CCRIF SPC
The Caribbean Catastrophe Risk Insurance Facility

Risk Transfer Schemes – the Example of CCRIF SPC

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Financial instruments that address the risks of loss and damage

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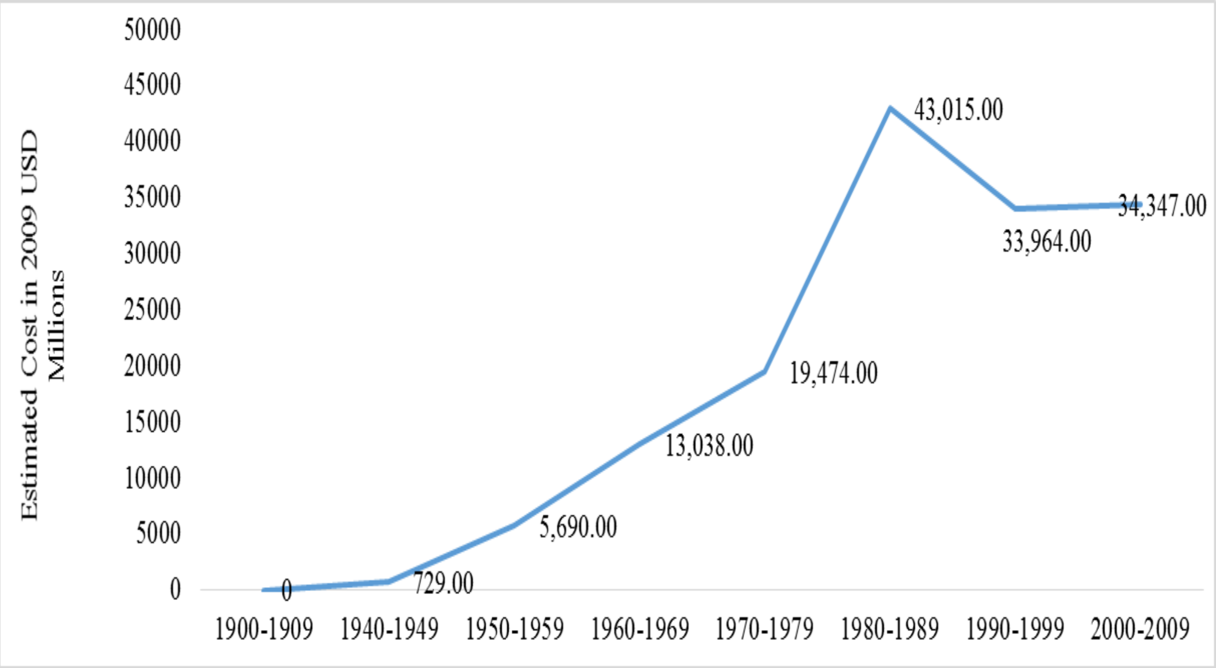
Risk Transfer Schemes

Economic costs of natural disasters have increased dramatically over the past century…

