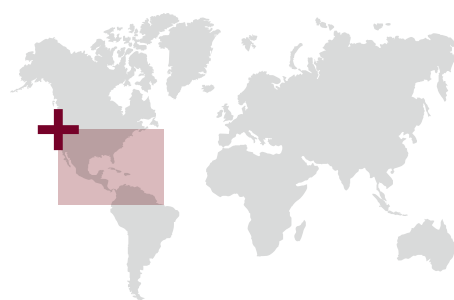


# Central America & Caribbean Catastrophe Risk Insurance Program



## AT A GLANCE

### Name

Central America & Caribbean Catastrophe Risk Insurance Project

### Duration

June 2015 – June 2019

### Focus area

Central America & Caribbean

### Target group

Current and new member countries of the Caribbean Catastrophe Risk Insurance Facility (CCRIF)

### Funds available

The project is funded by a free-standing simple purpose trust fund with US\$19.5 million

### The project is jointly implemented by...

The Caribbean Catastrophe Risk Insurance Facility (CCRIF)

### Overall aim of the project is...

To improve the affordability of high quality sovereign catastrophe risk transfer associated with earthquakes and climate-related events of CCRIF participating countries.

## BACKGROUND

Countries in the Caribbean and Central America are highly vulnerable to the adverse effects associated with earthquakes, tropical cyclones and other major hydro-meteorological events such as excess rainfall. Also, these governments are constrained in their ability to access quick liquidity to absorb fiscal shocks associated with natural hazard impacts because they have limited ability to create contingency funds, and limited capacity for external borrowing.

Establishment of CCRIF in the Caribbean: Recognizing the need for an effective insurance mechanism and after suffering the dire consequences of Hurricane Ivan in 2004, the heads of government of CARICOM requested the World Bank's help in establishing a system to provide insurance against catastrophe risk.

Expansion of CCRIF to Central America: Discussions for the expansion of CCRIF started in 2014 when the Council of Ministers of Finance of Central America and the Dominican Republic (COSEFIN) and current CARICOM members of the CCRIF agreed to explore mutually beneficial ways to transfer disaster risk across sub-regions and sought World Bank support to implement such an effort. The expansion is financed through a donor contributions used to fund operating costs, training and technical assistance activities, accelerating the indirect capitalization of CCRIF. In 2014, CCRIF SPC became a segregated portfolio company (SPC) to ensure that each region's risks are based on the risk profiles of the countries in that region.

## APPROACH

The Program's objective is to provide affordable and of high quality sovereign catastrophe risk transfer associated with tropical cyclones, earthquakes and excess rainfall for COSEFIN and CARICOM member countries and to enhance the capacity of Ministries of Finance for developing and implementing disaster risk financing and insurance strategies.

CCRIF SPC is a good example of an innovative approach to regional public good where member countries benefit from catastrophe risk insurance at a significantly lower cost than governments could obtain individually from the insurance market. Through this coverage, CCRIF SPC helps countries limit the financial impact of devastating events by quickly providing financial liquidity when a policy is triggered.

CCRIF SPC a fully functioning independent legal entity, that sustains itself based on premium income from its members, coupled with income from its investments. Donor contributions are used to finance operating costs, training and technical assistance activities, thus accelerating the indirect capitalization of CCRIF SPC.

Currently, the Program is implemented through four components (the first three implemented by CCRIF SPC and the last one by the World Bank, through the provision of technical assistance):

- 1. Component 1:** Finance Parametric Earthquake Risk Insurance for COSEFIN countries within CCRIF SPC.
- 2. Component 2:** Finance Parametric Climate Risk Insurance for COSEFIN countries within CCRIF SPC. This component covers the main costs of CCRIF SPC's risk retention and transfer with regards to the tropical cyclone and excess rainfall perils of participating COSEFIN countries.
- 3. Component 3:** Finance Parametric Climate Risk Insurance for CARICOM countries within CCRIF SPC. This component will cover the main costs of CCRIF SPC's risk retention and transfer with regards to excess rainfall perils of participating CARICOM countries.
- 4. Component 4:** Technical Assistance and Capacity-Building for Disaster Risk Financing and Insurance.





## CHALLENGES

- **Sustainability.** Unexpected high occurrence of infrequent, high-severity covered events could make CCRIF SPC's business in covered areas unsustainable. This risk is mitigated through the use of donor contributions.
- **Political and Fiscal Pressures.** It is important to maintain a close high-level dialogue with COSEFIN countries to continue building their understanding of the vital role of insurance as part of a broader DRM strategy, to mitigate potential adverse political and fiscal positions towards the insurance.
- **Understanding of Insurance Products.** The innovative nature of the instrument requires extensive technical discussions with governmental entities to ensure that the models, features, benefits, and limitations are well understood by respective government counterparts.
- **Inter-institutional coordination.** Lack of coordination and competing priorities among disaster risk management agencies, geophysical and meteorological institutes, and decision-makers in the Ministries of Finance often contribute to the institutional-level delays to join CCRIF SPC.

