As the industry continues to develop and enhance platforms to facilitate issuance of smaller catastrophe bonds, it is likely the market will continue to see further issuance in such a format over 2015.

New Issuances in Review (First Time Issuers)

In a promising sign for the 144A P&C catastrophe bond market, one new issuer successfully obtained capital markets protection in the first quarter. Safepoint Insurance Company, seeking to establish long-term relationships with alternative capital providers, issued $100 million of Principal At-Risk Variable Rate Notes via a newly established catastrophe bond shelf program, Manatee Re Ltd. Series 2015-1. As the deal upsized from $75 million, the insurance-linked securities investor base accommodated the growing Florida insurer, clearly demonstrating investors' willingness to assume risk from start-up and/or growing insurance companies seeking protection in 144A bond format.

Private Catastrophe Bond Market

The private catastrophe bond market continues to grow steadily in 2015, with $529.4 million of limit placed in rule 4(2) private placement format via ten transactions in the first five months. The 2015 year-to-date volume has exceeded the total full-year issuance in the individual years 2011, 2012 and 2013. Total year-end issuance in 2014 was $561.5 million across 17 transactions. As the industry continues to develop and enhance platforms to facilitate issuance of smaller catastrophe bonds, it is likely the market will continue to see further issuance in such a format over 2015.

Key Developments in the First Half

Investors' pricing discipline that emerged in the fourth quarter of 2014 persisted into the first half of 2015 as recent deal pricing and investor feedback suggests that further catastrophe bond pricing reductions in the near-term would be unlikely.

There appear to be two driving forces behind the pricing stabilization.
Pricing fell dramatically from 2012 to 2014 year end, and as a result, the market began to stabilize in 2014 and continues to remain at that level. As a result of the price decreases in previous years the spread of P&C cat risk over traditional “risk-free” fixed-income products has declined. As a consequence, investors are questioning if price reductions leave them adequately compensated for the risk they are bearing.

Evidence of price discipline and thoughtful conversations between protection buyers and sellers about adequate compensation for risk should be welcomed by all market participants. It is clear that catastrophe/insurance risk still provides an attractive risk/return profile and that the asset class will continue to occupy an important strategic role in the investment portfolios of institutional investors. Despite considerable spread reductions over the past 24 months, there are more investors participating in the asset class than ever. The case remains that there is significant additional capital available in the global financial markets eligible to participate in this asset class. Critically, however, it is just as important to recognize that this capital is seeking to bear risk at a fair and justifiable rate of return. Innovation and new product features are acceptable but protection buyers and intermediaries should be prepared to substantiate their rationale for adding new features and be willing to discuss the value that new additional features provide.

Marketing experience during 2015 year-to-date suggests that the investor base is more than willing – and in fact, is actively seeking – to engage on these frontiers to continue to explore how capital markets products can continue to deliver mutual value to both protection buyers and sellers.

Participation from so called “hot money” investors has never been lower. Although some investors continue to use financial leverage, they were far more the exception than the rule. If financial leverage was used, it tended to be in small amounts. Current price levels, though down from previous years, could represent a “golden compromise” in which protection buyers perceive good value for a multi-year fixed price protection and capital providers remain inclined to continue to build out their participations in the context of additional investment opportunities. Trading within this mutual value zone, while issuance costs and time to market requirements continue to decline, could provide the substantial issuance boost that market participants have long awaited. The all-time record issuance activity for the first quarter of 2015 could portend big things to come for the rest of the year.

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