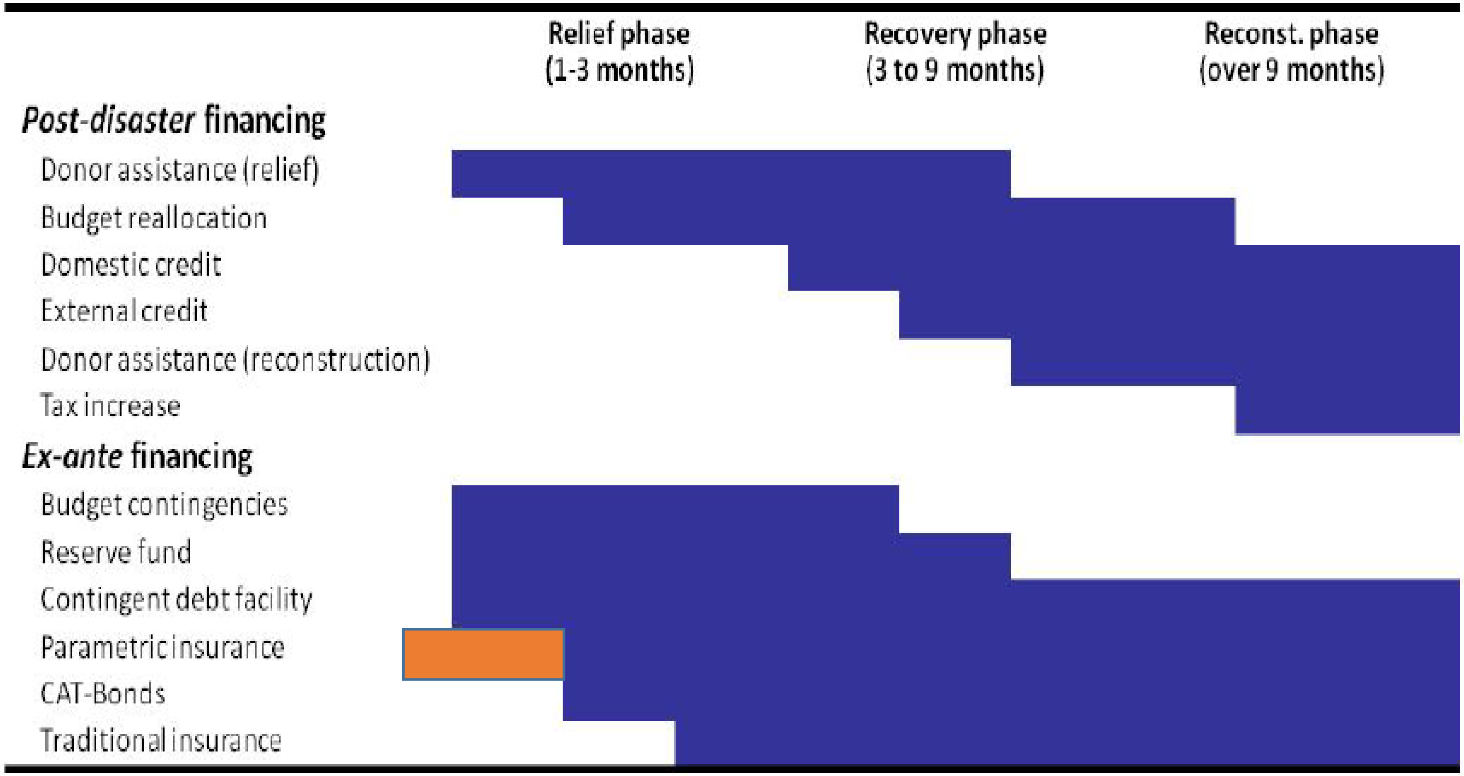
- The frequency of hazards and disasters is increasing
- Mortality resulting from disasters seems to be decreasing
- Economic costs of disasters are rising precipitously



Losses for Latin America and the Caribbean in the past 100+ years

Hurricane Ivan 2004	Hurricane Mitch 1998	Haiti Earthquake 2010

Integrated Disaster Risk Financing Strategies



Governments need to be encouraged to develop, make provision for, or participate in integrated disaster risk financing strategies, as part of their overall risk management strategy

Reasons for Pursuing Ex-Ante Financing Instruments

3 reasons govern-ments should pursue ex-ante financing strategies	
	Governments are typically responsible for large portfolios of public infrastructure assets subject to risk
	To guarantee sufficient capital for emergency relief and assistance to affected households, businesses and communities. If governments lack the necessary infusion of post-disaster capital to rebuild critical infrastructure, restore homes and provide humanitarian assistance, indirect costs can greatly surpass the direct losses of a disaster
	Developing countries have a higher propensity for post-disaster resource deficits. Governments of developing countries typically must divert from their budgets or from already disbursed development loans to finance post-disaster expenses, also relying on new loans and donations from the international community

