

Lassa fever outbreak an “Eligible Event” for pandemic cat bond: World Bank

The World Bank has confirmed that it believes the recent outbreak of Lassa fever in Nigeria is an “Eligible Event” under the terms of the Class B pandemic swaps and pandemic catastrophe bonds that were issued to support the financing of the Pandemic Emergency Financing Facility (PEF).

Lassa fever is a covered peril under the Class B tranches of pandemic swaps and cat bonds issued under the PEF transaction by the World Bank’s International Bank for Reconstruction and Development (IBRD) last year.

The issuance saw \$320 million of IBRD CAR 111-112 capital at risk notes sold to investors under the parametric pandemic catastrophe bond issuance, while another \$105 million of pandemic risk linked swaps (derivatives) were also sold to investors to expand the deal to those seeking a different risk-linked asset.

The \$95 million of Series 112 Class B tranche of pandemic cat bond notes cover a range of pandemic perils including, Coronavirus, Crimean Congo Hemorrhagic Fever, Filovirus, Lassa Fever and Rift Valley Fever.

Hence the World Bank has looked closely at the recent outbreak in Nigeria and believes it constitutes a covered event under the terms of the Class B pandemic cat bond notes.

Michael Bennett, Head of Derivatives & Structured Finance at the World Bank Treasury, told Artemis, “We believe, based on the publicly available information published to date from the World Health Organization, that the current Lassa Fever outbreak focused in Nigeria is an Eligible Event under the PEF Class B swaps and bonds.

“Of course, at this time, we do not know whether this event ultimately will trigger the Class B swaps and bonds.”

The Lassa fever outbreak in Nigeria has so far resulted in a reported 1081

suspected cases and 90 deaths, according to the World Health Organisation (WHO) which is the reporting agency for the pandemic catastrophe bonds and swaps.

The outbreak has spread across 18 states in Nigeria and as a result Lassa fever case management centers have been established in a number of locations to help control the spread of the disease.

Right now the number of confirmed deaths reported by the WHO, which is an important metric for the parametric trigger of the pandemic bonds and risk swaps, sits at 72 out of 317 confirmed cases of Lassa fever.

The pandemic cat bond trigger only pays out when the number of confirmed cases reaches a pre-defined point. For the Class B notes that is 250 confirmed deaths and reaching that point could result in a 15% payout of the principal of the Class B tranche of notes and presumably also some of the pandemic swaps as well (it was never revealed what amount of risk swaps were sold for each tranche of coverage).

The number of deaths reported in the latest news reports from Nigeria has risen to 110, and the Nigeria Centre for Disease Control (NCDC) has confirmed 353 cases since the start of the year. But the WHO reports typically reduces this number to only the deaths that can be confirmed as coming from a specific outbreak, so the next WHO disease outbreak report is likely to show an increase from the 72 confirmed deaths, but not significantly.

There remains some concern in the country over the way this Lassa fever outbreak is spreading, as they note some mutation of the virus causing it to spread more virulently than had been expected.

Also of note is the fact the outbreak appears to have a higher rate of mortality, with some news sources citing a 20% death rate, compared to a more typical 1% for Lassa fever outbreaks.

Health officials in Nigeria have called the outbreak “unprecedented” while the World Health Organisation said an “urgent and intense” response is required to contain it and prevent further spread.

The World Bank’s pandemic catastrophe bond is designed to assist with exactly

that, with the parametric triggers configured to pay out when an outbreak is spreading and likely to worsen or turn into an epidemic.

Hence the Class B capital at risk notes are designed to begin to pay out 15% of their principal when confirmed deaths passes 250 people, but then the next pay out step isn't until confirmed deaths pass 750 when 30% of principal would be triggered, so there is some way to go.

So for now the number of cases and confirmed deaths reported by the World Health Organisation remains well below the Class B trigger level, but the World Bank will be monitoring developments closely as will investors in the pandemic cat bond.

Source: <http://www.artemis.bm/blog/2018/03/13/lassa-fever-outbreak-an-eligible-event-for-pandemic-cat-bond-world-bank/>

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