Swiss Re

Insurance-Linked Securities Market Insights

Edition XXXVII, February 2025

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Introduction

The Insurance-Linked Securities (“ILS”) market continued the growth trend of recent years in 2024, with the last 12 months marked by a robust performance for cat bond investors in the absence of events large enough to have a significant impact on the market.

The ILS market has grown by 10.5% year-on-year and is on track to exceed the USD 50 billion mark of outstanding notional in the near future. A large maturity pipeline across the year, complemented with elevated coupon returns and capital inflows, most notably for UCITS funds, have supported the growth of the outstanding notional in the market seen at year-end.

A strong issuance pipeline contributed to the growth of the market despite a large volume of bonds maturing, with a very active Q2 and Q4 helping the year reach USD 17.2 billion of primary issuance. Although the risk profile of the market remains orientated towards US perils, Swiss Re Capital Markets (“SRCM”) observed a wide variety of risks offered this year with a broad range of covered areas, a further ceding of cyber risks to the market and even a new peril, terrorism, on behalf of the French State pool GAREAT.

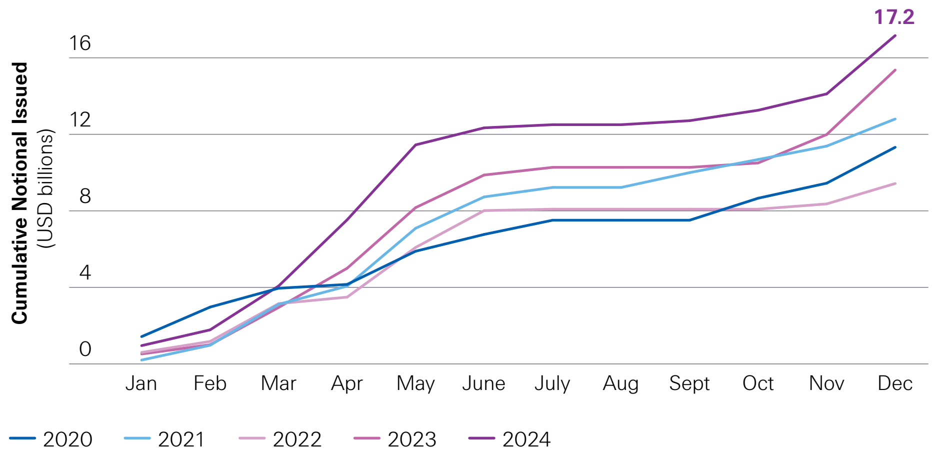
Returns for investors as measured by the Swiss Re Cat Bond Total Return Index, although not as strong as in 2023, ended the year at solid levels that should consolidate the value proposition of the asset class in comparison to other credit products and maintain the attractiveness for new players in the space.

Finally, although 2024 experienced one of the most active calendar years ever in term of industry insured losses from cat events across the globe, losses were spread among a relatively high number of medium severity events as well as secondary perils such as wildfires, hailstorms, thunderstorms and floods. In general, most ILS instruments are designed to cover peak perils and trigger after very high severity events such as major earthquakes and hurricanes. However, events from previous years have continued to develop, and the ILS market has supported the industry with close to USD 440 million of recovery payments to sponsors recorded in 2024 related to those past events.

Primary market performance

In continuation of the trend observed since 2020, primary issuances in 2024 reached ever-increasing levels which have fuelled the constant growth of the market. In 2024, nearly USD 17.2 billion of notional was issued in the cat bond market. The first half of the year started strong with USD 12.3 billion issued over the first six months, more than any other full year of issuance except 2021 and 2023. Following the typical pause in issuances during the North Atlantic wind season, the pipeline slowly resumed in the aftermath of Hurricane Helene and Hurricane Milton, before finishing strongly in December. Issuance activity was supported by the high level of available capacity, and lower impact than initially feared from those aforementioned hurricanes.

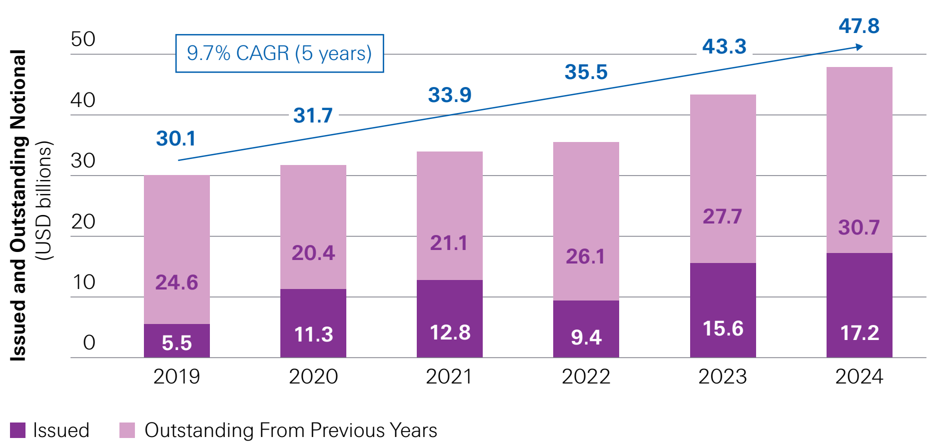
Figure 1
ILS New Issuance:
Historical Cumulative Notional Issued



