MCII AND GIZ WORKSHOP

DEVELOPING A STRATEGIC CONCEPT FOR THE IMPLEMENTATION OF CLIMATE RISK INSURANCE IN AN INTEGRATED CLIMATE RISK MANAGEMENT APPROACH

EXPERIENCES AND LESSONS LEARNED FROM THE CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY (CCRIF)

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What is CCRIF?

- Launched in 2007 as a public-private partnership, World Bank’s response to Caribbean Governments

- World’s first multi-national risk pool and the first to cover sovereign risk via parametric insurance

- Designed to offset the financial impact of hurricanes and earthquakes by providing quick liquidity

- Capitalised by donors (Canada, EU, World Bank, UK, France, Caribbean Development Bank, Ireland and Bermuda) and the 16 member governments (via initial membership fee)
Sovereign liquidity gap

Short-term emergency assistance (mainly goods and services)

Long-term infrastructure and sustainable development assistance

Catastrophe Event

Emergency Response  Recovery  Reconstruction and Sustainable Development

Liquidity Gap: little revenue to fund Government services

Time
How does it work?

- Operates as not-for-profit

- Each government pays a premium related to the quantum of risk it transfers to the Facility

- Payouts based on the coverage conditions and the parameters of the event

- CCRIF enhances claims-paying capacity through accessing traditional and alternative risk transfer markets
### Source of Financing Post-disaster

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<th>Instrument s</th>
<th>Availability of funds</th>
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<td>Reserves</td>
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<td>Budget Reallocations</td>
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<td>Contingent Lines of credit</td>
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<td>Emergency Loans</td>
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<td>Donor contributions</td>
<td>3-6 months</td>
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<td>Traditional Insurance</td>
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<tr>
<td>Parametric Insurance</td>
<td>Immediate</td>
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<tr>
<td>Catastrophe Bonds</td>
<td>Immediate</td>
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</table>

How do we combine these instruments to protect the fiscal balance of the state and improve its capacity to respond in case of a natural disaster.
• Pooling of risk across a wide geographical area provides:
  – excellent diversification
  – pooling into a single reinsurance transaction improves access to and pricing from global markets
  – parametric policies allow total objectivity/transparency and rapid payouts (14 days after an event)
• Pricing based on technical risk avoids cross-subsidisation
• Parametric insurance avoids moral hazard, so can work in full synergy with risk reduction and other tools as part of a holistic catastrophe risk management programme
<table>
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<th>Coverage comparison</th>
<th>Pre-implementation estimation range</th>
<th>Current (actual) estimation range</th>
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<td></td>
<td>Hurricane</td>
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<tr>
<td>CCRIF savings vs Market</td>
<td>48-56%</td>
<td>54-59%</td>
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<tr>
<td>CCRIF savings vs Self-retention</td>
<td>65-71%</td>
<td>57-75%</td>
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<tr>
<td></td>
<td>Earthquake</td>
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<tr>
<td>CCRIF savings vs Market</td>
<td>42-47%</td>
<td>54-62%</td>
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<td>58-85%</td>
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</table>

• CCRIF is a Cayman-domiciled insurance company owned by a special purpose trust

• It is governed by a trust deed, the board must ensure that the CCRIF operates within the trust’s parameters

• The board has representation from participants (via CARICOM nominee) and donors (via CDB nominee), two technical experts (also nominated by CARICOM and CDB) and an Executive Chairperson

• CCRIF’s operations are laid out in an Operations Manual and are executed by a Chief Executive Officer (CEO) and a number of service-provider companies (Facility Supervisor, Insurance Manager, Reinsurance Broker, Asset Manager, Communications/PR Advisor)
Lessons Learned

• Consultations with a wide range of experts and stakeholders are important in developing and successfully launching an innovative development instrument.

• Donor support can be essential for an innovative and untested development instrument.

• The private sector expertise and hands-on knowledge of relevant markets is vital to the success of a project that seeks to respond to a market failure. Local thought/leadership

• When public funds – e.g., capital contributions from donors and beneficiary governments, both ultimately provided by taxpayer – support an independently and commercially managed entity, it is important that those managing the entity have experience with stewardship of public resources.

• On-going communications with clients and other stakeholders are essential in piloting successfully an innovative development solution.

• A lean organisational structure can be very effective.

• In a highly innovative project, it is important to give the implementing agency scope for creativity and flexibility, while still ensuring compliance with operational/regulatory policies.
Lessons Learned

- Required many iterations of risk modelling
- Balancing donor commitments with reinsurance capacity (finding the sweet spot)
- Legal, regulatory constraints
- Long terms approach - Not simply about insurance
- Breaking down the door marked “never been done before”

Going forward

- Need to track use of funds after an event occurs to better make linkages with improved risk management
- Expectation management - Increasing complexity – greater familiarity
- Constant need for improvement of the financial mechanism to remain relevant to needs of countries
- Business continuity
- Climate risks not the only risk these countries face
Using CCRIF resources to build regional institutional capacity through partnerships and technical assistance.

Fostered confidence

Proven business case

Using CCRIF data and know-how to propagate to the region/public/private sectors (Utilities, microfinance, agriculture)

Innovative App (indexing)