From the Makers of Catastrophe Bonds, a New 'Resilience Bond'.

Some of the people who brought you "catastrophe bonds" now want to bring you "resilience bonds."

"Cat bonds" are securities that help insurers or an entity such as a municipal transportation authority pay for claims after a hurricane or other catastrophe. Amid protracted low interest rates, many U.S. and Canadian pension funds have been scooping up these securities because they yield more than conventional bonds while also offering diversification—though a massive catastrophe could wipe out their principal.

Now, some of the brains behind cat bonds, which have been around since the late 1990s, are pioneering a variation of this security. Among developers of this new resilience bond are big European reinsurance powerhouse Swiss Re SSREY -1.10% and RMS, a leading catastrophe risk-management and modeling firm. They are well-known names in the cat-bond world.

The idea is that resilience bonds would appeal to, say, flood-prone cities, public utilities and other entities that need to build infrastructure like seawalls and flood barriers, RMS said in an announcement this morning. RMS is working with Swiss Re, the Rockefeller Foundation and design firm re:focus partners on the new framework.

Multiyear resilience bonds could provide money for property-damage claims should a big disaster strike while the infrastructure project is under construction. In that way, resilience bonds would serve as insurance as cat bonds do—and might reduce dependence on disaster aid.

But unlike ordinary cat bonds, they could provide "resilience" rebates. While many details remain to be determined, the rebates would reflect the reduction in risk that occurs as seawalls or flood barriers begin to provide protection.

About $22 billion of cat bonds were outstanding as of mid-year, according to Marsh & McLennan Cos.MMC -2.00%' Guy Carpenter reinsurance unit.

Cat bonds, which typically are in place for three to five years, originally were developed to provide insurance companies with an alternative to traditional reinsurance, but have increasingly been used by public or quasi-public entities to augment traditional insurance or reinsurance, according to RMS and its partners in the resilience-bond effort.

Among those with cat-bond programs are railroad Amtrak, New York Metropolitan Transportation Authority, the California Earthquake Authority, and state-run insurance pools in Florida, Louisiana, Massachusetts and Texas.

Aon Securities said cat-bond issuance reached $7 billion in the 12 months to June 30, a decrease of the prior-year record of $9.4 billion, "yet still the third highest annual issuance in the sector's history." Mostly, the bonds relate to possible catastrophes in the U.S., though some expose buyers to risks in Japan and Europe.

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