Source: Swiss Re Capital Markets Deal Database as of December 31, 2024

The primary issuances observed during 2024 outpaced maturities by USD 4.7 billion and contributed to a 10.5% year-on-year growth of the total notional outstanding at the end of the year. The compound annual growth rate of the market over the last five years was 9.7%. Maturing capacity, coupon return, and large inflows have supported the growth of the market, which again saw a broad range of sponsors and perils covered through the issuance of 68 transactions.

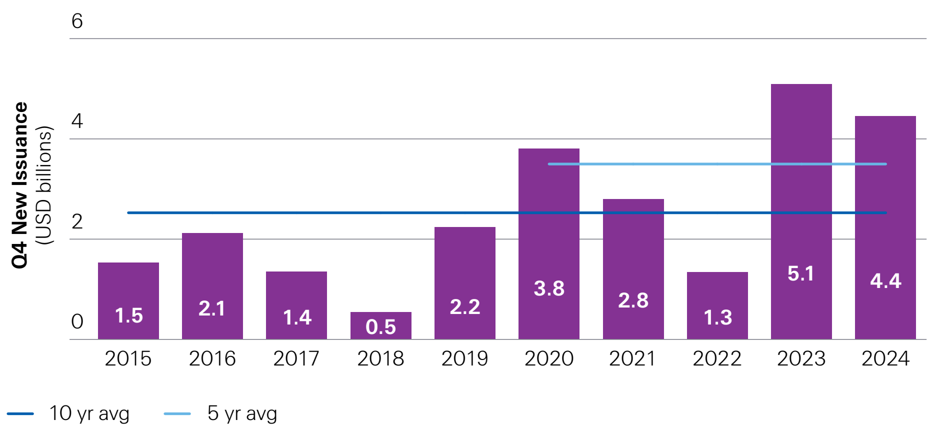
Figure 2
Issued vs Outstanding Notional



Source: Swiss Re Capital Markets Deal Database as of December 31, 2024

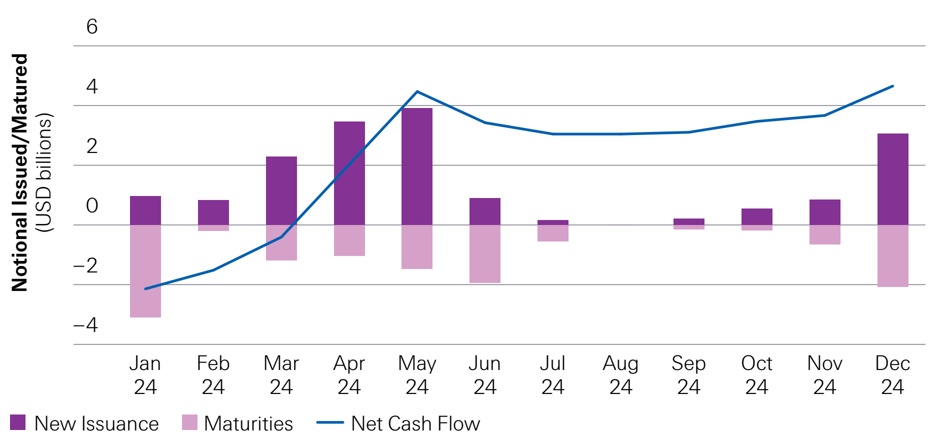
Despite the uncertainty that followed the landfalls of both Hurricanes Helene and Milton, the market was in a better position to absorb potential losses than in 2022, when Hurricane Ian dislocated the market and highly impacted issuances in Q4 2022. This year, strong capital positions allowed the primary pipeline to resume much more quickly following events compared to 2022, further demonstrating the resilience of the market. Strengthened investor confidence in the asset class, helped by the lower-than-anticipated impact on the market, led to a strong issuance pipeline in Q4. Figure 4 further highlights the attractiveness of the market. Indeed, the year 2024 ended with USD 4.7 billion net cash flow into the cat bond market, defined as the difference between the capital returned to investors from maturing bonds and capital deployed by investors into new issuances in 2024. This positive net cash flow into the market was supported by coupon returns and large inflows, most notably within UCITS funds and from new players, which largely offset redemptions during the year.

