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By David McFadden, Associated Press

SAN JUAN, Puerto Rico — Investors who bet against the odds of another devastating Atlantic hurricane season now stand to cash in big-time on "catastrophe bonds." Contrary to expert predictions, the season turned out to be the mildest in years.

Insurance companies sell the bonds, yielding interest rates of about 15%, to help them absorb huge payouts in the event of another storm like Hurricane Katrina.

The risk is high: If a storm causes major damage during a bond's term, all the investment, including the capital, can go back to the insurer to cover the cost of recovery.

But as the mildest hurricane season in a decade winds down, hedge funds and other investors that bought the securities stand to make a mint. The hurricane season, which began on June 1, ends on Nov. 30. Not a single hurricane has hit the U.S. mainland.

"Usually by mid-November you can kind of take a deep sigh," said Greg Hagood, co-owner of Nephila Capital Ltd. The Bermuda-based hedge fund invests in the so-called cat bonds and is named for a type of spider that, according to island folklore, predicts the arrival of a churning cyclone by weaving its web near the ground.

The cost of policies taken out by insurance companies to protect their exposure — also known as reinsurance — rose sharply after last year, when financial losses from hurricanes in the United States reached a whopping $57 billion, much of it from Katrina's damage to the Gulf Coast. As a result, insurers turned to cat bonds to reduce risk at a lower cost or when they couldn't get enough coverage from a reinsurance company.

The amount invested in the field has doubled since last year, with more than $4 billion issued in catastrophe bonds in 2006, according to Rodrigo Araya, senior vice president of Moody's Investor Services.

The field only attracts hedge funds or institutional investors with more than $100 million in assets to cover payouts. The bonds are sold to cover particular events, whether it's an earthquake, hurricane or another disaster.

As forecasters predicted major hurricanes for the 2006 Atlantic season, insurers wary of losses issued catastrophe bonds at discount rates. Money managers at Nephila and other firms snatched them up. Hagood declined to say how much Nephila invested.

But during this hurricane season, a shift in atmospheric pressure over the Atlantic steered storms away from U.S. coastlines and out to open ocean, scientists say. A warm-water trend in the Pacific known as El Niño developed more rapidly than expected this summer, generating winds that suppressed the formation of Atlantic storms.

"Anybody who is holding storm exposure right now is probably looking happily at their pile of premiums," said Warren Isom, a board member of the Weather Risk Management Association, a Washington-based trade group.

All of the firms involved in the field use computer models to assess the likelihood of catastrophes and their potential impact on structures, down to a city block. Some, including Nephila, also have in-house meteorologists.

They bet against predictions last December by atmospheric scientist William Gray's research team at Colorado State University, which estimated an 81% chance of at least one major hurricane striking the U.S. coast this year.

And in March, Max Mayfield, then the director of the National Hurricane Center in Miami, said that while the 2006 season would not likely set a record, the center's scientists were witnessing a trend of stronger and more frequent storms.

The catastrophe risk field was created after Hurricane Andrew wreaked havoc on southern Florida's coastline in 1992, generating claims that dealt a significant blow to the insurance industry. Despite the risk, it has generally produced secure bets for traders, according to Isom.

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"Money managers can choose the risk area that meets their appetite. By and large, they haven't had to pay out too often," Isom, who is also a senior vice president at Willis Re, a reinsurance broker, said in reference to cat bonds.

The potential calamities covered by bonds have typically been limited to a few, including Atlantic hurricanes in the U.S., windstorms in Europe and earthquakes in Japan. But the field has grown as insurers look to offload their exposure to disasters such as terrorist attacks or a bird flu pandemic.

Swiss Re, the world's largest reinsurance company, has become an industry leader in issuing cat bonds for such "extreme mortality" events.

"In the last couple of years we have seen new perils being securitized and that has been a step in the right direction for potential investors," Araya said.

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