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**The Caribbean Catastrophe Risk Insurance Facility (CCRIF)  
Brief for Journalists - 22 February 2007**

**CCRIF is important because:**

- **This Caribbean-owned, regional institution is the first regional disaster insurance facility in the world.**
- **CCRIF will provide participating governments from the Caribbean with immediate liquidity if hit by a hurricane or earthquake.**
- **CCRIF will essentially allow Caribbean countries exposed to adverse natural events to pool their risk together and reduce their individual insurance premium by some 40%.**
- **CCRIF will serve as a pilot program for possible extension or replication to other regions with small states (such as the Pacific basin).**
- **A Donors Pledging Conference on the CCRIF hosted by the World Bank in February 26, 2007 will be opened at 9:30 a.m. by President Paul Wolfowitz, Prime Minister Keith Mitchell of Grenada and Finance Minister of Jamaica Omar Davies.**

**A. Background information:**

- **CARICOM States are highly vulnerable to natural disasters and have only limited options available to respond.**
  - On average, one major hurricane affects a CARICOM country every 2 years.
  - Most recently, losses resulting from Hurricane Ivan in Grenada amounted to 200% of Grenada's gross domestic product (GDP) and were also significant in Jamaica and the Cayman Islands.
  - Small states often depend on extensive financing from international donors to finance post-disaster needs.
- **CARICOM Heads of Government requested World Bank assistance in establishing an insurance system, following the devastation caused by Hurricane Ivan in the Caribbean in 2004.**
- **The Facility represents an important shift from disaster response to *ex-ante* disaster management and mitigation.**



- Although work must continue to strengthen institutional preparedness and to prepare infrastructure to better withstand the effects of adverse natural disasters, through CCRIF, Governments will purchase catastrophe coverage akin to business interruption insurance that would provide them with an early cash payment after a hurricane or an earthquake.
- **CCRIF sets a precedent for future CARICOM collaboration**
  - 18 CARICOM members and associate member governments have confirmed their participation in the CCRIF. This high level of enrollment will allow the CCRIF to efficiently diversify its portfolio and access reinsurance on better terms.
- **Donor Participation will make this Facility possible.**
  - Japan, Canada, the United Kingdom, France, the World Bank, the European Union and other donors will contribute to a reserve fund to support the Facility. The goal is having the CCRIF operational by this year's hurricane season in June.

## **B. More information about the CCRIF:**

### **What is the Caribbean Catastrophe Risk Insurance Facility (CCRIF)?**

Following the devastation caused by natural disasters in the Caribbean in 2004, the CARICOM Heads of government requested the World Bank to assist in the establishment of a Caribbean Catastrophe Risk Insurance Facility (CCRIF). In January 2006, with grant funding from the Government of Japan, the World Bank initiated the preparatory studies for the establishment of the CCRIF.

- ***The Caribbean Catastrophe Risk Insurance Facility (CCRIF)*** will provide participating governments with immediate liquidity if hit by a natural disaster, until other sources of financing become available. The Facility will essentially allow Caribbean countries exposed to natural disasters to pool their risk in order to lower the cost of coverage.
- ***Participating countries will determine the level of coverage they wish to purchase.*** This choice will be based on their exposure to risk and also on their capacity to pay.
- ***The insured countries will pay an annual premium proportionate to their own specific risk exposure.*** As an example, annual premiums may vary from US\$200,000 to US\$2,000,000 for payouts from US\$10 million to US\$50 million.
- ***The Facility will act as a risk aggregator.*** The CCRIF will allow participating countries to pool their country-specific risks into one, better-diversified portfolio. This diversification should result in a substantial reduction in premium cost of about 40%.

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- *The Facility will be created with financial assistance from donors.* Initial risk capital provided by donors will allow the Facility to retain a portion of the risk through its own reserves, thereby reducing the cost of insurance premiums.
- *The Facility will transfer the risk that cannot retain through reinsurance or through other financial coverage instruments (e.g., catastrophe bonds).* This will allow optimal pricing, thanks to economies of scale, and will provide a more diversified portfolio of risks. The accumulation of reserves will enable the Facility to smooth the catastrophe reinsurance pricing cycle over time.
- Under CCRIF, *the insurance payment would be triggered by the intensity of the event, rather than being a function of the damage incurred, thus ensuring quick payment at a time when affected countries need it most – immediately after a natural disaster hits.*
- *Claims payments will depend on the type of natural disaster in a specific area over a certain time period.* The parameters for coverage will be determined ahead of time and will be triggered automatically after the occurrence of an earthquake or hurricane. Location and severity of the disaster will be confirmed by an independent agency (e.g., NOAA or USGS).
- *The Facility will be managed by an Insurance Operations Manager* with expertise in insurance. The Insurance Operations Manager will collect premiums from insured countries, purchase the necessary reinsurance, pay reinsurance fees from the pool, manage the portfolio, and ensure claims are paid in full and in a timely fashion.
- *The Facility could serve as a pilot program that could be extended or replicated to other small states* (such as the Pacific islands).

### What are the main benefits of joining the CCRIF?

- Provides critical budget support immediately after a disaster;
- Enables risk pooling and economies of scale (i.e. a larger, more diversified portfolio) that will drive down prices by an estimated 40%;
- Donor funds will support optimal pricing from re-insurers by allowing the Facility to retain a portion of the risk;
- Low administrative and operational costs by sharing a Facility.

### Principal Components of the CCRIF

- *Catastrophic risk modeling study for the Caribbean* estimates the probability of occurrence and financial exposure to natural disasters in each of the participating countries. The study also assesses the benefits of pooling the risks and estimates the cost of insurance.

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- ***Risk financing strategy of CCRIF*** is aimed at optimizing the relationship between the premium levels, policy coverage, and creditworthiness of the Facility. This strategy helps to make CCRIF solvent and ensures its survivability.
- ***Institutional and legal structure.*** CCRIF will be an insurance entity controlled by the participating governments and contributing donors. It will be managed by an Insurance Operations Manager.
- ***CCRIF's Reserve Fund.*** The contributions made by donors to the reserves will ensure its long term financial viability and the reduction of its dependency on reinsurance. These contributions will be supplemented with the interest earnings on this reserve fund and with the share of the insurance premiums paid by the participating countries that is not used to purchase reinsurance.