

ClientAlert

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Cat bonds, sidecars, ILWs and more -- have the recent "nat cats" brought the industry to an inflection point?

In the wake of recent natural catastrophes, punctuated by the devastating March 11 earthquake off Japan, no clear picture has yet emerged as to long-term effects on the insurance/reinsurance industry. While persistently high levels of capital may have blunted the impact on insurer and reinsurer balance sheets, some industry participants are reporting material effects on their results and capital position, such as [Munich Re](#) and [Validus Group](#). Others are monitoring their existing cat bonds for possible relief, such as [Platinum Underwriters Holdings, Ltd.](#) In at least one case, an insurer without adequate reinsurance cover (New Zealand's AMI Insurance) has required [government assistance](#) to survive.

As carriers tally up their losses, Japan, New Zealand and other locales will begin to recover and rebuild, likely prompting strong demand for insurance coverage. In addition, the sector is still digesting [RMS's](#) revised cat model, issued at the beginning of March, which could profoundly influence hurricane underwriting and reserving for years to come. After all, changes in cat modeling after Katrina, accompanied by concerns about climate change (believed by some to be a cause of the violent hurricanes of the middle part of the last decade), fueled the need for additional capacity that ultimately spawned the sidecar boom of 2006. See, for example, our discussion of these transactions in the July 2006 [Insurance and Reinsurance NewsWire](#). Cat bond activity suffered a slump during the financial crisis of 2008-2009, but came back significantly during 2010 and shows no signs of slowing.

If history is any indication, current market conditions may begin to resemble those of 2006, making alternative forms of risk transfer attractive. Indeed, one industry player, [Alterra](#), has recently announced a new sidecar. By the same token, equity values of reinsurers that linger below book value may make sidecars unattractive to institutional investors. For investors looking for truer non-correlated risk, cat bonds may continue their current resurgence. Indeed, there are initial reports that, following an initial burst of uncertainty immediately after March 11, [secondary market trading in cat bonds has stabilized](#). This could presage future capital market activity in ILS. Meanwhile, the more-standardized forms of cat cover, including industry loss warranties, derivatives and traditional reinsurance/retrocession, all remain viable options, with reinsurance pricing showing signs of hardening.

Chadbourne & Parke's insurance and reinsurance group has extensive experience in all forms of reinsurance and other risk transfer, and is ready to assist you in all aspects and stages of such transactions -- from deal structuring and strategy, to comprehensive preparation of all documents and disclosure materials, to execution.

Our lawyers' representative matters in this area include:

- Representing Cyrus Reinsurance Holdings SPC and Cyrus Reinsurance Ltd. (Cyrus Re), along with their hedge-fund sponsor, in connection with their formation, private-placement capitalization, and reinsurance agreement negotiation as part of the first Moody's-rated sidecar reinsurance transaction, which raised \$544 million of capital.

- Advising Renaissance Re on ILW cover as well as catastrophe retrocession.
- Advising Allianz in a number of Blue Fin cat bonds (2007-2010) covering US earthquake and hurricane and European windstorm risk.
- Representing AXA in its 2005 Aura Re cat bond covering European windstorm risk.
- Representing AXA in its innovative 2006 OSIRIS Capital plc extreme mortality-linked note.
- Advising Willis on aspects of its hurricane-related transformer derivative transactions.
- Advising Morgan Stanley on a catastrophe-linked transformer structure.

Our client alerts are for general informational purposes and should not be regarded as legal advice. If you would like additional information or have any questions, please contact:

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Chadbourne & Parke LLP, an international law firm headquartered in New York City, provides a full range of legal services, including mergers and acquisitions, securities, project finance, private funds, corporate finance, venture capital and emerging companies, energy/renewable energy, communications and technology, commercial and products liability litigation, arbitration/IDR, securities litigation and regulatory enforcement, special investigations and litigation, intellectual property, antitrust, domestic and international tax, insurance and reinsurance, environmental, real estate, bankruptcy and financial restructuring, executive compensation and employee benefits, employment law and ERISA, trusts and estates and government contract matters. Major geographical areas of concentration include Russia, Central and Eastern Europe, the Middle East and Latin America. The Firm has offices in New York, Washington, DC, Los Angeles, Mexico City, São Paulo, London, Moscow, Warsaw, Kyiv, Almaty, Dubai and Beijing. For additional information, visit: <http://www.chadbourne.com/>.

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