

**Donor's Pledging Conference on the Caribbean Catastrophic Risk
Insurance Facility**

**Presentation by
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**Washington, D.C.
February 26, 2007**

Introduction

Let me begin by complimenting the World Bank on the work which has been done to put us in a position to have this pledging conference today.

Apart from the Bank, I wish to commend the Jamaica Social Investment Fund, which was entrusted with the task of managing the project which facilitated the technical assessment. We also wish to express gratitude to the Government of Japan which provided grant resources to facilitate the technical studies.

Finally, let me express special appreciation for the work of Caroline Anstey, who has provided the main leadership for the facility here in Washington.

The Bank's response is indeed laudable in carrying us this far. We now have clear indications from eighteen (18) regional states to participate in the Caribbean Catastrophe Risk Insurance Facility (CCRIF). We are now here meeting with you the Donors to

invite your participation, highlighting some of the benefits to be derived from the proposed scheme.

Rationale For the Insurance Scheme

There is indeed a clear need for a regional insurance scheme for three main reasons – first the frequency of natural disasters in the region, especially hurricanes; second the enormity of the economic and social costs, both direct and indirect, resulting from them; and third the immediate need for resources to deal with such emergencies.

External shocks such as natural disasters are of course, not unique to the Caribbean region but their impact on small island states is exceptional. Given the size of the Caribbean islands and the less diversified nature of the economies, a hurricane can within the space of a few hours obliterate a country's entire economic base, as it did with Grenada in 2004. Even where the devastation is not as widespread, the impact can be felt throughout the entire economy.

There are immediate short term, medium term and long-term effects. These include the need for resources to pay workers, service debt, and effect repairs to critical social and economic infrastructure. If some of these are not tackled quickly, there can be serious health and environmental risks and even social upheaval.

As we are all aware, there are institutional obstacles to countries obtaining adequate funds to meet immediate needs.

While we recognize that the donor community and the multilateral institutions will assist in the reconstruction efforts, there is always an immediate need for resources to cover emergencies – e.g. for clean-up operations, to effect immediate repairs and to assist the most vulnerable individuals and groups. This is where the proposed CCRIF is intended to assist most.

Assessment of the Proposed Insurance Scheme

We are all aware of the significant advantages presented by the parametric structure of the insurance contracts offered under the CRRIF - easily verifiable claims, fast payout, and flexible use of insurance proceeds. This is facilitated by the fact that payout is determined by the severity of the hazard and not on the actual losses sustained. However, the main drawback to this approach is that payouts may not properly match the economic impact of the event – the so called “basis risk” problem.

However, even if the basis risks were reduced to zero, the current CCRIF proposals suffer from an important drawback. Whilst our specific concern relates to Caribbean member states, the deficiency to which I am about to allude, has been shown to have relevance even in large countries as demonstrated by the controversy which has resulted from the devastation brought to New Orleans by Hurricane Katrina. The deficiency is that high-

impact natural disasters do not necessarily come solely in the form of severe hurricanes and earthquakes. Rather, floods and droughts can have as great a negative impact as a hurricane or an earthquake.

My basic point here is two fold: (i) Even with the scope of perils currently covered by the CCRIF (i.e. hurricane and earthquake), it is imperative that serious and immediate thought be given to widening the range of risks that are underwritten, to include for example, flooding related to hurricanes; (ii) It is equally important, within the context of Caribbean countries, that the issue of country risk financing for hazards related to climate change be put squarely on the agenda. In both respects, the role of the donor community is paramount as an expansion in the range of risks underwritten by the facility naturally implies an expansion in capital requirements.

A discussion of insurance against climate related hazards raises another important and related issue – the need to expand risk-financing arrangements to cover sectoral vulnerabilities. In the specific context of Caribbean countries, I am referring to crop insurance. Agriculture accounts for a significant share of the GDP of Caribbean economies and accounts for an even greater share of regional employment. Important sub-sectors are presently, rightly or wrongly, either controlled by, or dependent on the state. Thus, the volatility of agricultural output has important implications for fiscal and economic management and social interventions.

A purely private insurance market solution to crop insurance would be very difficult to devise within any single territory since the correlation of losses from a given event would make risk pooling difficult. The regional risk pooling and access to international reinsurance markets, possible under the CCRIF, make this facility an ideal candidate to pursue the establishment of a viable crop insurance programme in the region. This is a special case for expanding the risk coverage of the facility to account for climate volatility, which is of particular relevance for Caribbean territories exposed to severe periods of drought and/or severe flooding.

Therefore, there is much for the donor community, Caribbean states and Caribbean civil society to do in partnership to improve the scope and relevance of catastrophe risk management and financing in the region. Caribbean states need to step up their efforts at legislative and institutional reforms aimed at strengthening the incentive structure for risk mitigation. We hope that our multilateral partners will continue to provide the technical, analytical and financial resources necessary to assist Caribbean constituents in identifying and implementing workable solutions to our specific problems.

The importance of donor support to this initiative is worthy of emphasis. Donor contributions will provide initial seed capital as well as financing for operating expenditures in the early years of this facility. A minimum level of initial seed capital is vital to the facility being able to access the international reinsurance markets. In addition, seed capital will promote the long-term sustainability of the CCRIF by facilitating a higher level of risk retention which will allow a greater proportion of premiums to be

used to build reserves over time. **Therefore, donor support is indispensable to the financial viability and long-term sustainability of the CCRIF.**

Concluding Remarks

In closing, let me once again express my deep appreciation for the involvement and effort of all relevant parties in the work that has led us to this point. Let me assure you of Jamaica's full commitment to continued regional collaboration in devising and implementing strategies and programmes to reduce vulnerability to natural hazards. We have "put our money where our mouth is". I wish to formally announce that Jamaica has confirmed its commitment to participate in the CCRIF by purchasing coverage for both earthquake and hurricane perils. We meet here today to make this first step one of significance.