The Role of Insurance in Adaptation Finance in the Caribbean … the CCRIF Experience

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Background – Hyogo Framework for Action

Important to:	Promote the development of financial and risk-sharing mechanisms, particularly insurance and reinsurance against disasters
	Encourage the establishment of public-private partnerships to better engage the private sector in disaster risk reduction activities
	Develop alternative and innovative financial instruments to address disaster risk

CCRIF and Risk Transfer

Insurance

- Catastrophe insurance for governments

Risk pooling

- Pooling risks of member governments

Insurance-linked securities

- Cat bond

Micro-insurance

- Climate Risk Adaptation and Insurance in the Caribbean Project

Reserve funds

About CCRIF

CCRIF is a not-for-profit organization that provides insurance against hurricanes, earthquakes and now, excess rainfall, for 16 Caribbean governments.

CCRIF is the world's first multi-country risk pool providing parametric insurance and was designed to limit the financial impact of catastrophic hurricanes and earthquakes by quickly providing short-term liquidity when a policy is triggered.

CCRIF is able to provide insurance that is affordable to its members. CCRIF aggregates disaster risks across the Caribbean, achieving the kind of risk diversification and spreading that its members would not be able to attain on their own.

CCRIF issues parametric insurance policies, which use modelled hazard parameters as a basis for loss estimation and payment.

CCRIF has made 8 payouts between 2007 & 2014 totalling US$32,179,470

It is being used as a blue print for other multi-country disaster risk financing projects, e.g. Pacific Islands, Africa and Central America.

How CCRIF's Parametric Insurance Products 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), ground shaking (earthquakes) or 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

CCRIF makes payouts within 14 days after an event

Haiti Earthquake - 2010

- Payout of $8 million made within 14 days
- CCRIF funds - first inflow of direct financial assistance received by that country
- Haitian government used the CCRIF funds to cover the salaries of key emergency personnel, thereby “keeping the wheels of government turning”

Cat Bonds – A New Option for CCRIF

CCRIF considering catastrophe bonds and collateralized reinsurance as part of its risk transfer

- Currently reliant on traditional reinsurance market
- Will capitalise on the increasing participation of institutional investors in the reinsurance market
- Will diversify its sources of risk capital to include the capital markets

CCRIF's parametric insurance model: reinsurance protection from a catastrophe bond could be structured to use the same triggers and measurements, thus effectively removing the basis risk as both insurance and reinsurance covers could use the same trigger source.

Micro-insurance – An Example

Climate Risk Adaptation and Insurance in the Caribbean Project

- Implemented by Munich Climate Insurance Initiative (MCII), CCRIF, MicroEnsure and MunichRe
- Funded by German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
- Provides insurance coverage for Caribbean people who are severely impacted by extreme weather events
- Two products: Livelihood Protection Policy (LPP) and Loan Portfolio Cover (LPC)

Livelihood Protection Policy

The LPP helps protect the livelihoods of vulnerable low-income individuals such as small farmers and day labourers, by providing swift cash payouts following extreme weather events - high winds and heavy rainfall

- Provided through local insurance companies and financial institutions
- Available in Saint Lucia, Jamaica, Grenada
- In January 2014, LPP payouts made to policyholders in Saint Lucia following an extreme rainfall event in the Eastern Caribbean in December 2013

Loan Portfolio Cover

The LPC insures loan portfolios against climate risk

- Targeted at financial institutions
- Loan portfolio hedge for lending institutions
- To be available in Saint Lucia, Jamaica and Grenada

