Bond Case Briefs

Municipal Finance Law Since 1971

WSJ: Investors Embrace 'Catastrophe Bonds.'

Insurance companies are taking advantage of the appetite for high-yielding debt by selling bonds that can force investors to help pay for the cost of natural disasters.

With the U.S. hurricane season about a month away, insurers are issuing “catastrophe bonds” at the fastest clip since before the financial crisis. Insurers sell the bonds to help cover potential claims from hurricanes, tornadoes, earthquakes and other major insured risks. While losses on so-called cat bonds have been rare over the years, investors can forfeit both interest payments and their principal if disaster costs exceed designated levels, which gives insurers the right to tap the funds. The bonds have floating interest rates and are usually paid off upon maturity in three or four years.

Cat-bond issuance in the first quarter more than doubled from the year-earlier period, to $1.2 billion, and second-quarter issuance is expected to hit an all-time high above $3.5 billion, according to Willis Capital Markets & Advisory. More than $2 billion of deals have closed or been announced this quarter, Willis said.

Citizens Property Insurance Corp., the state-run insurer in Florida, this week boosted its latest cat-bond offering to at least $1.25 billion from $400 million, according to investors. It would be the largest single cat-bond transaction ever, according to Artemis, an insurance-linked data provider.

Yields on cat bonds, meanwhile, have sunk to their lowest level in nine years. The average quarterly yield dipped to 5.22% recently, from 9.61% in 2012.

Cat bonds historically have appealed to large pension funds but now are attracting a wider array of buyers, yield-hungry investors who otherwise might purchase corporate junk bonds, according to brokers, bankers and investors.

“Institutions of smaller and smaller size are becoming interested in the market,” said Brett Houghton, a managing principal at Connecticut-based Fermat Capital Management LLC, a long-standing specialist in catastrophe bonds, with $4.4 billion under management.

By

AL YOON And
LESLIE SCISM

April 23, 2014 6:44 p.m. ET