

Pandemic Bonds

What is Pandemic bond?

A pandemic bond is an instrument designed to quickly provide financial support in the event of a disease outbreak.

On 28 June 2017, the World Bank launched the first ever pandemic bonds to support the Pandemic Emergency Financing Facility (PEF)

Just like the pandemic bond, we also have the traditional catastrophe bonds.

Traditional catastrophe bonds

Like good old-fashioned insurance, catastrophe bonds are basically a bet against natural disasters like hurricane or earthquake. Insurance companies issue the bonds and investors get paid interest every year and at the end of the term they get their money back. But in catastrophic cases the insurance companies keep the money to fund claims in countries around the world.

The bond was launched in Feb 2018 and attracted \$2.5bn.

The first set of pandemic bonds & derivatives covered outbreaks of influenza pandemic as follows:

- Filovirus (Ebola, Marburg)
- Coronavirus (SARS, MERS)
- Crimean – Congo, Rift Valley, Lassa Fever)

The PEF bonds were originally conceived as a sort of public-private partnership to get insurance investors to assume some of the risk of the Ebola pandemic. The idea was that if Ebola turned into a pandemic, i.e. spread from the Democratic Republic of Congo to neighboring countries, the bonds would be “triggered” and pay their principal value into the World Bank’s PEF account.

Coronavirus strikes World Bank’s 2017 catastrophe bonds

The two tranches (\$320mio) of PEF bonds were originally scheduled to mature in July of this year but due to Covid-19, they are tethering on the edge of default.

Even though China exceeded the 20 deaths related to the Covid-19, they will not be eligible for the aid as it does not form part of IDA (International Development Association).

Coronavirus – any kind of emergent infectious disease that comes from the mixing of wild animals with domesticated animals.

The coronavirus impact is considered to be greater than any infectious disease since 1918 Spanish flu. However, the Covid-19 will most certainly take a far more modest death toll.

Pour “Corona” Le Tout

Many believe that if the PEF had existed in 2014 thousands of lives could have been saved.

\$425mio in World Bank catastrophe bonds is set to default if coronavirus is declared a pandemic by June this year.

New pandemic bond issues would probably require even more lavish terms assuming that would be politically possible.

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