



News **Earthquake Peru – May 2019**

On Sunday morning, 26 May, a powerful earthquake with magnitude of 8.0 measured by the US Geological Survey (USGS) was registered in north-central Peru. Its epicenter was measured at a depth of 110 km below the earth's surface located in a thinly populated nature reserve in the jungle area of the northern Amazon region.

The reported damage from the earthquake is limited to several dozens of buildings destroyed, damage to infrastructure and several power outages. The earthquake was rated as one of intermediate depth, which are located below 70 km under the earth's surface and caused by the deformation within subducted plates. Typically such intermediate depth shocks cause less damage on the earth's surface compared to shocks occurring within shallow plates.

Earthquakes are a reasonably common occurrence in Peru, given the country's location along the interface between tectonic plates in the southern Pacific Ocean. In particular, intermediate depth earthquakes in this region, which are caused by the Nazca plate being subducted under the South American Plate to its east, are most frequent. As the South American Plate is moving towards the Pacific Ocean, it generates regular seismic activity in Peru and neighboring countries from movements between both plates.

This earthquake is of particular relevance to the ILS market as the World Bank's International Bank for Reconstruction and Development (IBRD) has issued four cat bonds in February 2018 providing Peru, Mexico, Chile and Columbia financial relief in the event of a strong earthquake. The earthquake related cat bonds are structured with the countries' governments as beneficiaries of the insurance coverage. Its pay-out triggers are based on various parametric measures including the earthquake's magnitude and epicenter depth and geographic location.

The Peruvian bond covering USD 200m of notional will experience a 30% notional loss in case the initial data published by USGS related to the earthquake's magnitude and epicenter location and depth is confirmed final.

Based on currently available information the portfolio manager does not expect an impact on the performance of CSA ILS/ CSA ILS Fixed from this event on a standalone basis. However, he will continue to assess the potential impact on the portfolios and will keep you updated on significant developments.

Please do not hesitate to contact us if you have any questions.

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