

News Release

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GC Securities*: First Quarter Cat Bond Activity Signals Robust Issuance Ahead

Quarterly Catastrophe Bond Update Shows Expanding Investor Base and Competitive Capacity

New York, May 8, 2013 – GC Securities, a division of MMC Securities Corp., a U.S. registered broker-dealer and member FINRA/SIPC, today released an analysis of first quarter activity and trends within the catastrophe risk market for 2013. Two natural peril-exposed catastrophe bond transactions closed during the first quarter of 2013, for a total of USD520 million of issuance. This seemingly low level of primary issuance activity is deceiving, however, as activity in the capital markets and the influence of “non-traditional” capacity – a term that is rapidly approaching obsolescence – has never been higher.

The briefing, *Catastrophe Bond Update: First Quarter 2013*, available at www.GCCapitalIdeas.com, reports that in the first quarter of 2013, USD520 million of issuance was offset by USD352.5 million of maturities, driving an increase of risk capital outstanding of USD167.5 million. When looking to the remainder of 2013, GC Securities expects the market to approach, if not exceed, the record for annual issuance of USD7.0 billion set in 2007. According to the briefing, this forecast is dependent on cat bond market pricing remaining stable and non-U.S. peak peril sponsors taking advantage of particularly attractive conditions to bring sizeable issuances to the market during the balance of 2013.

"Spreads in the catastrophe market tightened significantly during the first quarter of the year, driven by strong demand from investors seeking additional deployment opportunities," said Cory Anger, Global Head of Insurance-Linked Securities (ILS) Structuring, GC Securities. "Although the low interest rate environment has made the catastrophe market more attractive to institutional capital, it is not the primary driver of inflows. Rather, we are seeing significant demands in part because of the 'decoupling' of pricing between the traditional reinsurance and capital markets. While traditional reinsurance has capital constraints for peak risk zones, such as Florida, the cat bond market may be able to offer capacity at a lower price point because it does not have the same capital costs."

Total risk capital outstanding increased during the first quarter of 2013, reaching an all time high water mark of USD15.0 billion. This marks the eighth consecutive quarter of growth in risk capital outstanding, up more than 17 percent since the end of the first quarter of 2012. Given scheduled maturities for the balance of 2013, and expectations about the current deal pipeline, risk capital should continue to increase over the balance of 2013. The level of expected additional issuance from GC Securities should support further growth of USD17 billion to USD19 billion of risk capital outstanding.

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As detailed in the report, there has been a continued and demonstrated broadening of investor interest in the catastrophe risk market, as seen in early 2013. Smaller and mid-size ILS managers are beginning to "score points," generating new mandates from institutional asset managers, primarily pensions. There are also a growing number of non-specialized, but very sophisticated, institutional investors that are participating in the 144A market on a direct basis.

"The catastrophe risk market is demonstrating its readiness to transition from 'adolescence' to 'young adulthood,'" said Chi Hum, Global Head of Distribution for ILS, GC Securities. "We are seeing that conservative institutional asset managers have largely accepted catastrophe risk as a component of a mainstream investment strategy. The broadening investor base is certainly a positive trend for the long term, as it increases the level of available capacity without leaving the market susceptible to reckless capital. Looking forward to the balance of 2013, capacity from the alternative markets has never been more competitive."

TAGS/KEYWORDS

Guy Carpenter, GC Securities, Hum, Anger, catastrophe bond, ILS, capital

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Reactions magazine named Guy Carpenter Best Global Reinsurance Broking Company Overall and Best Reinsurance Broking CEO of the year in 2012. At the *Reactions* London Market Awards, Guy Carpenter was also named Reinsurance Broker of the Year and took home Reinsurance Broking Team of the Year honors for both Property and Aviation. In the past year, Guy Carpenter has also won: Global Best ILS Advisor (GC Securities*), US Best ILS Advisor (GC Securities*) and US Best Broker for Casualty Reinsurance from *Intelligent Insurer*, *Insurance Day's* 2012 ILS Transaction of the Year (GC Securities*), and Reinsurance Broker of the Year for the Asia-Pacific region at the 16th Annual Asia Insurance Industry Awards.

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