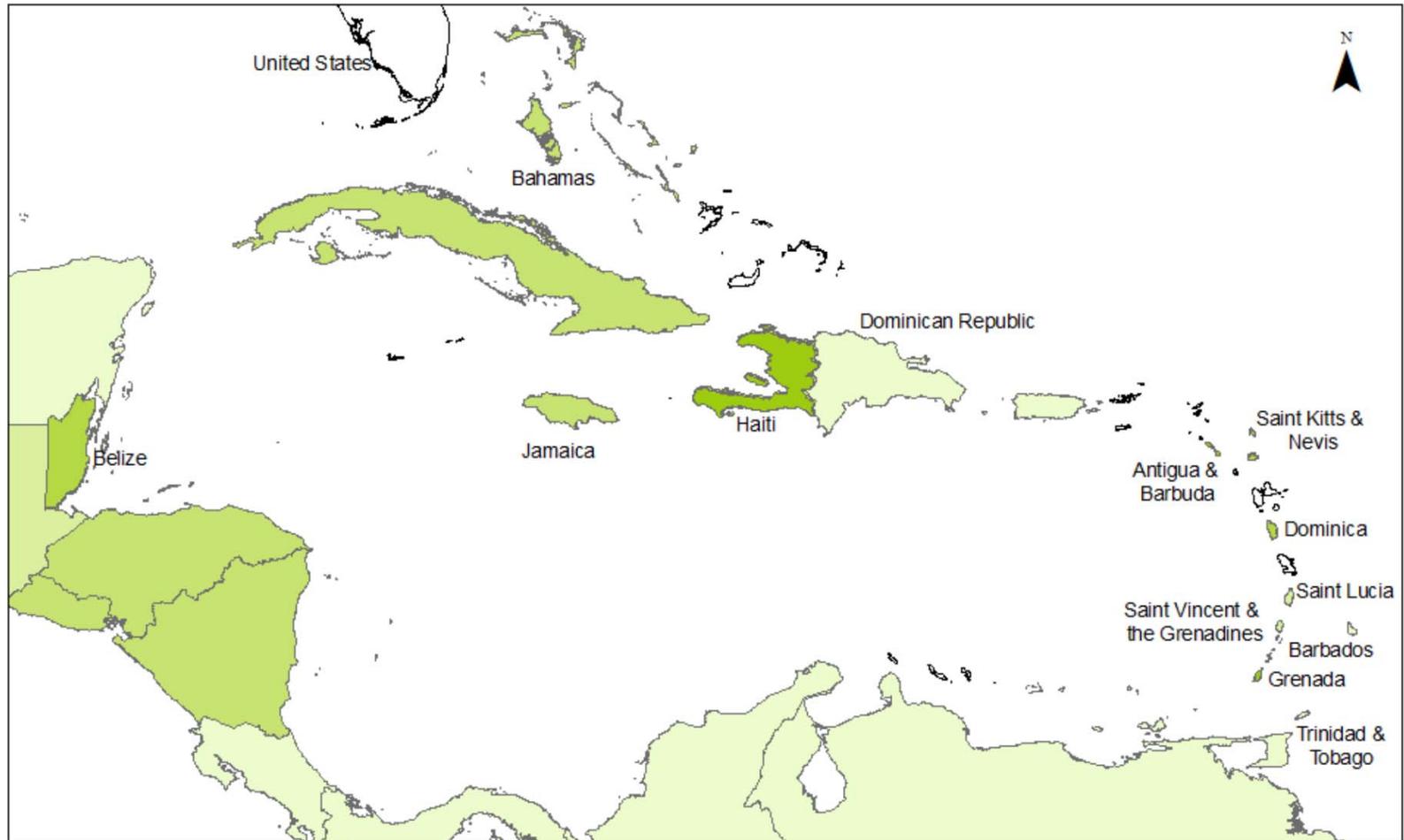


# **RISK TRANSFER AND FINANCE EXPERIENCE IN THE CARIBBEAN**

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March 2016

**WHO  
WE  
ARE?**

**WHERE  
WE  
ARE?**

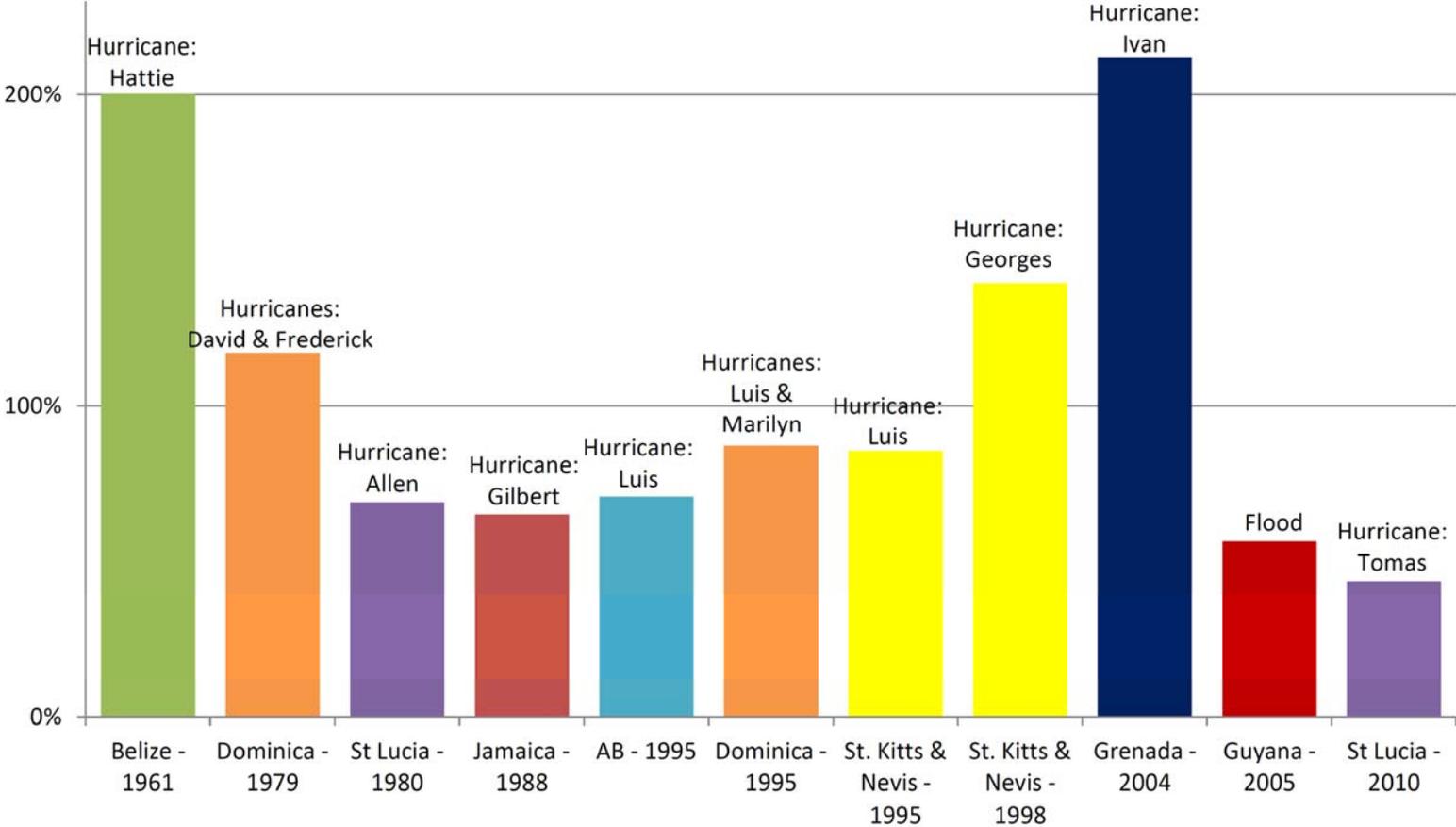


# WEATHER-RELATED LOSS & DAMAGE RISING

- Caribbean is vulnerable to weather-related hazards e.g. drought, floods and associated hurricanes.
- Risen from an annual average of ~US\$50 billion in 1980s ~US\$200 billion over the last decade - *Munich Re insurance group*
- According to World Bank
  - For most Caribbean countries, natural disasters, including climate related disasters, represent a significant contingent liability.
  - Disaster losses in most Caribbean countries have increased faster than economic growth in the past three decades.
  - Ministries of Finance should quantify, analyze and manage this contingent liability.

# LOSSES FROM DISASTERS ARE FISCAL SHOCKS, WHICH OFTEN RESULT IN BUDGETARY DEFICITS & INCREASED DEBT

Select Damages from Disasters as a % of GDP



# CARIBBEAN REINSURANCE CRISIS OF 1993-94

- Property insurance rates started creeping up in 1989, triggered by reinsurance losses caused by Hurricanes Gilbert (1988), Hugo (1989) and Andrew (1992).
- These events created an **extremely tight reinsurance market**, which peaked in 1993 and continued through 1994.
- Prices reached levels of **200 to 300%** above those of 1989 and prior years.
- Several companies **refused to extend coverage** to Caribbean
- Primary insurers and agencies in region, **highly dependent on reinsurers**, had no option but to pass on increases to property owners.
- **CARICOM** addressed regional catastrophe insurance crisis July 1993.
  - a multidisciplinary Working Party on Insurance and Reinsurance established in 1994

# AN EARLY INTERVENTION

## **Caribbean Disaster Mitigation Project (CDMP) - 1993:**

- 6 year, US\$5 million project executed by Organization of American States (OAS) with financing from Office of Foreign Disaster Assistance of U.S. Agency for International Development (OFDA/USAID).
- Purpose:- To establish sustainable public/private disaster mitigation mechanisms that measurably lessen loss of life, reduce potential damage, and shorten disaster recovery period.
- The project was completed in December 1999.
- A primary objective:- To promote natural hazard damage mitigation and use of loss-reduction incentives in Caribbean property insurance industry.

