

Small States Forum

“A Regional Perspective on the Caribbean Catastrophe
Risk Insurance Facility”

Presentation by

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Introduction

Let me begin by thanking the organizers of this Forum for inviting me to share a few thoughts on the Caribbean Catastrophe Risk Insurance Facility (CCRIF). I suppose having experienced the devastation of Hurricane Ivan in 2004 and led my Country's remarkable recovery, it was felt I might have something valuable to say to this gathering.

That said, it must be made abundantly clear that Grenada's reconstruction is far from complete. Grenada is grateful for the support received over the past 3 years but more support is needed from the international community in areas such as housing and agriculture.

In September 2004, following the passage of Hurricane Ivan which left a trail of death and destruction in the Caribbean, CARICOM Heads of Government convened in emergency session. At that meeting, the Heads issued a clarion call to the international financial institutions to develop affordable and effective catastrophic risk instruments.

We meet today, 5 months after the launch of the CCRIF - a remarkable achievement! We applaud the World Bank for its efforts to bring this innovative Facility to fruition and for all the development partners which have contributed the US\$47 million raised to capitalize the Facility. This latest innovation is yet another excellent example of the type of innovation which Small States in partnership with the Bank can create.

It is my hope that the newly established Small States Network for Economic Development (with Secretariat in Malta) will make innovation the hallmark of its work from inception.

What is the Caribbean Catastrophe Risk Insurance Facility?

The CCRIF provides participating governments with immediate liquidity (budget support) when policies are triggered after an adverse event.

The Facility currently covers hurricanes and earthquakes hazards. We feel coverage should be extended to flooding, a point made by both Jamaica and Grenada at the donors pledging conference in February this year.

CCRIF policies are sold against government deficit loss which is a component of overall country-wide physical loss (typically 25%-40%). In short, it is partial risk coverage.

The key advantages of this design are easy verification of claims, quick payout and flexible use of proceeds when the policies are triggered.

As part of a pool, all participants enjoy the benefits of lower premiums. Savings on premium are estimated at 40 percent. That said, premiums are still very high which compels the Facility to enlarge its membership to further diversify risk and reduce premiums.

We know the CCRIF is not intended to cover full reconstruction costs. Consider the case of Grenada which had losses estimated at US\$900 million (over 200% of GDP) following Hurricane Ivan in 2004. Had the Facility been available, Grenada would have received a payout of US\$40 million (less than 5 percent of total losses).

So why do we need CCRIF?

The necessity for this Facility is clear and compelling for several reasons.

First: the increased frequency and severity of natural disasters in the Caribbean. An IMF study projects that the Caribbean will experience a natural disaster every 2.5 years with damage of more than 2 percent of Gross Domestic Product (in aggregate).

Second: the huge economic and social costs (both direct and indirect) that result from these disasters.

Third: the immediate need for resources including cash in the aftermath of a disaster. Anyone who has experienced a natural disaster understands the imperative of ensuring effective public administration, rapid clean up and emergency repairs to return to normal life as quickly as possible. Donor pledges even when forthcoming simply take too long.

Finally, and not surprisingly, small island states are the most susceptible to the damaging effects of natural disasters because of their small size, location and structure of their economies. The onset of climate change has magnified this vulnerability.

Making CCRIF work for the Caribbean - Some Early Lessons

Let me reaffirm the Caribbean Community's commitment to comprehensive disaster mitigation. Indeed, we have invested heavily in disaster preparedness and mitigation at both national and community levels. The region sees the CCRIF as complementary to these ongoing efforts to adopt better land use practices and enforce stronger building codes.

The passage of Hurricanes Dean and Felix in August and September this year highlights some shortcomings of the Facility. Notwithstanding damage estimated (in the aggregate) to exceed US\$500 million in Jamaica, St. Lucia, Dominica, Belize and Grenada, no policies were triggered. As I understand it, the main reason is that recorded wind speeds were not strong enough. Yet, physical evidence in the affected countries suggests wind speeds far higher than those recorded by the National Hurricane Centre in Miami.

The first and obvious lesson is the need for *better measurement of wind speeds in countries*. I am told, some countries have a single location from which readings are taken. This is unsatisfactory. We need to employ appropriate technology to have reading points throughout the countries.

Second, *an additional facility is needed to cover sectoral vulnerability especially agriculture*. The current model does not include loss of national income due to loss of agricultural production. This is a serious shortcoming. Why? In the Caribbean, agriculture accounts for a significant share of GDP and employment and is essential to poverty alleviation.

Largely absent crop insurance in the Caribbean means governments have no choice but to come to the aid of farmers whenever they sustain significant agriculture losses. Given our very limited resources, this is very onerous and has far reaching fiscal implications.

The third lesson is the *need to fill the coverage gap for smaller but high frequency events*. The CCRIF, as designed, covers 1 in 20 year events. Hurricanes Dean and Felix were 1 in 3 events. Clearly, there is a coverage gap.

As a first step, CCRIF management should consider lowering the return period for the covered events from 1 in 20 to, perhaps, 1 in 10 events. It should also revise its models to provide some coverage for smaller but higher frequency events with appropriate premiums.

Further, CCRIF in partnership with client governments, the international financial institutions and the Caribbean Development Bank should look to develop a suite of integrated and cost effective products covering the entire risk spectrum.

The fourth lesson is the need for *more public education* about the Facility. There is a view that insurance, in many countries, is not only misunderstood but frankly mistrusted. A considerable effort is needed to better explain the benefits and limitations of the CCRIF. As I see it, the success of CCRIF can have a powerful demonstration effect on the use of insurance in both the public and private sectors in the Caribbean.

Critical to incorporating all of these lessons, is an expansion strategy to attract more members thereby diversifying risk and further reducing premiums.

One more final point before I conclude.

As some of you may know, Caroline Anstey has been deservedly recognized by the new President of the World Bank and will soon assume an important position in his Office. Since this may be the last time that Caroline and I appear on a panel together (although I hope not), I take this opportunity on behalf of the Caribbean to thank her for her hard work and partnership over the past four years. Caroline, your leadership on the CCRIF is but one example of the efforts of you and your team to improve the quality of Caribbean life.

Personally, I will always remember your support and responsiveness after Grenada's devastation by Hurricane Ivan. I believe that might have been your finest hour. Caroline, you will be missed.

However, we are confident that you will remain grounded in the reality of small states and will be sensitive and strategically supportive of their needs. We wish you the best with your new responsibilities.

Conclusion

Sisters and brothers, the Caribbean Catastrophe Risk Insurance Facility is a good example of the innovation small states can achieve when we have a shared vision and pool our resources. Recent experiences furnish us with an early opportunity to refine CCRIF and ensure its relevance and that it can be expanded to other states.

I thank you.