Figure 3
Historical Q4 New Issuance



Source: Swiss Re Capital Markets Deal Database as of December 31, 2024

Figure 4
Net Cash Flow into the Cat Bond Market (New Issuance and Maturities)



Source: Swiss Re Capital Markets Deal Database as of December 31, 2024

Throughout 2024, SRCM observed new sponsors entering the market, seeking alternative capacity to complement their traditional reinsurance programs. The trend of new sponsors largely occurred in H1 2024 with nine new sponsors, compared to H2 with only three new sponsors. It is worth noting that contrary to last year, there were no new European sponsors seeking coverage for European perils, with the exception of GAREAT which secured EUR 100 million of capacity against French terrorism risks. The end of 2023 saw a surge in this kind of coverage.

Figure 5
First Time Cat Bond Sponsors in 2024

First Time Sponsor	Deal	Notional (USDm)	Covered Peril
Texas Farm Bureau	Fish Pond Re 2024-1	255	Texas WS
Tower Hill	Winston Re 2024-1	400	Florida WS
PURE	Ashera Re 2024-1	105	US WS & EQ
Brookfield	Aragonite Re 2024-1	100	US/CAN WS & EQ
Allied Trust	Sabine Re 2024-1	100	US WS
Florida Peninsula	Palm Re 2024-1	150	Florida WS
American European	Charles River Re 2024-1	125	US WS
Gallatin Point Capital	Marlon 2024-1	150	Florida WS
Government of Puerto Rico	Puerto Rico Parametric Re 2024-1	85	Puerto Rico WS & EQ
GAREAT	Athena Re 2024	105	France Terror
Talanx	Maschpark Re 2024-1 A	100	Chile EQ
Mapfre	Recoletos Re 2024-1 A	125	US WS

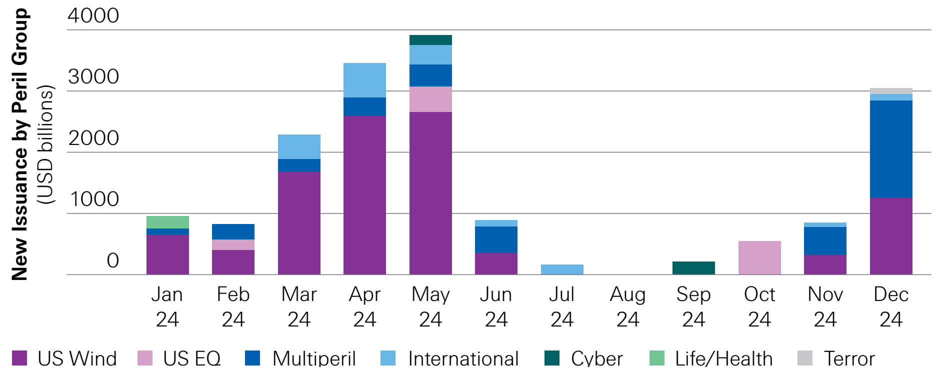
Source: Swiss Re Capital Markets Deal Database as of December 31, 2024

The ILS market remains dominated by US perils, and 2024 was no different with close to 60% of primary issuances having more than 90% expected loss contribution from US wind on a modelled basis. Yet 2024 also offered a variety of non-US exposed bonds. USD 1.75 billion of non-US perils were issued from both new sponsors, such as the Government of Puerto Rico and Talanx, and returning sponsors from various areas including Japan windstorm and earthquake, Italy earthquake, Europe windstorm, Mexico windstorm and earthquake and Jamaica windstorm

On the non-nat cat side, cyber risks continue to grow presence in the market with two new issuances from the Polestar Re program, USD 200 million of US morbidity risks were transferred to the capital markets at the beginning of the year, and a new risk, French terrorism, joins the list of risks transferred to the ILS market during the last quarter of 2024.

Notably, the notional amount of US earthquake issued was the lowest since 2019 with only USD 1.1 billion issued in 2024.

