



Case Study



Municipal Finance

## MF Case 3: Italy - Cat Bond

### The Azzurro Re I Ltd June/July 2015

The 'Azzurro Re I Ltd. cat bond' is sponsored by Italian primary insurer UnipolSai Assicurazioni S.p.A., a first-time entrant to the cat bond market seeking reinsurance coverage from the capital markets in securitized form for its portfolio located across Italy. The Italian insurer is seeking at least €150m of reinsurance protection from the issuance by Azzurro Re I, a recently registered Irish domiciled special purpose vehicle, of a single tranche of European quake risk linked notes.

The fully-collateralized reinsurance protection provided by the cat bond will protect UnipolSai against losses from earthquakes occurring in Italy, metropolitan France (but not overseas territories), Corsica, Austria, Switzerland, Slovenia and Monaco. The focus of the protection is however on Italy. The reason for including surrounding countries within the covered area is to capture earthquakes that could occur in a neighboring country, but which cause losses to UnipolSai's portfolio.

Protection will be in effect over a 3.5 year term, with maturity scheduled for January 2019. The Azzurro Re I cat bond features an indemnity trigger and will provide the sponsor with per-occurrence protection. The single tranche of Azzurro Re I cat bond notes will cover losses from an attachment point of €500m up to an exhaustion point of €700m.

The notes have an attachment probability of 0.4%, an exhaustion probability of 0.22% and an expected loss of 0.31% which appears to be a low risk cat bond. The coupon is estimated to be at a range of 2% to 2.25%. The deal is expected to push through in June/ July 2015.

#### References

Source: [http://www.artemis.bm/deal\\_directory/azzurro-re-i-limited/](http://www.artemis.bm/deal_directory/azzurro-re-i-limited/)

Further information/sources:

Examples of cat bonds can be found under the following two websites:

<http://www.triplepundit.com/2011/11/municipal-catastrophe-bonds-incentivize-natural-disaster-mitigation/> and

<http://www.munichre.com/en/ir/bonds/catastrophe-bonds>

#### Credentials

Authors: Ute Zimmermann, Zhuo Yao and Michael Lindfield – with Florian Steinberg.

Edited by: Florian Steinberg