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News: Catastrophe bonds

- Catastrophe bonds, which have delivered substantial returns for investors, are now under scrutiny due to concerns that their risk-reward dynamics might unfairly disadvantage issuers, particularly in the Caribbean.

Catastrophic bonds

- Catastrophe bonds or CAT bonds are financial instruments that pay high returns to investors in exchange for bearing the risk of significant disasters. These bonds are typically issued by insurers, or governments to obtain additional coverage for catastrophic events like hurricanes, earthquakes, or floods.
- Catastrophic bonds allow investors to receive periodic interest payments, but if a predefined catastrophic event occurs, the bond's principal is used to cover the issuer's losses.
- Payout conditions are based on triggers defined in the bond contract, which can be parametric (e.g. wind speed, seismic activity) or indemnity (e.g. actual loss figures reported by insurers).
- Recently, in Jamaica Catastrophe bonds have delivered double-digit returns, averaging around 15%, while issuers face significantly increased costs.

- The bond issued by Jamaica was not triggered despite the island being declared a disaster area after Hurricane Beryl, raising questions about the bond's terms.
- Caribbean heads of government are seeking an examination of catastrophe bonds and insurance-linked securities to assess their fairness and market selection.
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