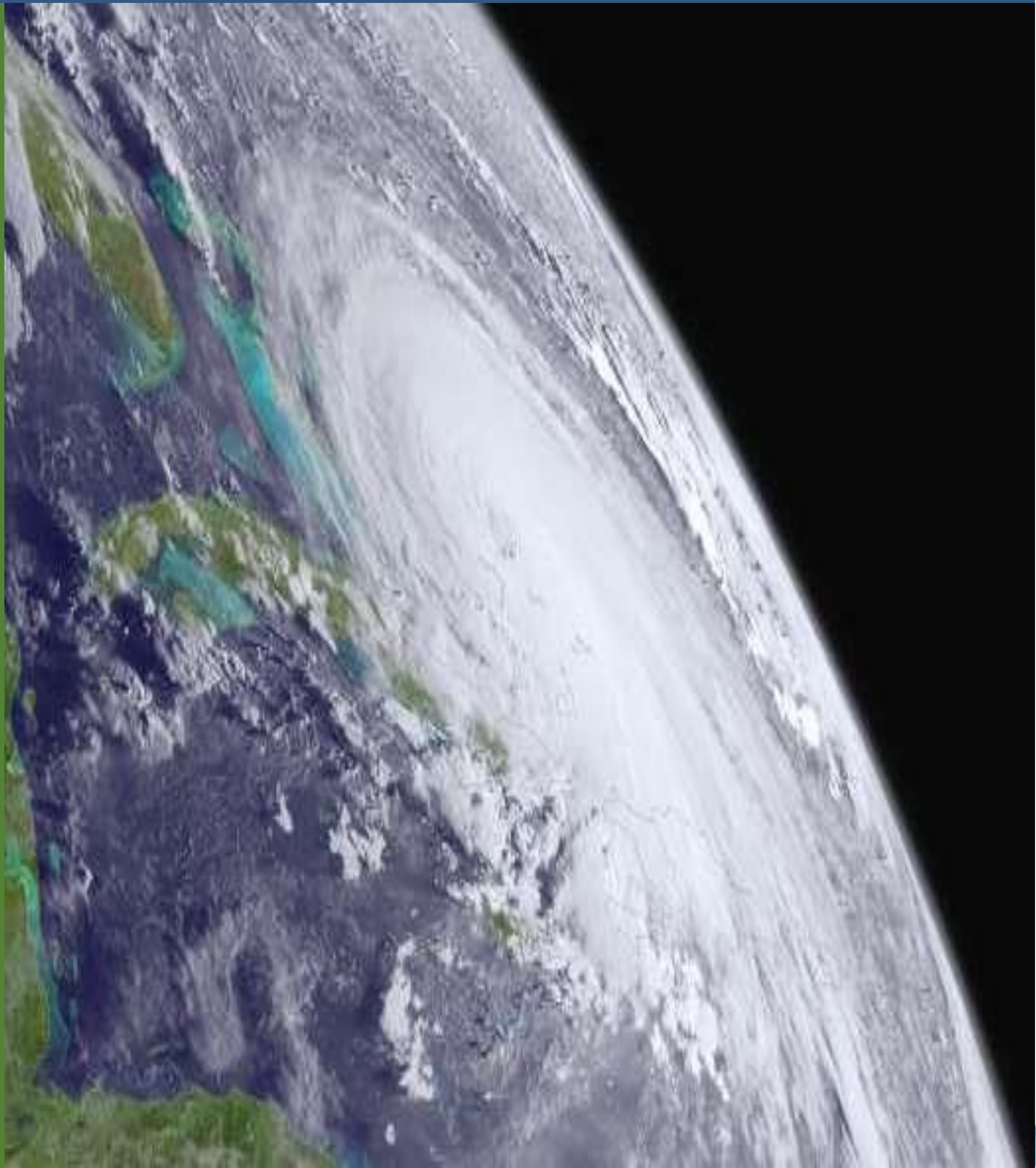
The role of risk transfer in addressing loss and damage

Risk Transfer – an ex-ante financing mechanism

- Shifts the financial risks of loss and damage from one entity to another
- Is associated with a fee for service
- Is undertaken when the country assesses that the potential loss and damage it could experience could be greater than its ability to manage that loss and damage
- Is used to reduce the uncertainty and volatility associated with potential loss and damage

Risk transfer does not directly prevent or reduce the risk of loss or damage. However, the financial liquidity provided risk transfer approaches can reduce some of the indirect effects of damage

Overview of CCRIF



CCRIF - An Internationally Recognized Example of a Risk Transfer Mechanism

- Prompted by Hurricane Ivan and request for assistance by Caribbean governments made to the World Bank
- The world’s first multi-country risk pool providing parametric insurance
- Originally designed to limit the financial impact of catastrophic hurricanes and earthquakes
- Provides short-term funding to support relief in the immediate aftermath of a natural disaster

CCRIF is operated on behalf of its participating states, each of which pays an annual premium directly related to the amount of risk each transfers to CCRIF