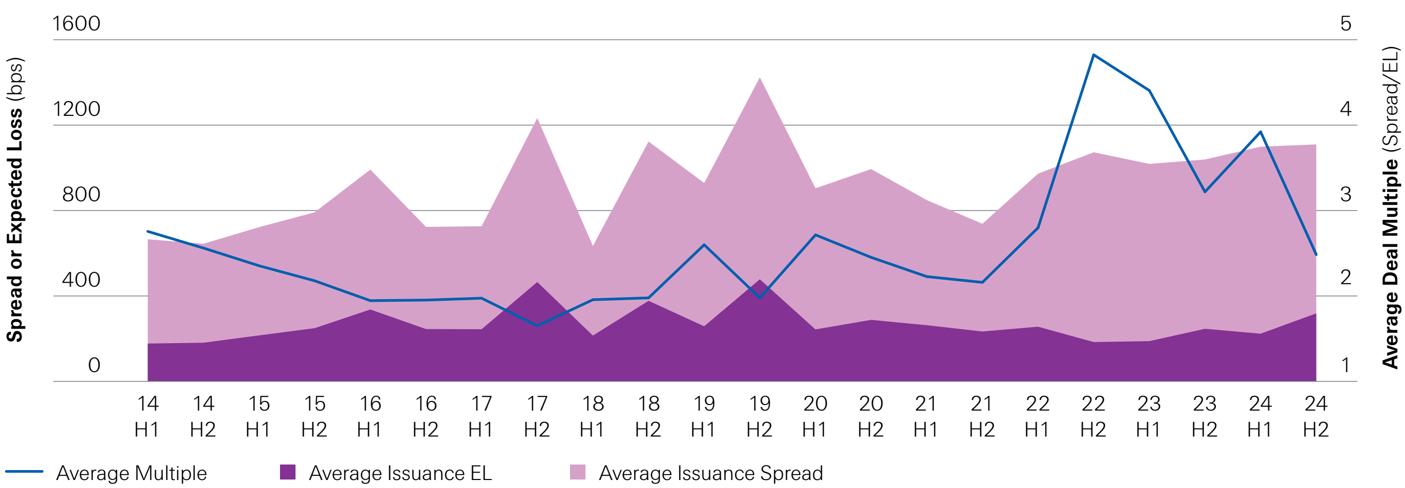
Figure 6
New Issuance by Peril Group



Source: Swiss Re Capital Markets Deal Database as of December 31, 2024
Note: Peril group is defined by expected loss contribution with a threshold of 90%. I.e. bonds with an expected loss contribution of over 90% from US wind will be classified as US wind. Multiperil bonds with no US exposure are classified as International.

There was an observed global increase of risk interest spreads and new issue multiples at the end of H1 2024, primarily due to a lower level of demand after a record breaking Q2 in terms of primary issuance. However, June maturities combined with accumulated coupons and new capital raised over the summer helped replenish investor demand. SRCM observed a global decrease of risk interest spreads combined with an increase of the average issuance expected loss, leading to a significant decrease of the new issue multiple during the second part of the year. The strong demand from the investor base seeking to deploy their capacity and the lack of buying opportunities on the secondary market led to a trend of spread tightening of primary issuance during the second part of the year. As a result, many transactions often upsized and competitively tested initial pricing terms.

Figure 7
Weighted Average Issuance Spread, Expected Loss and Multiple

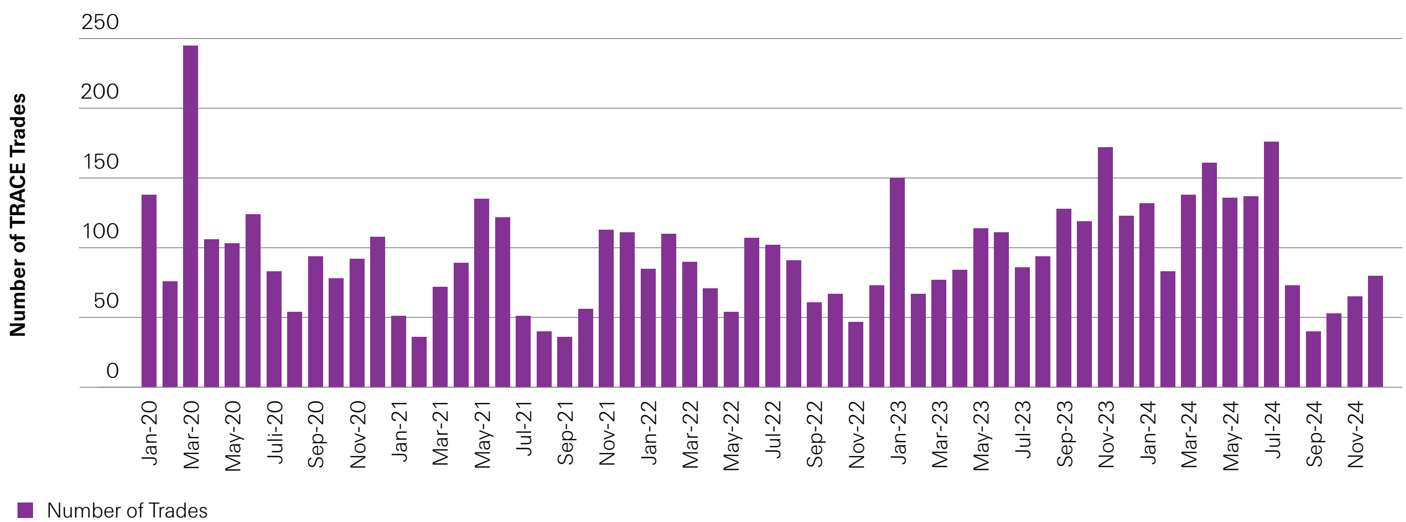


Source: Swiss Re Capital Markets Deal Database as of December 31, 2024
Note: Includes nat cat bonds only. Averages weighted by issued notional.

