CCRIF

The Caribbean Catastrophe Risk Insurance Facility

CCRIF: A Natural Catastrophe Risk Insurance Mechanism for Caribbean Nations

Current knowledge, expertise and experience to support the work programme on loss and damage under the Cancún Adaptation Framework

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Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC)

CaribRM

Risk Managers To The Caribbean

The Caribbean context

- Caribbean countries are highly vulnerable to natural disasters, which have caused them average losses amounting to 2% of GDP since 1970
  - Single events can be extremely destructive – Hurricane Ivan resulted in over 200% of GDP damage in 2 islands
- Only 3% of potential loss is currently insured in developing countries vs 45% in developed countries
- Immediate access to liquidity is critical for governments and individuals post disaster
- Smaller nations with high debt burdens can no longer afford to self-finance disaster risk
- ***Climate change is exacerbating these risks***

Vulnerability

Low Coverage

Liquidity

Debt Burden

Climate Change

CCRIF History & Performance

- Set up in 2007 as the world's first multi-national risk pool to cover sovereign risk via parametric insurance
- A regional catastrophe fund for Caribbean governments – **16 member countries** – mostly small islands
- Operates as not-for-profit, institutionally 'light' and transparent governance structure
- Current policies are designed to limit the financial impact of devastating hurricanes and earthquakes by providing liquidity very quickly after a major event
- Functions like business interruption insurance against Government revenue reductions in the aftermath of major natural catastrophes
- Capitalised by donors (CIDA, EU, WB, DFID, France, CDB, Ireland and Bermuda) and **16 Member Governments** via an initial membership fee
- CCRIF has paid out over $32 million in 4 years, including $17 million after Tomas, half dispersed within a week and the second half after 2 weeks

Benefits and limitations

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Benefits	Limitations
• Pooling of risk across wide geographical area provides – excellent diversification – access to coverage previously unavailable • Pooling into single reinsurance transaction – improves access to and pricing from global markets and – allows innovative structures • Parametric policies allow total objectivity and rapid payouts • Pricing based on technical risk avoids cross-subsidisation • Payout is quick because the parameters of the hazard are known immediately after the event • The loss amount is calculated entirely objectively using a model defined in the insurance policy • The technical risk on an insurance contract is better defined because there are fewer uncertain variables. This provides greater opportunity for risk transfer to capital markets	• High deductible – only covers major catastrophe events in which national economies are severely impacted – 1 in 15-yr loss for hurricanes – 1 in 20-yr for quake • Basis risk means that events can occur which produce significant losses but no payout (and the opposite is possible) • Concept of parametric is poorly understood, so a need to balance expectations that this does not cover everything • Parametric insurance can be difficult to explain and understand which can lead to challenges – not the typical insurance product

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Lessons Learnt and Development Plans

- **Need for constant communication and engagement with members and stakeholders**
  - Helps build awareness within constantly evolving Government departments and structures
  - Assists in understanding and managing the needs and expectations of countries
- **Collaboration with national and regional technical agencies and development agency partners in support of increased understanding and use of risk management**
  - Essential for national/regional capacity development in understanding and managing risk
- **Improve current products by updating/revising cat modelling**
  - Many iterations of risk modelling
- **Understanding the Legal, regulatory constraints**
- **Constant improvement of the facility through: Expanding membership**
  - to further diversify risk
  - to enable access to CCRIF for a broader range of countries
- **Provide new products to meet member needs**
  - Rainfall/flood coverage
  - Electrical transmission/distribution cover
  - Parametric agricultural coverage for governments

Development Plans: Relevance to the SBI Work Program

- CCRIF is just about to take part in an MCII project together with the co-partners Microensure and Munich Re. The German Environment Ministry intends to support this project, which supports regional weather risk management solutions combined with risk reduction measures serving the most vulnerable.
- **One particular focus will be index-based weather insurance for the agricultural sector**
- **Inform opportunities for replication in other regions**
- CCRIF Technical Assistance Programme Linked to supporting institutional capacity in vulnerable states (i.e. through modelling support, country risk officers etc) which in turn will support broader adaptation programmes
- A public-private partnership has recently been launched, supported by DFID, Swiss Development Agency and CDB (tbc) which offers an innovative and first-of-its kind insurance product to cover catastrophe risks for micro-finance borrowers
  - **Known as MiCRO, the first product is in place and covering almost 50,000 MFI clients in Haiti against rain, wind and earthquake perils**
- Useful points of departure for discussions about implementation of linked risk reduction and insurance tools
  - CCRIF shows the feasibility of multi-country risk transfer and risk sharing in managing short –term liquidity risk
  - Demonstrates the technical feasibility of the participation of particularly vulnerable countries despite significant challenges and is cited as a catalyst for new risk pools
  - CCRIF has opened a door to pro-active management of sovereign cat risk in the developing world and has enabled some meat to be put on the bones of the ‘insurance’ element of the UN-FCCC adaptation negotiations

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Risk transfer as an adaptation tool

- Caribbean region has been and will continue to be very active in this area, particularly because CCRIF has been seen and used as an example of how a regional insurance mechanism addressing catastrophe climate risks can actually work in practice
- At the national level, risk transfer complements risk reduction in managing risks which cannot cost-efficiently be reduced
- It can also provide a secure umbrella beneath which a risk reduction strategy can be fully implemented with lower chance of being negatively impacted by natural disasters
- At the sub-national level, risk transfer products enhance access to credit for individuals and investors, which drives economic development, which in turn increases climate resilience
- Index-based weather insurance has the ability to reach the poorest and most vulnerable in a fair and equitable way, something traditional insurance is not able to do

Conclusion: Possible Steps Forward

- **UNFCCC process can contribute by:**
- Encouraging Regional buy-in and build political will
- Identification of some early reference projects to prove the feasibility of the concept
- Building an understanding of risk management, including DRR and insurance approaches nationally and regionally
- Providing opportunities for concerted donor support for promising approaches to get to scale
- Promoting an understanding of the legal and regulatory contexts to support such frameworks
- Help to defining a plan for DRR and insurance at the national and regional scale

Thank you

www.ccrif.org

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