

10 December 2012

Sector Specialist - Reinsurance

CATCo Reinsurance Opps* - Update on Sandy

- In late November, Property Claim Services (PCS), the US industry loss compilation service, released the results of its first survey for Hurricane Sandy, based on direct information from insurers. This PCS survey puts total insured losses at \$11bn, although the “*estimate was caveated with a number of subjectivities that could result in the estimate increasing*”. Modelling firms Eqecat, AIR Worldwide and RMS have all issued estimates of the expected insured loss from Sandy that range from \$7 to \$25 billion, with the average being c.\$15 billion.
- Based on this information, CATCo has provided an update on the potential impact on Hurricane Sandy. The maximum impact on gross expected returns from US hurricane exposure would be 27%, resulting in an expected gross return of 1% for the year (excluding the impact of Costa Concordia). However, this outcome is “*highly unlikely, given the range of expected loss occurrence probabilities on the contracts written*”. Nevertheless, the Board of CATCo’s Master Fund have taken a “cautious approach” and have included a provision in the NAV at 30 November based on an insured industry loss for hurricane Sandy of \$20bn. At this level, gross expected returns for 2012 will be reduced by 13.2%. It emphasises that this is a reserve, and not a crystallised loss, as the Reinsurer’s protections are based on the reinsurance counterparties actual paid claims.
- CATCo has released NAV total returns for investors at different dates to provide clarity over the impact of these provisions on investor returns:
 - Ordinary shares issued in Dec-10: +3.5% (exposed to Japan, New Zealand, Costa Concordia & Sandy).
 - C shares issued May-11: +20.77% (exposed to Costa Concordia & Sandy)
 - C shares issued Dec-11: +8.53% (exposed to Costa Concordia & Sandy)
- PCS is expected to conduct a re-survey c.60 days following its initial estimate, and CATCo intends to update shareholders when this information is released on the level of potential losses and the need for side pocket investments.
- **Numis views:** CATCo had previously estimated an impact on NAV ranging from negligible to 10-15% based on the range of industry insured losses of \$10-20bn. It is helpful to have an update based on more detailed information from the PCS survey. However, the majority of CATCo’s US exposure is through Ultimate Net Loss Contracts (UNLs) and therefore losses will be based on the actual losses of the insured counterparties rather than being based on industry wide losses as is the case for Industry Loss Warranty contracts (ILWs). The shares are currently trading at \$0.93 which is a closely in-line with our estimated NAV, adjusting for provisions for both Costa Concordia and Hurricane Sandy.

Note: all prices, NAVs and discounts as at close of business at 7 December 2012 unless otherwise stated.

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Marketing Communication Investment Companies Daily News

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