



Optimistic outlook for Brazilian ILS

AlphaCat Managers and Terra Brasis Resseguros have completed a US\$5m private catastrophe bond-lite. Dubbed Alpha Terra Validus I, the transaction is believed to be the first offering of Latin American reinsurance risk on an indemnity basis and is the first cat bond sponsored by a Brazilian company.

Listed on the Bermuda Stock Exchange, Alpha Terra Validus I was issued through a segregated account of the White Rock Insurance (SAC) ILS programme, which is managed by Aon Insurance Managers (Bermuda). Paschal Brooks, md at AlphaCat, explains that Brazil lacks a regulatory framework to domestically execute catastrophe bonds, so the risk had to be transferred to Bermuda via the White Rock and Validus transformers.

“The transaction required dollar-for-dollar hedging, based on actual reinsurance losses, which requires the ability to analyse the portfolio. We’re uniquely positioned to do that with our local analytical tools,” he adds.

The deal covers a layer of Terra Brasis Re’s entire property portfolio, which spans the Latin American region, and was taken down by AlphaCat. The private cat bond-lite structure was chosen in order to avoid the large fixed costs involved with a 144a placement.

Brooks is optimistic about the potential for further cat bond issuance from Brazil. “Brazil has a fast-growing economy and the government has only recently begun to encourage retrocession of risk outside of the country. If this trend continues, the market can only grow and create more opportunity for issuance,” he says.

Rodrigo Botti, director of Terra Brasis Re, expects the partnership with AlphaCat to “significantly contribute to the development of the Latin American insurance and reinsurance markets, as it brings capital markets-based solutions to the region’s exposures.”

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