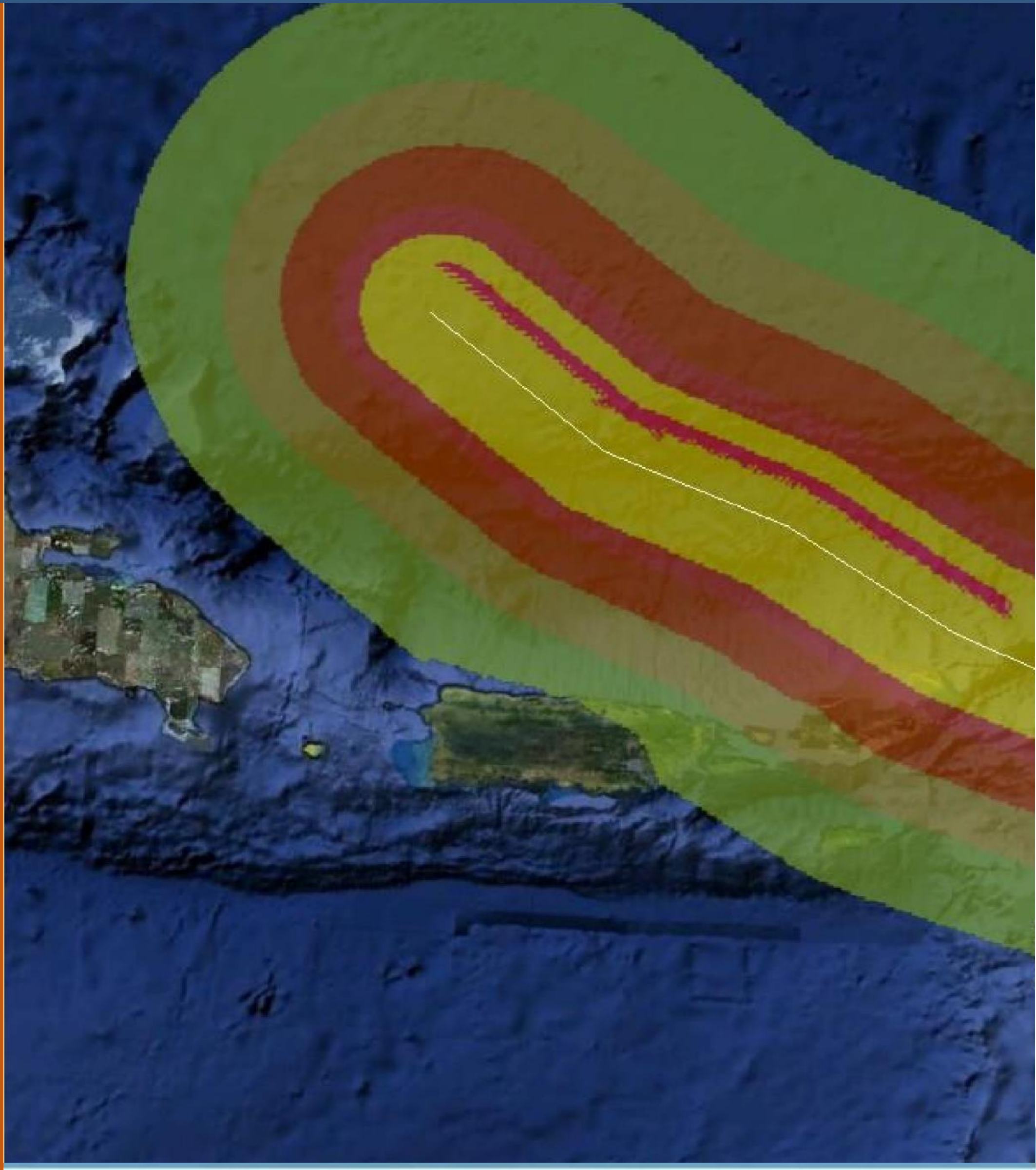
By pooling catastrophe risks into a single diversified portfolio, countries' premiums are about half of what it would cost if they were to purchase identical coverage individually compared with buying the coverage from CCRIF

In 2014, the facility was restructured into a segregated portfolio company (SPC) to facilitate expansion into new products and geographic areas and is now named CCRIF SPC.

By establishing segregated portfolios, CCRIF is able to prevent the cross-subsidization of risk from one region to another, ensuring that each region's risk will be based on the particular risk profiles of the countries in that region.

In April 2015, CCRIF signed an MOU with COSEFIN to enable Central American countries to formally join the facility. Nicaragua is first Central American member.