# RISK TRANSFER MECHANISMS

- Risk transfer mechanisms are becoming increasingly important and a key and indispensable component of economic policy and disaster risk management (DRM) strategies
- Countries seek to grow their economies, reduce poverty and become internationally competitive

## **Parametric triggers for weather insurance schemes** [climate related]

- innovative risk securities that base compensation pay outs not on actual losses but when weather exceeds thresholds, like too much rain in flooding, or too little for droughts

# AN EXAMPLE - CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY (CCRIF)

- World's **first ever** multi-country catastrophe insurance pool in 2007
- **Supported by** pledges:- ~US\$47 million to reserve fund of CCRIF, to provide participating governments with immediate access liquidity if hit by a hurricane or earthquake.
- At Launch: Ambassador Denis Antoine on behalf of Dr. Keith Mitchell, Prime Minister of Grenada, told participants: *“The Facility provides access to catastrophe risk insurance that would otherwise not be available to Caribbean Governments. The fact that 18 countries have agreed to participate speaks volumes about the necessity for this Facility.”*
- Facility viewed by UNFCCC as a **best practice example** that can be used by countries in other regions of the world

# RATIONALE FOR EXCESS RAINFALL COVERAGE - CCRIF

- Hurricane and earthquake risk transfer policies to **16 CARICOM** governments,
  - over US\$600M in catastrophe risk since launch
- Member governments and some non-member countries (e.g. Guyana) still have significant exposure to floods in both hurricanes and non-cyclonic storm systems
- Strong interest in coverage for excess rainfall, both within hurricanes and in non-hurricane systems.
- 94% of respondents from 2011 CCRIF Beneficiary Assessment felt that CCRIF should cover other hazards, including flooding
- Anticipated changes in climate, particularly in frequency and severity of hydro-meteorological events, will have an increasing impact on the Caribbean Basin

# HURRICANE IVAN – 2004: GRENADA, CUBA & JAMAICA

Nine months later insurance companies were re-evaluating lessons learned and reassessing their risks.



Guardian File Photo – Trinidad & Tobago



geography.ridley.on.ca



Norman Grindley/Deputy Chief Photographer  
The Jamaica Gleaner Newspaper

50Ft storm surge



Jose Goitia / AP

Flooded tobacco crops are seen on Tuesday in Sandino, western Cuba, after Hurricane Ivan passed over the region.

# HURRICANE TOMAS, ST. LUCIA – 2010: 43% OF GDP



Many buildings were severely flooded including a temporary medical facility set up by International Medical Corps.

*Photo by Kimberly Mathurin*

# HEAVY RAIN, FLOODS AND LANDSLIDES REPORTED IN EASTERN CARIBBEAN ON CHRISTMAS EVE - TROPICAL STORM ERIKA



Aftermath in St. Vincent and the Grenadines. Image credit: Colvin "Koolkidd" Harry - Programme Manager (Ag.) - National Broadcasting Corporation of St Vincent and the Grenadines

Dominica Prime Minister, Roosevelt Skerrit,  
announced damages at EC\$1.298 billion.



Aftermath in Dominica. Image credit: @schuyleresprit

# HAITI – ONLY REGIONAL LDC



Flooding after Sandy (UN Photo/Logan Abassi)



Dieu Nalio Chery/AP Photo

The International Finance Corporation, a member of World Bank Group, partnered with donors to help provide disaster insurance for micro-entrepreneurs in Haiti after Hurricane Sandy.

Residents salvage a mattress from a home partially submerged in mud from a mudslide triggered by Tropical Storm Erika - 2015

Implemented by Munich Climate Insurance Initiative (MCII), CCRIF, MicroEnsure and MunichRe

Funded by German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

## OTHER INSTRUMENTS

- Weather index insurance policies **Livelihood Protection Policy and Loan Portfolio Cover** developed and approved in 2013 by responsible authorities in Grenada, Jamaica and Saint Lucia;
  - Low-income population groups and microcredit institutes can purchase policies
- In Saint Lucia, specially developed insurance policies for microcredit institutions (Loan Portfolio Cover) to **insure against microcredit borrowers who default due to weather conditions**;
  - Enables microcredit institutions to lend microcredits in areas which previously were seen as too risky due to weather extremes
- Training and capacity development activities on applying weather index insurance policies (in particular for local insurers)
- December 2013: An extreme weather event took place in Saint Lucia triggering **first successful payments to holders of the Livelihood Protection Policy**

