

TRADING

Risk

\$200bn annual property catastrophe reinsurance limits placed. Of which;

- \$5-8bn collateralised reinsurance placed annually with capital markets investors
- \$11bn cat bond and sidecar capacity outstanding in any one year
- \$5-6bn industry loss warranty capacity placed annually
- \$0.1bn catastrophe futures traded in 2009

TOTAL convergence market approx.
\$23bn or 12% of property catastrophe reinsurance

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Risk

- Collateralised reinsurance: Annual traditional reinsurance placements with capital markets. Fully collateralised. Illiquid.
- Cat bonds: Securitised (re)insurance risk. Generally 3-year tenure, secondary market creates liquidity. Mainly peak perils.
- Industry Loss Warranties: Private reinsurance or derivative transactions, payout triggered by industry loss estimates on peak natural catastrophe perils. Traded annually. Illiquid.
- Cat futures/insurance-linked derivatives: Derivative form of ILW instrument (IFEX on Chicago Climate and Futures Exchange and Eurex in Europe) or parametric instrument called CME Hurricane Index futures, traded on the Chicago Mercantile Exchange. Exchange-cleared product. Relatively liquid.