Addressing Loss and Damage

The CCRIF SPC Risk Pool in the Caribbean and Central America

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Focus Area 1: CCRIF and Addressing Extreme Weather Events in the Caribbean and Central America
How we Started

- Prompted by Hurricane Ivan in 2004 which caused over $6.0 billion in losses across the Caribbean (200% of GDP in Grenada and Cayman Islands)

- Following Ivan, Caribbean governments requested support from the World Bank to establish a disaster risk financing mechanism that could provide quick liquidity to governments post disaster.

- This led to the creation in 2007 of the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the world first multi-country risk pool, based on parametric Insurance

- Parametric insurance was deemed the best approach for providing quick liquidity to governments of small island states in the Caribbean through a risk pool – offers predefined payouts quickly based on triggered events.

- 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
We are the Caribbean and Central America Parametric Insurance Facility and Development Insurance Company

- Provides parametric catastrophe insurance for Caribbean and Central American governments; as well as electric utility companies for transmission and distribution

- Provides quick liquidity within 14 days of an event, following a natural disaster helping governments to reduce budget volatility, respond to their most pressing needs post disaster, including providing support to the most vulnerable

- Has 24 members – 19 Caribbean governments, 3 Central American governments and 2 Caribbean electric utility companies

- Offers products not readily available in traditional insurance markets and is key to closing the liquidity gap

- CCRIF has emerged as an important vehicle to help countries in those two regions strengthen climate resilience
Our Footprint and Impact

Since 2007:

- Our membership has increased to 24 up from 16 and since 2014 we began providing coverage for Central America and in 2020 for electric utility companies.

- We now offer 5 parametric insurance products – tropical cyclone, earthquake, excess rainfall, and for the electric utilities and fisheries sectors, compared to 2 when we started.

- We became a segregated portfolio company in 2014 which has allowed us to provide coverage to other geographic regions outside the Caribbean and to offer new products to cover additional perils.

- We continue provide considerably more coverage, over US$1 billion in the last two years compared to US$500 million when we first began operations.

- We have continued to improve our models – in 2007, we started with an off-the-shelf model – today our members own these models that continue to be strengthened to enable model losses to more accurately reflect actual losses from a hazard event.
Payouts and Use of Payouts

- Since 2007, CCRIF SPC has made 58 payouts to 16 member governments totalling US$260 million.
- All payouts made within 14 days of the event, with several governments receiving portions of their payouts before the 14 days to begin recovery.
- Members receiving the largest number of payouts – Barbados and Nicaragua – 6 each in total.
- Member receiving the largest value in payouts – Haiti – US$78.3 million.
These payouts help to close the sovereign liquidity gap...
Positioning of CCRIF Among other DRF Instruments

Risk Layers and Corresponding Disaster Risk Management Instruments

**Disaster Risk**
- **High Risk Layer**
  - (e.g. high intensity earthquakes, tropical storms, hurricanes, severe weather troughs)
- **Medium Risk Layer**
  - (e.g. minor earthquakes, small tropical storms, floods)
- **Low Risk Layer**
  - (e.g. local floods, flash floods, landslides)

**Financial Instruments to Manage Disaster Risk**
- **Disaster Risk Insurance**
  - (e.g. parametric insurance, indemnity insurance, catastrophe bonds, insurance-linked securities)
- **Emergency Loans**
  - (debt relief)
- **Contingent Credit/Debt Facility**
- **Contingent Budgets, National Reserves/Dedicated Reserve Funds, Annual Budget Allocations**
Focus Area 2: Gaps, Challenges and Lessons Learned

lessons learned

We have our fair share of challenges. However, we have had many successes. Much of the success of CCRIF has not been by chance. We have based our operation on learning lessons and on a culture of continuous improvement.
Gaps and Challenges

• Limited fiscal space of governments, reducing their ability to make the required investments in ex-ante DRF instruments such as parametric insurance which in part continues to widen the protection gap

• Limited availability of concessional financial - Multilateral financial institutions need to rethink their approaches to concessional financing – many SIDS are non-ODA recipient countries

• Inadequate understanding of how insurance works with the concept of parametric insurance not widely understood, so members sometimes still expect their ‘insurance policy’ to cover all losses on the ground. Despite model improvements, basis risk remains inherent in insurance (both indemnity and parametric)

• High deductible means that we cover mainly major catastrophe events in which national economies are severely impacted

• We have the methodologies to develop new models for additional perils but are constrained by limited historical data in countries.
Lessons Learned

• Keep premiums low - Risk pooling; providing discounts and bundling products when possible, bearing in mind fiscal constraints of members

• Be flexible and responsive to members’ needs - developing new products, providing preferable policy options (e.g. lower attachment points)

• Pursue a multi-disciplinary decision-making approach to disaster risk financing

• Donor support is invaluable - COVID-19 dealt a hard blow to our members but with the support of donors, we were able to access financing for premium support to both maintain and grow coverage. Coverage amount in PY 2022-23 was $1.2 billion – which is a 24% increase compared to PY 2019-20

• Success depends heavily on the relevant knowledge and experience of decision makers – building capacity is key. Build capacity of key stakeholders through training, technical assistance programmes to enhance understanding of CCRIF, DRM and risk transfer in general

• Stakeholder engagement must always be a top priority to foster trust

• Importance of effective Partnerships
Focus Area 3:
Are there specific actions to respond to and address extreme weather events for which funding has been particularly difficult to secure?
Resources and Actions Needed:

- Support for the subsidization of member premiums particularly in this economic climate that is juxtaposed by increasing frequency and intensity of hydrometeorological events.

- Support for countries to improve their insurance coverage levels as many of them, due to fiscal constraints purchase less than adequate coverage.

- Contributing to CCRIF’s and other risk pools capital base so that members can benefit from lower premiums and new products.

- Support the development of new parametric insurance products to cover additional perils – in the case of the Caribbean for run-off/flooding, drought, public sector assets and infrastructure including housing stock – and for sectors such as tourism, health, agriculture.

- Support and scale the rehabilitation of ecosystems (mangroves, watersheds) which are critical to building resilience to natural hazards and are important climate change adaptation strategies that we have not been able to capitalize from.
Closing… CCRIF’s Promise

- We are committed to improving the resilience of the Caribbean and Central America to climate change and natural hazards.

- By this we mean increasing the ability of governments to reduce the negative impacts of natural hazards on their economies and societies.

- We view comprehensive disaster risk management (CDRM) as an integral component of regional development. Our parametric insurance products are a critical part of countries’ CDRM strategies… and key to financially protecting economies.

- This commitment is explicit in CCRIF’s vision statement, which is:

  A leading global development insurer, providing disaster risk financing products and services to member countries to improve lives and livelihoods, building resilience and advancing sustainable development agendas.