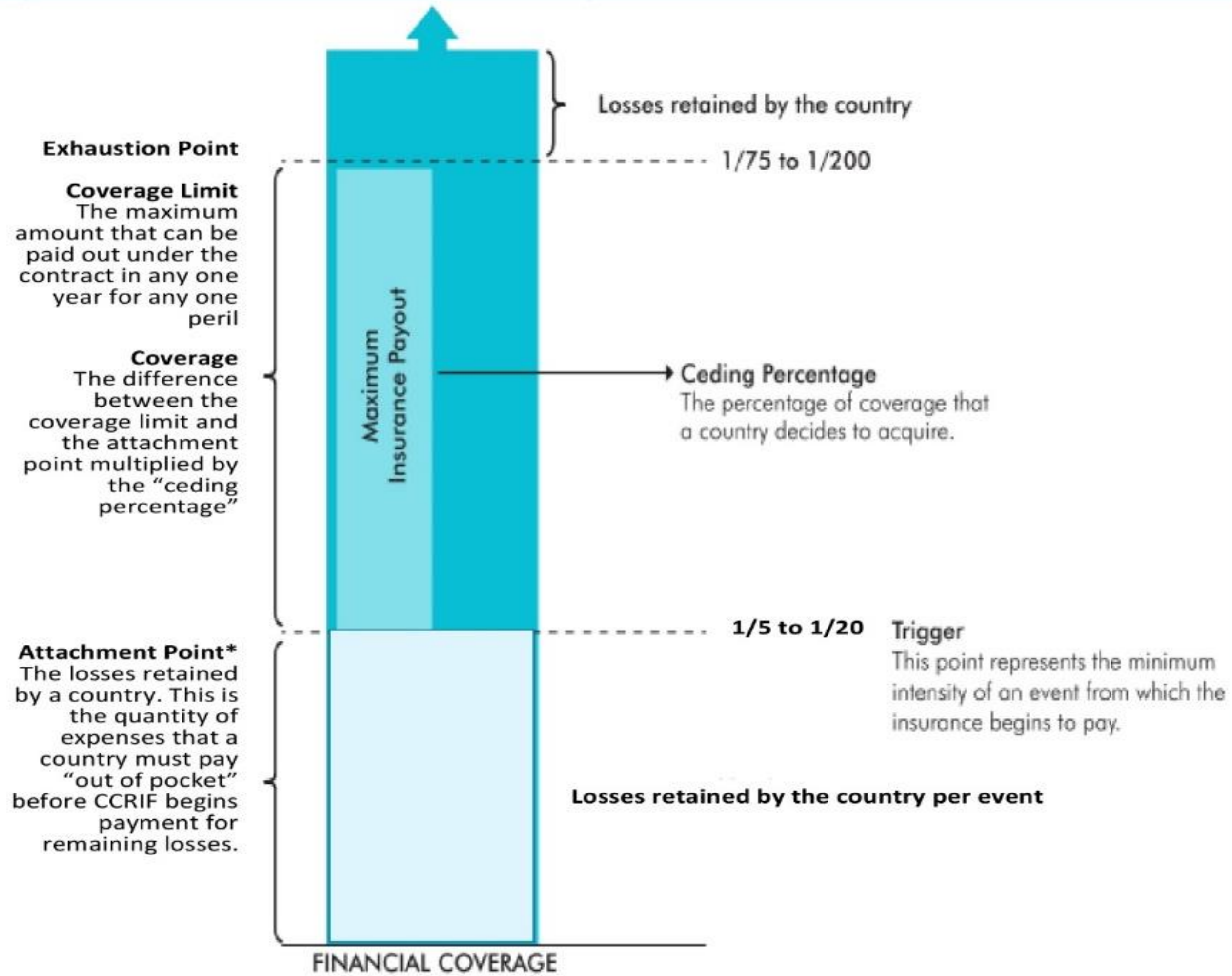
CCRIF’s Use of Risk Transfer



How CCRIF Policies Work

Parametric insurance disburses funds based on the occurrence of a pre-defined level of hazard and impact	Policy triggered on the basis of exceeding a pre-established trigger event loss
	Estimated based on wind speed and storm surge (tropical cyclones) or ground shaking (earthquakes) or volume of rainfall (excess rainfall)
	Hazard levels applied to pre-defined government exposure to produce a loss estimate
	Payout amounts increase with the level of modelled loss, up to a pre-defined coverage limit

Elements of CCRIF Policies



*The attachment point can be described as the minimum severity of the event loss which gives rise to a payment and therefore is the loss value at which the policy contract is triggered. The attachment point therefore functions like a deductible in a standard insurance policy.

