# CAT BONDS

John Tan, Group Chief Executive, ACR Capital Holdings Pte. Ltd. elaborates on the uniqueness of catastrophe (cat) bonds.

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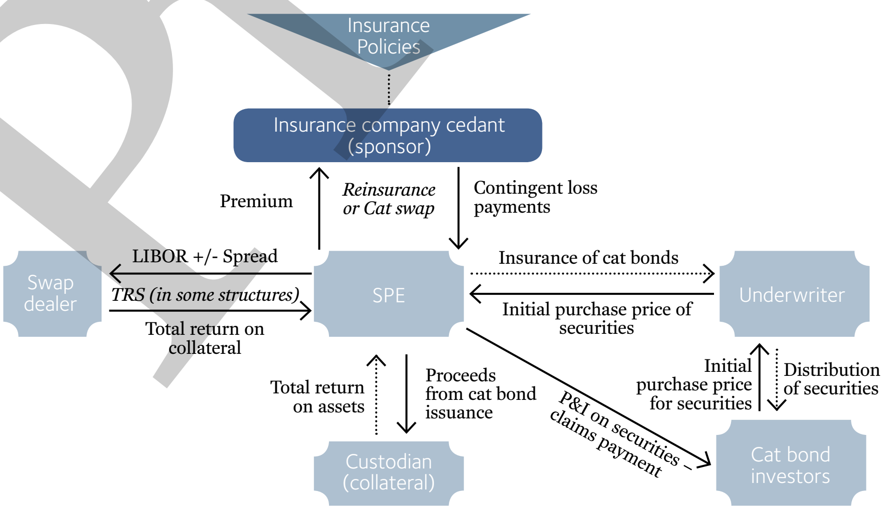
**Do you believe that the GCC presents a unique risk terrain as a market? How does it differ from the other markets?**

The GCC's rapidly expanding economy and its plans for major investments across the region in infrastructure, commercial and property projects make it an interesting market.

The Qatar FIFA World Cup 2022 for example, will fuel demands for large-scale infrastructure projects over the next 10 years leading up to the event. The GCC plays a big role in funding such mega projects and I expect the trend to continue. Volume will mainly be sourced from state-owned infrastructure projects.

The population in the Middle East is relatively smaller when compared to the Asian markets and the potential of the companies in the region is also less realised. There are not many local companies that can absorb capacity. Therefore, most of the capacity comes from international players and global reinsurers. There seems to be an imbalance for large risks to be retained locally because there are not enough smaller risks to balance it. Thus all the larger risks will have to be reinsured.




**What according to you are the areas of insurance where actuarial sciences could help foresee the challenges and opportunities in the MENA market?**

There is currently lack of actuarial skills in the MENA region. However, the rapid accumulation of assets and the introduction of compulsory medical healthcare and motor covers in various MENA markets have and will keep driving insurance growth in the region. Actuarial sciences will therefore need to develop accordingly to cater to the growing demand for personal lines and motor insurance.

**When does a reinsurer take exposure to cat bonds – Are there specific periods in a year when reinsurers usually take up cat bonds? What are the advantages and disadvantages of cat bonds?**

Cat bonds are attractive to investors such as pension funds, hedge funds, banks and asset managers, who are targeting new sources of reliable returns. Typically, reinsurers would prefer buying than issuing cat bonds and would only buy them in an 'up' market when arbitrage opportunities are available. When the market is hard, interest rates are low yet the premium rates are higher.

For investors, cat bonds allow diversification, as its returns are largely uncorrelated with the returns on other investments in fixed income or in equities with generally higher interest rates. They are not closely linked with the stock market or economic conditions and have the added attractiveness of being rated by agencies.

However, natural catastrophes can be affected by global trends such as climate changes and catastrophe cycles and are hard to predict or spot. So, despite the appealing characteristics of cat bonds, investors may find it difficult to truly understand the risk profiles of the cat bonds they purchase. P