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2013 a Ground-Breaking 12 Months for ILS: Aon Benfield.

Aon Benfield Securities, the capital market, catastrophe bond and insurance-linked securities (ILS) arm of reinsurance broker Aon saw 2013 as a ground-breaking year for the ILS market, as demand from investors helped the market grow to record size.

Aon Benfield Securities has published its latest ILS market report today. The report looks back at the fourth-quarter 2013 trends in the ILS and catastrophe bond market and provides an opinion on the full-year market activity in 2013.

The fourth-quarter saw eight catastrophe bonds close, with a total value of \$1.9 billion, contributing to second-half issuance of \$3.5 billion and a full-year 2013 issuance total of \$7.5 billion, according to the report. As ever, note that Aon's figures do not include every ILS and cat bond recorded by the Artemis Deal Directory, which recorded \$7.64 billion of issuance in 2013.

The strong issuance seen in 2013, the second strongest single year on record after 2007, helped the total amount of catastrophe bond limit outstanding jump to \$20.3 billion, according to Aon Benfield Securities, the highest level in the markets history.

The fourth-quarter saw a broad range of deals coming to market, containing a mix of U.S. perils as well as some diversification opportunities for investors, including Australian earthquake, Australian cyclone and European windstorm.

The second-half of 2013 saw 16 transactions close, according to ABS' figures, with several new sponsors and new perils coming to market. The transactions through the second-half also demonstrated the ILS markets ability to adapt and expand coverages to better serve the needs of primary insurer sponsors.

The continuing strong demand from capital market investors for access to reinsurance-linked returns in catastrophe bond and ILS form has helped the market to achieve outright growth as well as helping to push market pricing for ILS products to record lows in 2013. The fourth-quarter saw ILS pricing remain in line with these record pricing lows as the strong demand from investors continued.

Paul Schultz, Chief Executive Officer of Aon Benfield Securities, commented; "The fourth quarter of 2013 saw the maintaining of robust ILS issuance volumes and ever increasing interest from both sponsors and investors. When we look back at the year as a whole, we see that the ILS sector has recorded a ground-breaking 12 months, where ILS pricing decreased to levels that are highly competitive with traditional reinsurance."

Pricing of catastrophe bonds has declined so significantly over the last twelve months that it is now often the most cost-effective option available to those seeking risk transfer of some perils in some regions. This has now reached the point where the efficiency of ILS capital is now enabling ILS sponsors to lower their cost of risk capital at the same time as diversifying their capital sources, a very desirable outcome.

Paul Schultz explained; “In certain peak zone areas, we have seen catastrophe bonds become a more cost effective risk transfer mechanism than solutions available in the traditional market. We expect 2014 to see continued inflows of capital and the ILS sector to make further progression.”

In the absence of severe catastrophe events, Aon Benfield Securities expects that 2014 will be another positive year for the ILS and cat bond market. ABS explained that 2014 may be characterized by both a broader spectrum of available risks and perils as well as expanded coverage into the lower layers of reinsurance cover are features that we will see more of. As a result ABS expects sponsors to increasingly use the catastrophe bond market as a core component of their risk transfer programs.

If the ILS market can continue to adapt structures and cover afforded to better serve the risk transfer needs of insurers and reinsurers in this way it should ensure further outright growth of the ILS market and that it may gain a greater foothold in these layers of the reinsurance market, at the cost of traditional reinsurers.

Despite the greater flexibility and reduced pricing of ILS and catastrophe bonds, Aon Benfield Securities expects the traditional reinsurance market will continue to strongly compete on these reinsurance layers. A competitive environment between the two forms of capital is expected to continue into 2014, said the broker.

At the same time, new capital continues to be allocated to the ILS asset class by investors, which Aon Benfield Securities said points to a positive outlook for increasing the breadth of the ILS market.

You can access the full report from Aon Benfield Securities in PDF format here:

http://thoughtleadership.aonbenfield.com/Documents/201307_ab_securities_ils_quarterly_update_q4_2013.pdf

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