Secondary market summary

The secondary market for catastrophe bonds in 2024 has been characterised by distinct periods of large trading volumes and "bid-heavy" low trading volumes. At the end of Q1 2024, SRCM observed larger selling volume as the market faced redemption pressure. Many investors held larger than average cash positions heading into the predicted "historically-active" storm season, hoping to purchase bonds at a discount in the event of a large hurricane. These cash positions, combined with the strong coupon accrual in the funds, contributed to a "bid-heavy" secondary market throughout much of the second half of the year. In Figure 8, we observe a large decrease in the number of secondary market trades whereby some investors took the view that holding bonds even at elevated levels was preferable to holding cash. If they sold their bonds in the secondary market, it was unlikely that they would be able to purchase new bonds at attractive prices. This created an interesting dynamic in the secondary market where even though there were few trades, there was an abundance of liquidity. As the primary market issuance began in Q4, this began to impact the secondary market by further reducing the cash positions in the market, bringing back the need to free up cash for new deals by selling in the secondary market. The market begins the new year with a much better balance between the supply and demand for cash than observed in early Q4 2024.

Figure 8
TRACE Trade Summary



Source: Trade Reporting and Compliance Engine ("TRACE") and Bloomberg LP as of December 31 2024
Note: All TRACE trades on the following dates have been excluded. October 5 2021, March 1 2022, May 23 2022, July 18 2022, January 23 2023, June 20 2023, April 9 2024, May 7 2024, June 11 2024, August 21 2024, December 30 2024. In addition, all TRACE trades with a bid of three decimal places of precision have been excluded (e.g. 99.527).

Catastrophe events

2024 was marked by several significant natural catastrophes, from hurricanes and earthquakes to severe convective storms, wildfires and flood events. Those events have affected areas across the globe, resulting in a high financial cost and a tragic loss of life and livelihoods. While final impacts are still being assessed, in early December, Swiss Re Institute published a press release stating that insured losses from natural catastrophes in 2024 were on track to exceed USD 135 billion in 2024, passing the USD 100 billion threshold for the fifth consecutive year while economic losses from natural catastrophes were estimated to reach USD 310 billion. Two-thirds of the estimate was attributable to severe weather conditions in the US, which was affected by a high frequency of severe thunderstorms and two major hurricanes, namely Hurricane Helene, followed two weeks later by Hurricane Milton.

Hurricane Helene formed in late September in the western Caribbean Sea before a rapid intensification as it moved through the Gulf of Mexico to reach Category 4 intensity on the evening of September 26. It made landfall at peak intensity in the Big Bend region of Florida. It moved quickly inland and stalled over the Southeastern region of the United States until 29 September. The storm caused high storm surge across along the coast of Florida, including record breaking storm surge levels in the Tampa Bay area and hurricane-force gusts as far inland as Atlanta. Due to its fast move inland, Hurricane Helene caused catastrophic flooding due to heavy rainfalls in Georgia, western North Carolina, east Tennessee and southwestern Virginia. In the aftermath of Hurricane Helene, Hurricane Milton made landfall as a Category 3 near Siesta Key, FL, on October 9 after reaching Category 5 level with central pressure as low as 897 millibars as it progressed westwards through the Gulf of Mexico. Hurricane-force gusts combined with high storm surge along the west coast of Florida, and most notably in the Tampa Bay area caused widespread damages. The hurricane rapidly weakened as it moved across Florida to reach the Atlantic Ocean as a Category 1 hurricane, but triggered a deadly tornado outbreak and caused widespread flooding across the state.

As of early December, the Swiss Re Institute estimated the insured losses from both hurricanes to be below USD 50 billion, yet their impacts on the ILS market have been minimal to date. Both hurricanes underscore the growing complexity of modeling hurricane risk, as Hurricane Milton highlights the importance of managing tail risks in Gulf Coast exposures, and Hurricane Helene emphasizes the rising impact of water-related damages in the Northeast. Nevertheless, these events have not caused any direct losses to the ILS market, further demonstrating the resilience of the structures in place. Future development of loss estimates, especially as it pertains to incurred but not reported (IBNR) losses, may influence the broader market perception of these events, but for now, the impact remains contained.

Europe on the other hand, was heavily impacted by floods in 2024, resulting in the second-highest insured losses from floods in the region ever, with close to USD 10 billion according to the December 2024 estimate from the Swiss Re Institute. Storm Boris, a slow-moving, low-pressure system, caused major floods across central Europe. Spain suffered heavy rainfalls flash floods and hailstorms in large parts of the country, with extensive impacts in Valencia and Castilla-La Manche regions. UAE also experienced heavy floods from intense precipitation in April bringing the total estimated insured losses to USD 13 billion from these three floods alone.