# MORE RECENTLY – UNSG’S CLIMATE SUMMIT

Promoting Disaster and Climate Risk Resilience Through Regional Programmatic and Risk Financing Mechanisms Initiative launched

- Intended to advance innovative risk financing mechanisms/instruments to help countries overcome adverse impacts of climate change in short-term and develop long-term strategies to mitigate associated risks
- To strengthen regional and national programmatic and financing instruments and mechanisms to address disaster and climate risk management, sustainable development and risk financing needs of climate vulnerable countries and regions.
- Key areas:
  - ✓ post-disaster recovery and reconstruction of development infrastructure and socio-economic assets;
  - ✓ disaster and climate risk management; and
  - ✓ sustainable/resilient development especially for climate-sensitive development sectors.

# COP21: TANGIBLE SUPPORT?

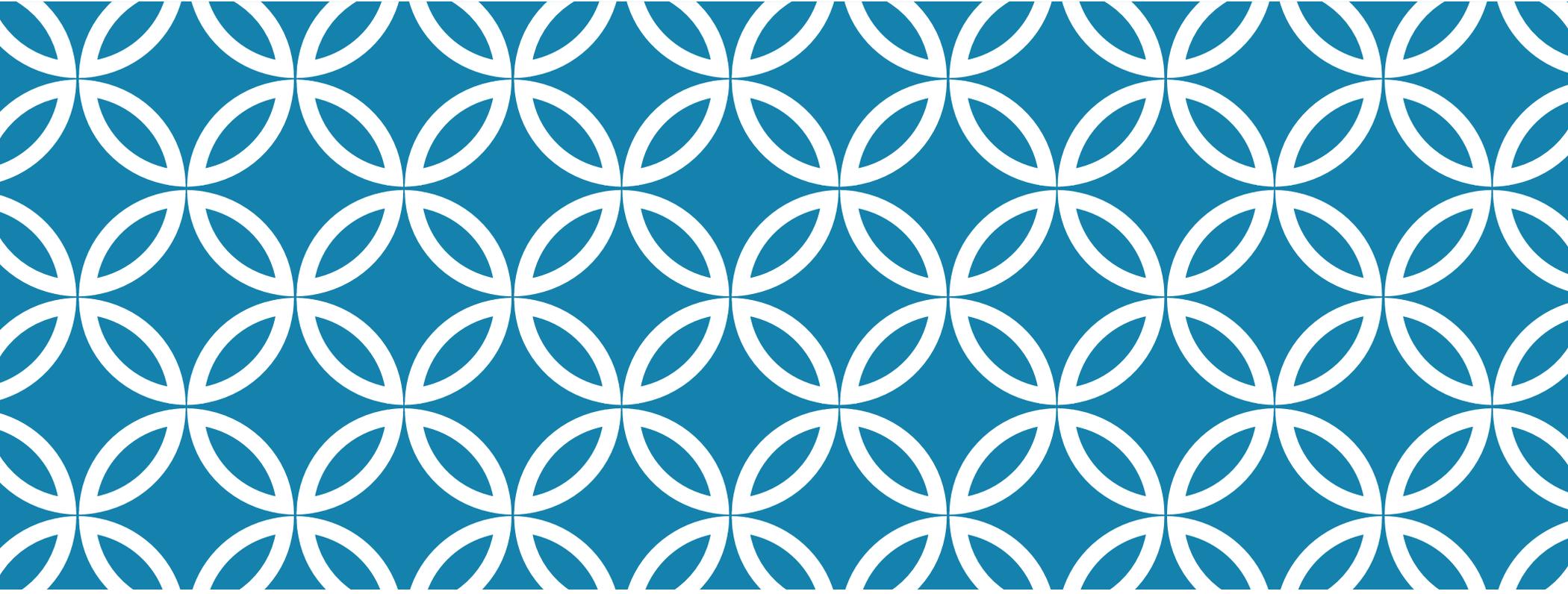
**To support Pacific Catastrophic Risk Assessment and Financing Initiative and African Risk Capacity programme, and expand CCRIF to cover Central American.**

**G-7 InsuResilience Initiative:** To support efforts by vulnerable developing countries to manage climate change-related disaster risk through insurance

- To increase number of people with access to direct or indirect climate risk insurance coverage by up to 400 million by 2020.
- Commitment to build upon existing risk insurance facilities e.g. CCRIF

## **The United States**

- \$30 million to climate risk insurance schemes in Pacific, Central America and Africa.
- Increase coverage to help people cope with severe climate-related problems e.g. intensifying droughts, floods and storms to melting glaciers and rising seas.



**THANK YOU**

Questions?