Munich RE

Munich, 24 January 2011
Press release

Catastrophe bond market attracts new investors
Further growth expected in 2011

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The market for catastrophe bonds has grown in 2010 and will continue to expand this year. The volume of newly issued catastrophe bonds is likely to be in the region of US$ 5.5–6bn in 2011. Thus the amount of new issues will again exceed that of maturing bonds so that the volume of outstanding bonds will increase.

"As a result of the low interest-rate environment in the capital markets, catastrophe bonds will become increasingly attractive for major institutional investors such as pension funds, which have so far not invested in this asset class. Catastrophe bonds offer comparatively attractive returns on transparent risks. Investors also increasingly recognise the diversification effect in their portfolio, as these bonds are not correlated with their other risks," said Board member Thomas Blunck, who oversees Munich Re's Risk Trading Unit. "All in all, the market conditions for insurance securitisations – both for sponsors and for investors – have become even more attractive."

Last year, around US$ 5bn of new catastrophe bonds were issued, whereas maturing bonds amounted to just under US$ 4bn. The volume of outstanding bonds thus rose to about US$ 13bn. The spreads rose into the summer in the expectation of a strong hurricane season and a high number of new issues of US hurricane bonds, only to fall again in the second half year. In 2010, the required return fell on average by about 30%. Further background information to last year's market development:

- Major traditional investors entered the catastrophe bond market, their share rising from approximately 5% in 2009 to over 20%.
- In the course of the year, the range of risks transferred to the market broadened. In the first half year, mainly US hurricane risks were securitised and as the year advanced other risks such as Windstorm Europe and Tornado were added.

In 2011, catastrophe bonds with a total volume of just under US$ 4bn will mature. "We anticipate a further rise in the volume of issues for 2011. Although favoured by the low interest-rate environment in the capital markets, this increase is also largely due to a larger circle of investors. We are particularly pleased about the growing interest of traditional investors such as pension funds, as they contribute to a sustainable and more stable development of the still young securitisation market for insurance risks", explains Rupert Flatscher, head of Munich Re's Risk Trading Unit.

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