The cat bond market hasn't incurred losses from 2024 events directly, pending further loss developments and/or any further erosion on aggregate structures. However, events from prior years have continued to develop and resulted in recovery payments to sponsors of about USD 440m. The main drivers of these being Hurricane Ian, Hurricane Otis, and Covid-19, as well as the 2023 Turkey earthquake and Winter storm Elliott.

Insights into the Swiss Re indices

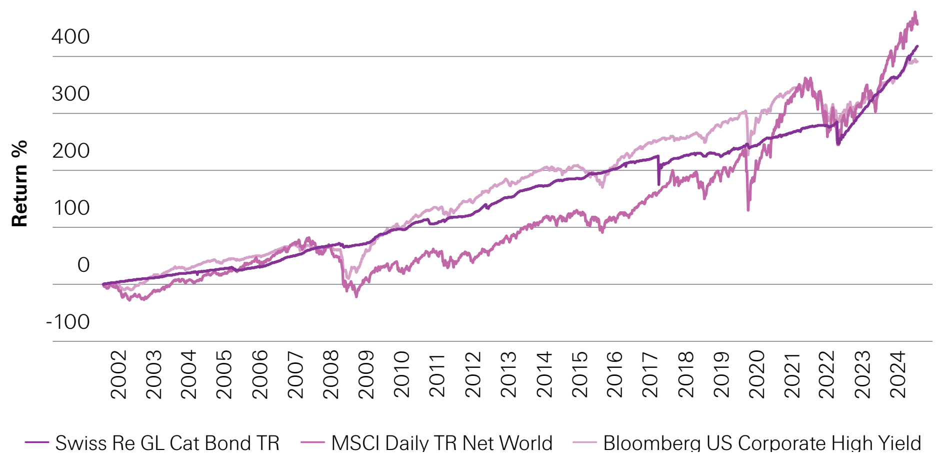
The Swiss Re Global Cat Bond Total Return Index posted a solid performance in 2024 with an annual return of 17.3%.

The high level of demand from the investor base at the beginning of the year fuelled by more than USD 3 billion of bonds having matured in January and coupon payments led to a tightening of secondary risk interest spreads contributing to a strong start of the year for the performance of the index.

The rebalancing of cash observed during Q2 2024 with a strong issuance pipeline led to a lower performance of the index across the second quarter which added a return of 5.8% for the first six months of 2024.

In the second half of the year, the lower-than-expected impact of Hurricanes Helene and Milton, the strong capital position and the benign loss activity across the first half of the year led to a global tightening of risk interest spreads on the secondary market. This created a positive mark to market, which combined with the coupon returns allowed the index to achieve a 10.9% return over the period.

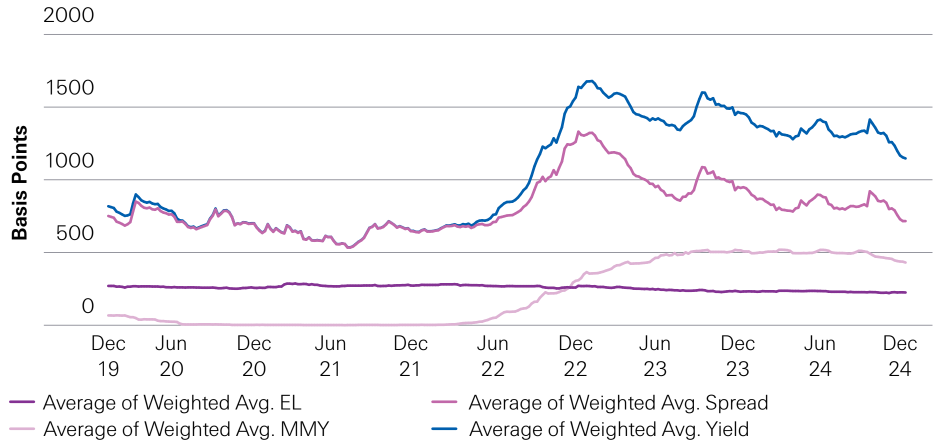
Figure 9
Swiss Re Index Comparison



Source: Swiss Re Capital Markets and Bloomberg LP as of December 31, 2024
Note: Swiss Re Global Cat Bond TR (SRGLTRR Index), Bloomberg US Corporate HY (LF98TRUU Index), MSCI Daily TR Net World (NDDUWI Index). Swiss Re Cat Bond Indices are based on indicative pricing only.

The dynamic observed in 2024 on the weighted average yield is similar as it broadly followed the cash rebalancing and its impact on offer and demand throughout the year while the collateral returns remained healthy throughout the year to contribute to the strong performance of the market.