## OPPORTUNITIES

- **Communications Strategy.** As part of the expansion, CCRIF SPC is enhancing the communication and interaction between CCRIF SPC and a wider range of its members' officials, including those from their disaster risk management agencies and meteorological institutes, as well as the decision-makers and influencers in the Ministries of Finance and Planning.
- **Improved and New Products:** To better serve member countries and address insurance needs, CCRIF SPC is currently working on updating the earthquake and tropical cyclone models and developing a new drought model.
- **Training and Capacity Building:** CCRIF SPC will continue responding to requests from countries to review country-specific simulations, discuss the parameters of their coverage, and explain the role that CCRIF SPC coverage can play in overall disaster risk-reduction strategies.
- **Engagement with the Private Sector:** Previous engagement of private sector expertise in banking, asset management, indemnity insurance, catastrophe insurance, and reinsurance has provided a solid base of viable products. Continuing engagement whilst retaining others to guide the geographical and product expansion is key to convince countries to maintain participation in CCRIF SPC despite financial constraints.
- **Payouts.** CCRIF SPC's expertise has proven especially useful in guaranteeing quick payouts in the wake of catastrophic events, which has helped convince countries to maintain their participation in CCRIF SPC despite financial constraints.

## OUTCOMES

Results achieved under Components 1, 2 and 3:

- **Country Participation.** CCRIF SPC participation in the region remains strong. For the current season (2017/2018), countries in Central America and the Caribbean have purchased 12 policies for earthquake, 14 policies for tropical cyclone and 13 policies for excess rainfall. This result is particularly important as a critical mass of country participation in CCRIF SPC is required for the Facility to benefit from risk pooling and diversification.
- **Expansion of Services and Products.** CCRIF SPC has expanded its portfolio of services, offering excess rainfall coverage in 2013 to complement its existing earthquake and tropical cyclone products. CCRIF SPC has also expanded its offering of products and services to Central America in 2014, through a partnership with the Council of Ministers of Finance of Central America, Panama and the Dominican Republic (COSEFIN).
- **Model Performance.** As of 2018, CCRIF SPC has made a total of 34 payouts to 12 Caribbean member governments for hurricanes, earthquakes and excess rainfall of over US\$129 million. All payments were made within 14 days of the triggering event due to the parametric nature of the instrument. CCRIF SPC demonstrated utility was evident during the unusually active 2017 Atlantic hurricane season, which included two category four and two category five hurricanes (Harvey (C4), Irma (C5), Jose (C4), and Maria (C5)). During the season, CCRIF SPC made a total of nine payouts to seven-member countries in an amount of US\$31,075,423.00, giving countries the time to mobilize additional resources for longer-term reconstruction activities.



- **New Policy Benefits.** Starting in 2017, CCRIF SPC developed and started offering two new policy features for tropical cyclone and earthquake policies: (i) the Reinstatement of Sum Insured Cover, which enables access to coverage even after the coverage limit of a policy is reached; and (ii) the Aggregated Deductible Cover designed, which provides a minimum payment for events that are not sufficient to trigger a CCRIF SPC policy but that estimate losses on the ground.

Results achieved under Component 4:

- **Improving the Management of Fiscal Risks.** Results from these engagements are already translating into improved management of fiscal risks related to disasters, such as the inclusion of contingent liabilities in the medium-term fiscal

framework in El Salvador and the deepened interest for implementing financial instruments for disaster risk management in the region.

- **Understanding of Financing Instruments.** The technical assistance has strengthened the capacity of ministries of finance to understand their financial gaps and the use of financing instrument such as the sovereign parametric insurance offered by CCRIF SPC.
- **Capacity Building.** Diagnostics of fiscal resilience to disasters for Guatemala and El Salvador have been completed. Nicaragua's disaster risk financing strategy is under development.

## LESSONS LEARNED

- **Donor Support.** Donor support and financing, as a complement to country premium payments, play an essential role in helping CCRIF SPC build up its own reserves at an accelerated pace, thus contributing to the sustainable continuation of its operations.
- **Communication with stakeholders.** Constant communication and regular consultations with experts and stakeholders are critical in developing a successful instrument, which continues beyond project closing.
- **Affordability and Quality of CCRIF SPC products.** Affordability and quality of CCRIF SPC products is a key concern of new and current members. The price of premiums and quality of insurance products was a key concern throughout the lifespan of the previous CCRIF SPC initiative, and the affordability of CCRIF SPC products has been considered a major factor which ensured the long-term sustainability of the Facility. Building on this experience, CCRIF SPC has made efforts to reduce premium prices by securing the most competitive pricing from the reinsurance market, while maintaining the high quality of its products as well as sufficient reserves to guarantee its financial stability.
- **Supporting Innovation.** New and innovative projects require flexible World Bank oversight to enhance experimentation and feedback of results into implementation. The proposed Project has therefore been so designed that CCRIF SPC can respond to emerging needs and opportunities as well as continue in its innovation.

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