

# Insurers look to shift costs of a bird flu crisis

By Christine Richard

Published: MONDAY, APRIL 24, 2006

**NEW YORK:** Insurers are gearing up to sell bonds that transfer to investors some of the expenses they would face if bird flu were to cause a pandemic.

Moody's Investors Service is rating several potential offerings modeled on \$762 million of so-called extreme mortality catastrophe bonds sold by Swiss Reinsurance since 2003, said Rodrigo Araya, a senior credit officer at Moody's. He declined to identify the companies seeking ratings.

"Bird flu is the kind of scenario these catastrophe bonds anticipate," he said.

A severe pandemic, defined as 1.9 million bird flu-related deaths in the United States, might result in \$133 billion in additional life insurance claims, according to the Insurance Information Institute in New York. About \$50 billion in claims were paid in 2004 for all deaths, according to the American Council of Life Insurers, a Washington-based trade group.

A strain of flu called H5N1 is spreading through birds from Asia to Africa, the Middle East and Europe. The virus has infected 196 people, mainly through close contact with domestic poultry, and killed 110 of them, according to the World Health Organization. At least 33 countries have reported initial outbreaks in animals since February.

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Insurance companies sell catastrophe bonds to reduce the risk of claims from extraordinary events like back-to-back category-five hurricanes, floods or multiple tornadoes. They are mainly sold privately to institutions and trade infrequently.

The bonds allow insurers to skip interest and principal payments, and use proceeds from the sale, which are held in trust, to meet claims in disasters.

Besides the Zurich-based Swiss Re, companies likely to issue the bonds include the reinsurers Munich Re and

Hannover Re, said John DeCaro, a portfolio manager in Chicago with Stark Investments, a hedge fund that buys junk-rated catastrophe bonds. Reinsurers share the risks and premiums of insurers. Spokeswomen for the German companies said there were no plans to sell the bonds.

"It's only logical that reinsurers would look to the capital markets to transfer life insurance risk," DeCaro said. Reinsurers want to replenish capital after Hurricanes Katrina and Rita and other disasters caused billions of dollars in losses, he said.

A record \$1.99 billion worth of the bonds were sold last year, and about \$5 billion was outstanding, said Christopher McGhee, head of Guy Carpenter's investment banking specialty practice in New York. Carpenter is a reinsurance broker that is owned by Marsh & McLennan, the world's largest insurance brokerage.

Swiss Re sold its debt through a Cayman Island-based unit called Vita Capital. The bonds

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were issued as a hedge against a rapid rise in mortality rates for any reason.

"When the Vita I and Vita II transactions were done, there was some interest but not significant interest," said Dan Ozizmir, head of insurance-linked securities for Swiss Re's capital markets group in New York. They are now "a guidepost for regulators and insurance companies for the pricing of risk."



The premium the bonds yield above government debt widened in the past nine months because of expectations that similar debt would be issued by insurers and on concern about bird flu, Ozizmir said. He declined to say by how much the spreads had expanded, citing rules that prohibit such disclosures. One investor familiar with the bonds said the premium has gained by between 0.5 and 1 percentage point.

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