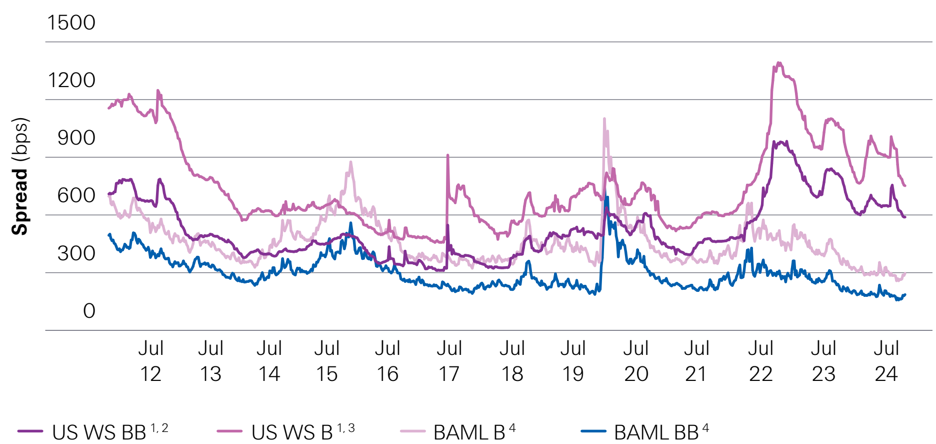
Figure 10
Weighted Average Yield/Spread/MMY of the Swiss Re Global Cat Bond Total Return Index



Source: Swiss Re Capital Markets as of December 31, 2024
Note: Swiss Re Cat Bond Indices contain only nat cat, interest-bearing bonds. Zero-coupon and non-nat cat bonds are excluded (e.g. Life/Health, Cyber, Terror). Seasonally-adjusted spread used. Bonds with seasonally-adjusted bid spread increases of 250% or greater from issuance have been excluded.

Figure 11 below shows average secondary spreads for US Wind exposed bonds, split into two risk buckets by EL. The cat bond market continues to offer an average spread well above the BofA Merril Lynch High Yield indices by a significant margin. The value proposition for inclusion in fixed income portfolio allocations offered by the asset class remains strong both in terms of diversification aspects and yield offered in comparison of similar credit products.

Figure 11
Relative Value Indices: Swiss Re Composite



Source: Swiss Re Capital Markets, as of December 31, 2024; Bank of America Merrill Lynch US High Yield B and BB Indices

1. Swiss Re Capital Markets pricing indications only. Average seasonally adjusted spread used.
2. US WS BB Rated Comp contains bonds with at least 1 year to maturity that have non-zero exposure to US WS, and an EL between 16-180 bps (or with an actual BB rating, regardless of EL)
3. US WS B Rated Comp contains bonds with at least 1 year to maturity that have non-zero exposure to US WS, and an EL between 180-375 bps (or with an actual B rating, regardless of EL)
4. BofA Merrill Lynch High Yield Option Adjusted Spread via the Federal Reserve Bank of St. Louis website

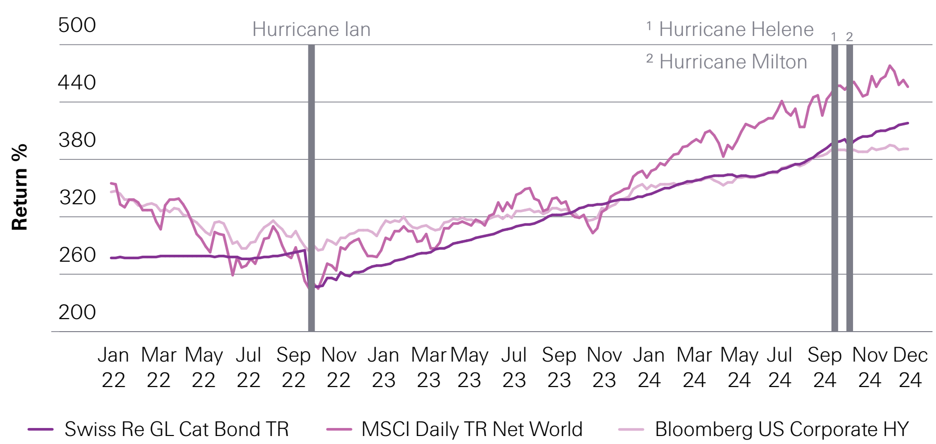
Cat Bond Market response to Hurricanes Helene and Milton

Hurricane Helene made landfall in the Big Bend region of Florida in late September, with strong winds and intense storm surge. It then continued inland, depositing record-breaking levels of rain in the southeastern US states. This led to severe flooding in many areas, especially in North Carolina. Less than two weeks later, Hurricane Milton formed. Hurricane Milton was forecasted to be a superstorm, with extreme wind speeds and storm surge predicted to impact large and highly populated areas of the state of Florida.

