

Caribbean Risk Managers Ltd

Case Study: CCRIF

Since June 2007, the small, catastrophe-exposed states of the Caribbean have had access to individual coverage against natural catastrophe-induced government losses via a unique risk pool. Following the terrible damage to the Caribbean wreaked by the 2004 hurricane season, the World Bank and CARICOM (the Caribbean Community) commissioned development of the Caribbean Catastrophe Risk Insurance Facility (CCRIF). A consortium which evolved into Caribbean Risk Managers Ltd (CaribRM) won a global tender to develop and implement the financial and operational strategy for the new entity and, from its launch in early 2007, have been the Facility Supervisor, providing full operational, financial and risk management services.

Under the CCRIF, Caribbean nations can select various degrees of protection and insure themselves against hurricane and/or earthquake losses. Annual premiums vary from US\$200,000 to \$4.5 million for payouts from US\$1 million to \$100 million, with a total aggregate exposure of over US\$600 million underwritten. CCRIF, operating as a captive insurer within the Cayman Islands jurisdiction, retains risk at the bottom and top of the portfolio risk profile (below 5 year and above 1,000 year return periods), with additional cover of around US\$150 million placed into the international reinsurance and capital markets. Unique to CCRIF has been its ability to garner both traditional and capital market risk transfer of the same underlying policies with no basis risk to the Facility.



The innovative aspect of the CCRIF policies is the parametric formulation. Wind speed (in the case of hurricanes) or ground acceleration (in the case of earthquakes) are used as proxies for loss, currently through an indexing approach but, from 2010, through a modelled loss approach developed by Kinetic Analysis Corporation (Kinanco) in collaboration with CaribRM. Once a policy triggers, the affected countries receive immediate payment of a percentage of the estimated losses sustained (the percentage being decided by countries and affecting the annual premium they must pay) once the

underlying physical parameters have been independently verified (and subject to a deductible.) This occurs typically within days and therefore helps overcome the usual sovereign liquidity crunch that follows a disaster. It allows for expedient post-disaster repairs and gives governments time to raise funds for intermediate-and longer-term recovery activities.

Under CaribRM's management, CCRIF has garnered widespread international recognition for its innovative approach to sovereign risk management, with two global awards in 2008. Furthermore, CaribRM is playing a prominent role in the Copenhagen climate treaty negotiations, highlighting CCRIF as an example of how innovative risk management strategies, including insurance-related solutions, are playing a part in adaptation strategies for climate change in the developing world.



CaribRM

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