

Catastrophe Bond Issuance Hits Record \$8.8 Billion in 2014, Artemis Reports

Outstanding catastrophe bond market reaches new record size at \$25 billion

January 5, 2015 (FPRC) -- The amount of catastrophe bonds and insurance-linked securities (ILS) issued reached a record level in 2014, according to Artemis.bm, a leading online source of news, analysis and data on the growing ILS, catastrophe bond and alternative reinsurance capital markets.

Artemis.bm recorded \$8.8 billion of new catastrophe bond and insurance-linked securities issuance in 2014 in its Deal Directory, the highest level recorded in a single year since the cat bond and ILS market emerged in the mid-1990's. Artemis has published a new market report providing details on this issuance.

As well as achieving a new annual record for issuance of new catastrophe bonds and ILS risk capital, the outstanding market of in-force cat bond and ILS transactions reached another new record, hitting \$25 billion for the first time ever.

Steve Evans, Founder and Editor of Artemis.bm, commented on the record year; "2014 saw strong investor interest in new catastrophe bonds and ILS, as well as growing interest from sponsoring insurers and reinsurers. In total we recorded almost \$8.8 billion of new issues throughout the year, the most we've ever covered."

Helping the outright size of this market to grow further are continued inflows of new capital from third-party investors. The outstanding market, measured as in-force catastrophe bonds and insurance securitization deals listed in the Artemis Deal Directory, grew by \$4.5 billion lifting the market to a record size of \$25 billion.

Steve Evans continued; "Reinsurance and property catastrophe risks are increasingly seen as an attractive alternative risk asset class by institutional investors such as pension funds and sovereign wealth managers. The ILS market has developed to support this investor interest and as the ILS market now matures it is finding new ways to respond to and support this investor demand."

Catastrophe bonds and ILS are part of a growing segment of the global reinsurance market, where specialist risk asset managers use third-party capital as a fully-collateralized alternative to traditional reinsurance or risk transfer capacity.

This once-niche, but now growing, piece of the reinsurance market provides \$60 billion or more of risk transfer capacity to the global reinsurance market. Artemis expects the market will continue to grow as participants learn to appreciate the efficiency of this new capital model, however it is disrupting for some.

"For some traditional reinsurance companies, the growth of ILS and cat bonds is threatening a traditional business model and taking away market-share. As a result we expect a continued move towards alternative business models, such as reinsurers directly leveraging or managing new sources of capital, or a search for growth through M&A in reinsurance as we move through 2015," Evans explained.

Accessing new and deeper pools of capital benefits the reinsurance industry and ultimately the insurance consumer. It provides risk capital post-catastrophe or loss event and eventually the trickle-down effect of cheaper and more efficient capacity will be a greater availability and affordability of insurance.

However this can create a painful environment for some incumbents in the reinsurance market, as the new, often more nimble ILS players display efficiencies difficult to match with the traditional business model.

Evans explained; “As new capital continues to find ways to access the returns of reinsurance and catastrophe risks it is expected that new business models, insurance and reinsurance products and secondary hedging markets will emerge. The disruptive effect that this new capital is having in reinsurance will result in a more efficient model for reinsurers and risk transfer, we believe.”

“A year ago we forecast that third-party and institutional investors would contribute as much as \$60 billion to the global reinsurance market by the end of 2014. The strong catastrophe bond and ILS issuance helped the market reach this target and we now expect further outright growth, both in cat bonds and the total amount of capital market money at play in the reinsurance market in 2015,” Evans concluded.

Contact Information

For more information contact Steve Evans of Artemis (<http://www.artemis.bm>)

Keywords

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