With nearly half of all outstanding cat bonds exposed to Florida hurricanes, the market was on high alert. Initial insured industry loss estimates for Hurricane Milton were high and contained significant uncertainty surrounding the severity of the event. However, the market reacted differently after this event compared to after Hurricane Ian only two years prior.

The event resulted in an initial –1.34% contraction in the Swiss Re Global Cat Bond Total Return index in the week ending October 11, 2024. In comparison, the index dropped by almost –10% in the week post landfall of Hurricane Ian and was still down –7.5% a month following landfall.

Figure 12
Swiss Re Global Cat Bond Total Return Index



Source: Swiss Re Capital Markets and Bloomberg LP as of December 31, 2024
Note: Swiss Re Global Cat Bond TR (SRGLTRR Index), Bloomberg US Corporate HY (LF98TRUU Index), MSCI Daily TR Net World (NDDUWI Index). Swiss Re Cat Bond Indices are based on indicative pricing only.

Outside of the different nature of the events themselves, the market reacted differently to Hurricane Milton for several reasons:

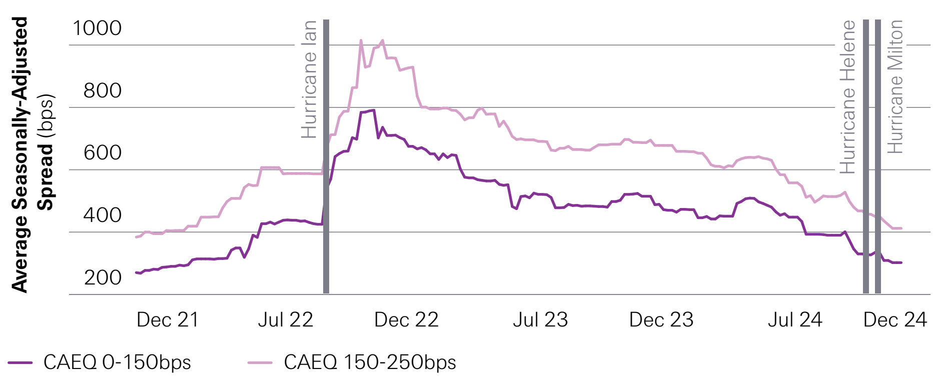
- Hurricane Ian exacerbated an already difficult reinsurance and ILS market where wide-spread inflation contributed to a capacity supply crunch and ultimately created a liquidity event in the ILS market

- The initial industry-wide fear of the potential magnitude of loss from Hurricane Ian caused the ILS market to dislocate, although the realized losses have proved to be less than 1% of the cat bond market outstanding notional at the time of the event

- By contrast, in the following days and weeks after landfall, the potential losses from Hurricane Milton were viewed as more of an earnings event. Any losses were expected to be comfortably absorbed by the cat bond market due to strong returns from the rest of year. Many investors were actively looking to buy bonds on the primary and secondary markets whereas following Hurricane Ian, most investors were looking to sell positions to create much needed capacity

After large wind events, bonds covering earthquake only, especially those covering California earthquake, tend to be the most liquid. As a result, trades in California earthquake bonds tend to increase when investors are looking to free up capacity or increase their cash holdings. Figure 13 shows the California earthquake spread progression by expected loss band since 2022. In the weeks following Hurricane Ian, spreads for California earthquake bonds peaked due to the selling pressure on the secondary market created by the liquidity need. Hurricane Milton did not create such a selling pressure. On the contrary, spreads for California Earthquake risk steadily decreased throughout the second half of the year demonstrating the stronger capital position and absence of needed liquidity following Hurricane Milton.

Figure 13
California Earthquake Spread Progression by Expected Loss Band



Source: Swiss Re Capital Markets Pricing Database as of December 31, 2024
Note: Swiss Re Capital Markets pricing indications only. Analysis contains bonds which are on risk, have seasonally-adjusted spread increases of less than 125% from stated spread, and have more than 270 days to maturity and a contribution to EL from California earthquake of at least 70%.

For more information

Specialists throughout Swiss Re Capital Markets are available for consultation on bespoke ILS solutions, and they invite a dialogue on the subject with sponsors and investors alike. For more information, please contact the person in your region listed below.

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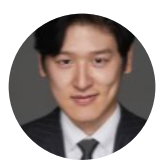

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- Insurance-Linked Securities may be redeemed before their maturity date (including before any extension of such maturity date by the issuer).
- If Insurance-Linked Securities are redeemed before maturity, the interest rate payable to investors under the Insurance-Linked Securities will be reduced.
- Investors have limited recourse to assets of an issuer of Insurance-Linked Securities and no recourse to assets of the counterparties to the underlying risk-transfer agreements to which such Insurance-Linked Securities relate.
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