue of the Americas, New York, NY 10036. Phone: (212) 345-5000. Securities or investments, as applicable, are offered in the European Union by GC Securities, a division of MMC Securities (Europe) Ltd., which is authorized and regulated by the Financial Services Authority. Reinsurance products are placed through qualified affiliates of Guy Carpenter & Company, LLC. MMC Securities Corp., MMC Securities (Europe) Ltd. and Guy Carpenter & Company, LLC are affiliates owned by Marsh & McLennan Companies. This communication is not intended as an offer to sell or a solicitation of any offer to buy any security, financial instrument, reinsurance or insurance product. Chi Hum is a registered representative of MMC Securities Corp.

###