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Catastrophe Bond Investors Betting on Disasters are Helping Make Insurance Affordable.

In many communities at high risk for natural disasters, a Wall Street financing tool that's gaining popularity, called a catastrophe bond, may make it easier for homeowners to get insurance. On Oak Island, North Carolina, homeowners who face annual hurricane risk are seeing the impacts firsthand.

The interest in catastrophe bonds comes as insured property losses increased from $30 billion in 2015 to over $110 billion in 2024, adjusted for inflation, the Insurance Information Institute found, while homeowner insurance premiums increased 40% faster than inflation between 2017 and 2022, according to the Consumer Federation of America. Many insurance companies have left high-risk markets altogether.

Catastrophe bonds are contingent on whether or not a disaster takes place. Insurance companies sponsor bonds that are then purchased by investors, typically institutional investors. If a natural disaster does not take place, investors get a return on their investment. But if a disaster meeting certain thresholds takes place, money goes to insurance companies to pay out customers' claims, and investors lose money. Catastrophe bonds are beneficial to insurers because they make large amounts of capital available to pay insurance claims. The bonds are appealing to investors because disasters that lead to insurance payouts are rare.

Continue reading.

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