

News

Queen Street launched

Windstorm frequency losses securitised

Munich Re has closed the inaugural issuance under its new Queen Street programme - a €170m catastrophe bond that will provide the insurer with a source of multi-year coverage against European windstorms. The transaction is thought to securitise windstorm frequency losses (so-called aggregate XL) for the first time.

"This provides relief for Munich Re when several moderately severe windstorms occur in any one year," notes Thomas Blunck, member of the insurer's board of management. "Among our clients, we also see a growing demand for such coverage of frequency losses. The Queen Street bond programme can therefore be deployed quickly and cost-effectively for our clients too."

Rated by S&P, the initial issuance comprises €70m double-B plus Series 1 Class A (which printed at 375bp over three-month Euribor) and €100m single-B rated Series 1 Class B (800bp over) principal at-risk variable rate notes due March 2011. A substantial part of the securities - more than €50m - was placed with investors in the EU and Switzerland via Munich Re Capital Markets, a first for Munich Re.

"Catastrophe bonds, with their transparent and uncorrelated risks, are currently in big demand among investors in view of the credit market crisis," explains Blunck.

The notes provide cover for multi-year events across Germany (which accounts for 62.75% of total insured values); France (16.70%); the UK, excluding Scotland (14.76%); and the Netherlands, Belgium, Denmark, Ireland and Luxembourg. A proprietary model from EQECAT was used to determine the attachment probability of the notes.

Both classes of notes have attachment and exhaustion points calibrated on a parametric basis. The annualised attachment probability is 1.46% for the Class A notes and 4.12% for the Class Bs.

If the UK Meteorological Office, the reporting agency, reports a European windstorm event, EQECAT will use a formula defined in the transaction documents to calculate if there are any losses to the notes. The parametric index value of each windstorm will be calculated using peak-gust wind speeds in excess of 29 metres per second at a minimum of four of the 216 Europe Qualified Recording stations.

The Class A notes have a per-event threshold index value of 110.38 and a limit of 820.70. The index value of each windstorm between these points is fed into an aggregate formula, which has an attachment point of 809.67 and a limit of 878.90.

It would need at least two windstorm events to breach the aggregate attachment point. The Class A notes can therefore be considered a parametric equivalent of an aggregate excess of loss reinsurance contract, analysts at S&P note.

The Class B notes simply have attachment and exhaustion points of 820.70 and 990.80 respectively. They are akin to a parametric risk excess reinsurance contract.

Deutsche Bank is the total return swap counterparty on the transaction, while Bank of America acted as advisor.

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