CCRIF policy premiums depend on the selection by Governments of 3 elements:

- **Attachment Point**
- **Ceding Percentage**
- **Coverage Limit**

These are informed by the country's risk profiles

CCRIF Policies at work

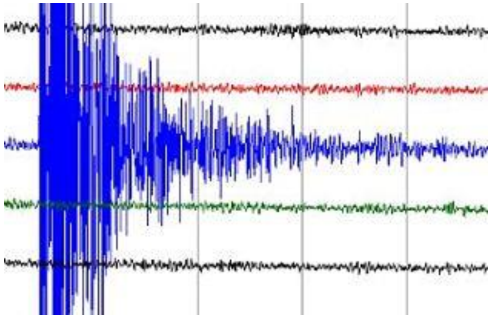
CCRIF offers earthquake, tropical cyclone and excess rainfall policies to Caribbean and Central American governments

CCRIF makes payouts within 14 days after an event

Since 2007, CCRIF has made 15 payouts totalling approximately US$38.7 million to 10 member governments

CCRIF funds have been used to:

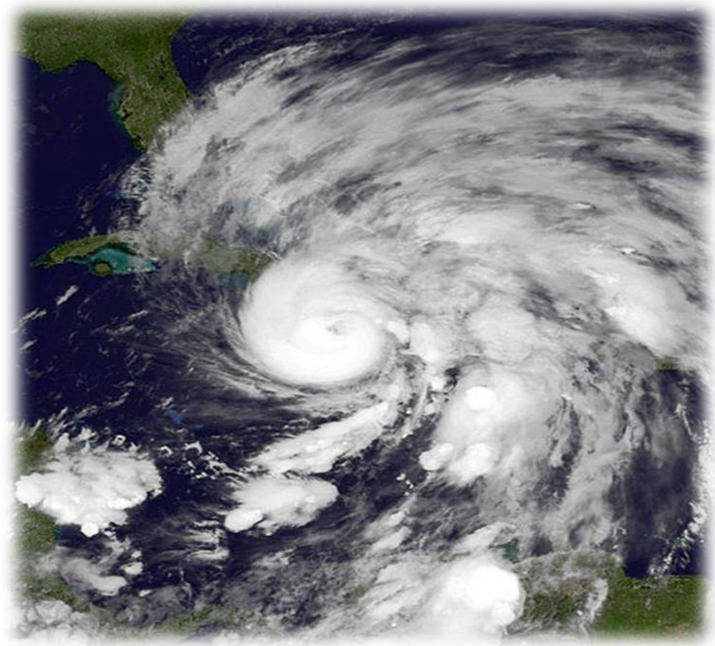
- “Keep the wheels of government turning” (e.g. cover the salaries of key emergency personnel)
- Repair critical infrastructure, e.g. roads, bridges
- Make improvements to critical infrastructure e.g. drainage
- Institute mitigation measures e.g. install meteorological data collection equipment
- Provide general budget support



Gaps, Limitations, Favourable Conditions

Limitations

- Most current and potential member countries face fiscal constraints
- Some countries place limited attention on the linkages between fiscal policy and disaster risk management, which can result in low levels of coverage for these countries
- A few countries have been affected by hazard events which caused damage but which did not trigger their policies – often because the event was below the country's policy attachment point. This has been an issue with some countries that do not have a fulsome understanding of parametric policies.



The Excess Rainfall policy, introduced in 2013, filled a major gap because Tropical Cyclone policies, available from 2007, account for damage from wind and storm surge only and not from rainfall, which causes much damage during hurrricanes.

Success Factors

Keeping premiums low

- Risk pooling
- Providing discounts and bundling products when possible

Being flexible and responsive to members' needs

- Developing new products
- Expanding into new geographical regions
- Providing preferable policy options (e.g. lower attachment points)

Increasing understanding of CCRIF products

- Leads to informed decision making

Engagement with donors

- Frequent interaction
- Sourcing funding for new products
- Support for most disadvantaged countries

Thank You

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