# Regional Risk Pooling for Caribbean States

Caribbean countries have been at the forefront of developing new risk transfer tools to address some of the natural hazards they face, including hurricanes and earthquakes. The region has historically faced numerous challenges in absorbing the financial impact of natural disasters in the traditional insurance marketplace, including a limited ability to diversify risk, limited budgetary capacity, insufficient vulnerability reduction measures, limited reserves of domestic insurance capital, high insurance costs, and issues with underinsurance (existing but inadequate insurance coverage by policy holders). In 2007, 16 Caribbean island countries came together to form a regional risk insurance pool, the Caribbean Catastrophe Risk Insurance Facility (CCRIF), with technical assistance from the World Bank and initial capitalization by the international donor community and the World Bank. CCRIF is a first-of-its-kind government risk-sharing platform, aimed at assisting members manage part of their catastrophe risk exposure through access to affordable and effective insurance coverage against natural disasters. For almost all Caribbean governments, a direct hit by a major hurricane or earthquake is the largest single risk it faces. Prior to CCRIF, the economic aspects of disasters had gone largely unmanaged by governments, which had mostly relied on post-disaster humanitarian assistance from donors. With CCRIF, the member governments have developed a parametric insurance mechanism that enables them to share their risk between all participating countries and provides rapid payouts—similar to business interruption insurance—to finance an initial disaster response while maintaining basic government

functions immediately following an event. By pooling their risks into a single diversified portfolio, member countries' insurance costs are significantly lowered, with pricing reduced by half or more of what it would cost if countries were to purchase the same coverage individually and directly from global markets. CCRIF retains a significant level of risk thanks to initial capitalization from the participating countries, bilateral donors, and the World Bank, and transfers part of its risk to the international reinsurance and capital markets. CCRIF was the first ever multi-country risk pool and was well received by the reinsurance market. The success of CCRIF, which thus far has made eight payouts totaling more than $32 million to seven member governments, brought about the development of a regional catastrophe risk pool in the Pacific and Africa as well as ongoing discussions on disaster risk financing solutions among the Indian Ocean island countries.

*Contribution by Simon Young on behalf of CCRIF*