

# Swiss Re Capital Markets launch new concept Cat Bond

★ At the end of last year, Swiss Re Capital Markets launched a catastrophe bond with a difference – not only was it the first cat bond to offer protection against earthquakes in Central America, it was also the blueprint for a new concept allowing charities or governments to leverage donations to pay for the coupon of the bond.

The initial offering of notes by GlobeCat Ltd closed on December 21, 2007, and Swiss Re's Capital Markets structured and placed the securitisation and acted as the sole book runner for the initial \$85 million offering. The first two tranches of the issuance cover catastrophic hurricane events in the US and earthquakes in California. The third tranche covers the non-peak perils of earthquakes in Guatemala and El Salvador.

The structure of the bond allows charitable foundations, governmental relief organisations and corporations to use donations, governmental or international funding to pay for the coupon of the bond. If there is a trigger event, funds would be very quickly available for relief efforts in the affected developing country, rather than having to be raised after the event. Such a platform, it is hoped, would help these organisations to become more pro-active in planning and anticipating relief needs in areas of the world affected by severe catastrophes.

"The most significant achievement of this bond is really to prove that this is a viable concept," says Mariagiovanna Guatteri, vice-president of insurance-linked securities trading at Swiss Re. "Investors have accepted it and the programme is in place, so we can now go to governments and charities and say that this type of cover works."

The donation-to-coverage leverage is over 45 times for this specific issuance (\$1 million of donations can be used for \$45 million in relief), with an expected loss of about 1%.

The minimum investment in GlobeCat was \$250,000. The wind/hurricane tranche closed at \$40 million, the California tranche at \$20 million and the Latin America tranche – which


was oversubscribed – at \$25 million. While the first two tranches pay a coupon of 9.25% and 6% respectively, the Latin America tranche has a coupon price of 2.1%.

The appeal of the Latin America tranche, though, is the diversification it brings to a portfolio, explains Guatteri. "This is the only bond to cover this area, and so it is a great diversifier. This makes up for a lower coupon price."

Another first for the deal is the creation of a new index put together in order to define when the trigger for payment occurs. It is the only trigger to be based on a population affected by an earthquake. If an earthquake occurs in the covered region, it will immediately be analysed by risk management and modelling company EQECat, which will determine whether the trigger has occurred based on the number of people affected by certain levels of severe ground shaking. The index is modelled after the PAGER system developed by the US Geological Survey.

"It was a challenge to create the index as we didn't have much time between the concept and needing to bring it to market," says Guatteri. The bond took about six weeks to structure, during which time Swiss Re worked closely with EQECat.

With the first issuance now complete, Swiss Re's objective is to introduce the GlobeCat programme to foundations and charities as a mechanism to leverage donations and to have funds available shortly after a disaster strikes.

Other triggers will be designed accordingly to allow cover for a wider range of perils in the developing world, the company says. 



**Mariagiovanna Guatteri, Swiss Re**