Agriculture Insurance

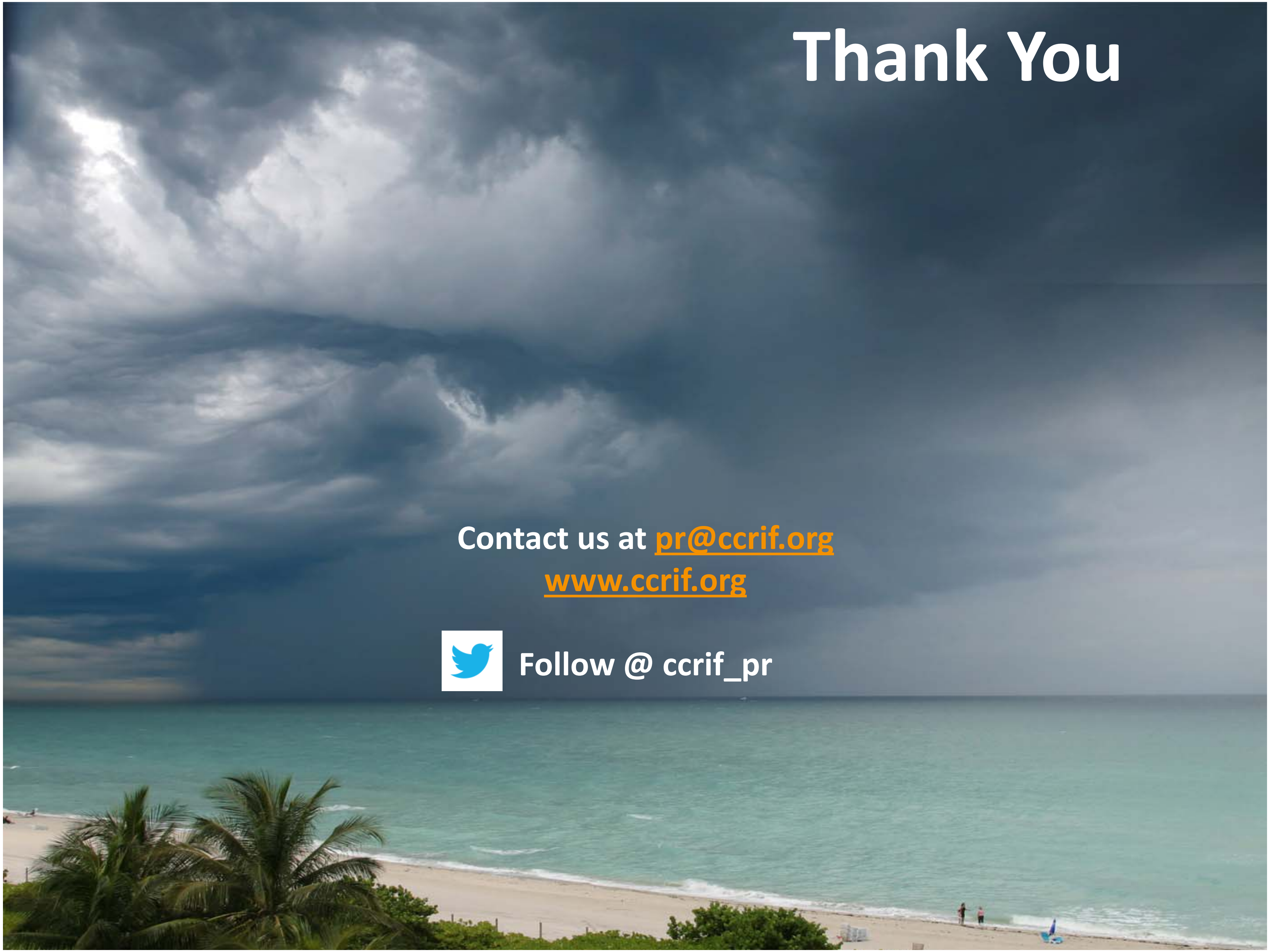
Agriculture continues to be extremely vulnerable to the effects of natural disasters and the impacts of climate change

- LPP
- CCRIF work with World Bank and Jamaica Ministry of Agriculture - risk management strategy for agriculture sector
- Pre-feasibility study on agricultural risk model within the CCRIF modelling framework

In Closing…

Countries should engage in a range of strategies to reduce their vulnerabilities and to develop dynamic and first-class DRM and CA polices and strategies.

Use of risk transfer mechanisms as part of DRM/CA strategies can be seen as pre-event planning and can therefore be seen to be taking a proactive, comprehensive and sustained approach to disaster management, being focused on risk and taking into account fiscal and debt sustainability, towards safeguarding growth prospects.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