Goal of Approach:

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is a regional catastrophe fund for Caribbean governments designed to limit the financial impact of devastating hurricanes and earthquakes by quickly providing short term financial liquidity when a policy is triggered. CCRIF represents a cost-effective way to pre-finance short-term liquidity to begin recovery efforts for an individual government after a catastrophic event, thereby filling the gap between immediate response aid and long-term redevelopment. This is particularly important for Caribbean economies, which are highly exposed to adverse natural events, including hurricanes, earthquakes, and excess rainfall, where the capacity to absorb the financial impact of such disasters is limited. Established in 2007, the Facility is the first multi-country risk pool in the world, and is the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets; hence it provides Caribbean governments the unique opportunity to purchase earthquake and hurricane catastrophe coverage with lowest-possible pricing as against more costly alternatives such as self-retention or obtaining individual coverage on the international market.

Input provided by: Caribbean Risk Managers (Facility Supervisor of CCRIF)

Main elements of the implementation strategy

Initiated by the Caribbean Community and Common Market (CARICOM) Heads of State and implemented with the assistance of the World Bank, CCRIF was developed through funding from the Japanese Government, and was capitalised through contributions to a Multi-Donor Trust Fund by the Government of Canada, the European Union, the World Bank, the governments of the UK and France, the Caribbean Development Bank and the governments of Ireland and Bermuda, as well as through membership fees paid by the 16 participating governments. Linked to the Hyogo Framework for Action 2005 – 2015, priority to "promote the development of risk sharing mechanisms, particularly insurance and reinsurance against disasters", the CCRIF model represents an innovative risk transfer option for its members to hedge against losses associated with catastrophic events. The design of the Facility enables it to be efficient, flexible and responsive to clients' needs while providing financial and non-financial value through a diverse and expanding
product line. This is done through:

Risk pooling – CCRIF was designed to aggregate disaster risks across the Caribbean, achieving the kind of risk diversification and
spreading that its members are not able to attain on their own.

Affordability – Structuring CCRIF as a risk pool with a diversified portfolio enables it to offer insurance at affordable prices. At the time of appraisal, it was estimated that CCRIF insurance would cost 60 to 70 percent less than the members' cost of self-insurance through establishment of a reserve fund, and 45 to 50 percent less than the cost of coverage if they were able to obtain it individually in traditional markets.

Parametric facility – CCRIF was designed as a parametric insurer to pay claims based on the occurrence of a hurricane or earthquake of a pre-defined magnitude.

Timely and predictable payouts –CCRIF is able to make payouts within two weeks or less of a covered disaster.

Immediate liquidity – By making rapid payouts, CCRIF meets its members' requirements for an immediate injection of liquidity following a disaster to help them maintain essential government functions and jump-start recovery.

Flexible resources – CCRIF's policies were designed to provide payouts sufficient to help members finance their initial disaster response and maintain basic government functions while they mobilize the much larger amount of resources necessary to fund the longer-term recovery effort. CCRIF was not designed as a vehicle for funding all or even a major part of the cost of the recovery effort, as financial risk transfer of such a magnitude would not be affordable. CCRIF payouts are not tied to specific, previously identified expenditures. Instead, member governments enjoy full flexibility in allocating the payouts to the priorities that they themselves identify.

Transparent payouts – Because covered events are defined in advance in accordance with objectively measurable parameters and because the events themselves are measured by independent scientific agencies which make the data publically available, payouts are not only rapid, but also transparent and subject to third-party verification.

Individualized coverage – CCRIF was designed to allow members to tailor their policies to their own risk profile and fiscal requirements. The cost of coverage is a direct function of the amount of risk that the member chooses to transfer; thus, there is no cross subsidization from members transferring a low amount of risk to those transferring a high amount.

Since the inception of CCRIF, the Facility has made eight payouts totaling US$32,179,470 to seven member governments. All payouts were transferred to the respective governments within two weeks (and in some cases within a week) after each event. The Facility is continuously innovating and developing other sustainable products, services and tools to meet the needs of Caribbean governments and already well underway are the development of an excess rainfall product as well as he implementation of the Facility's Technical Assistance Programme. CCRIF is already playing and will continue to play a critical role in climate change adaptation across the Caribbean, bringing both the tools and expertise to assess and price climate risk and the innovative products required to assist countries to more cost-effectively manage that risk.

Targeted beneficiaries

The primary beneficiaries of CCRIF are 16 participating governments: Anguilla, Antigua & Barbuda, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Dominica, Grenada, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Trinidad & Tobago and Turks & Caicos Islands. Among the main benefits (outlined in the previous section) are prompt pay-outs and cost savings for covered risks in comparison to self-retention and market options. Additionally, CCRIF has entered into partnership agreements for support to and collaborative work with several regional Organizations aimed at broadly supporting efforts of CCRIF members to strengthen their disaster risk management policies and practices. CCRIF also has in place a substantial Technical Assistance Programme which has involved extensive capacity building through support for scholarships, professional development training and executing a number of critical technical projects such as an Economics of Climate Adaption study for 8 Caribbean countries (here).

Any significant lessons learned

(i) Consultations with a wide range of experts and stakeholders are important in developing and successfully launching an innovative development instrument. In the case of CCRIF, consultations were essential to building understanding of the proposed facility, the risk modeling that would underpin its products, the nature of parametric insurance, etc. (ii) Donor support can be essential for an innovative and untested development instrument. The generous donor support for CCRIF to reimburse it for initial operating expenditures and pay claims within its risk retention greatly reduced the risks to its achieving financial sustainability. (iii) 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 (iv) When public funds support an independently and commercially managed entity, it is important that those managing the entity have experience with stewardship of public resources. (iv) On-going communications with clients and other stakeholders are essential in piloting successfully an innovative development solution. (v) A lean organizational structure can be very effective. CCRIF achieved considerable cost savings and avoided institutional rigidities by remaining a "virtual" organization and contracting externally for professional services rather than acquiring a roster of direct employees.

Resource requirements

At the outset, a multi-donor trust fund (MDTF) was created to support CCRIF's establishment and initial operations. Donors' contributions totaled approximately US$67.4 million, with members paying a participation fee and an annual premium. The donor resources enabled CCRIF to build its risk bearing capacity more quickly than it could otherwise have done to a level sufficient to assure its financial sustainability as an independent entity over the long-term. A strong capital base also allows CCRIF to retain more of the risk through a pooled reserve thereby reducing the Facility's expenditures on reinsurance, increasing the financial security of the Facility, and decreasing the premium required to be charged to participants. As CCRIF is a financial instrument aimed at supporting enhanced resilience to natural disasters, it requires significant amount of data and technical expertise to inform the underlying model development and maintenance as well as an understanding of regional natural hazards, financial markets, reinsurance and regulatory requirements.

Potential for replication or scaling-up

Considerable potential for replication in other regions. Similar initiatives are currently being explored in the Pacific and Africa. The CCRIF is also exploring the possible role that it can play in making micro-insurance available to low income groups and highly exposed sectors such as the agricultural sector within its member countries.
Any additional information
For additional information and resources, please visit http://www.ccrif.org/