Terms of Reference

Feasibility Study for the Expansion of CCRIF within the Context of Disaster Risk Financing and other Innovative Forms of Financing

About CCRIF SPC

The impacts of Hurricane Ivan in the Caribbean in 2004 brought into focus the need for quick liquidity following a natural disaster. CCRIF and the introduction of parametric insurance in the Caribbean were born out of Hurricane Ivan, which resulted in regional losses totalling over US$6 billion. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) was established in 2007, and in 2014 was officially renamed CCRIF SPC. CCRIF SPC is the world's first multi-country risk pool based on parametric insurance. Parametric insurance is generally less expensive than an equivalent traditional indemnity insurance product as it does not require a loss assessment procedure after a disaster, allowing for claims to be settled quickly and in the case of CCRIF, within 14 days of the event. This is an important feature considering the urgent need for quick liquidity after a natural disaster. CCRIF SPC is owned, operated and registered in the Caribbean and our mission is to ***assist our member governments and their communities in understanding and reducing the socioeconomic and environmental impacts of natural catastrophes***.

The Facility currently offers 4 sovereign parametric insurance products – for tropical cyclones, earthquakes, excess rainfall and for fisheries. Twenty-two governments: 19 Caribbean– and 3 Central American are members of CCRIF. CCRIF also recently launched an electric utilities product to provide protection to utilities against transmission and distribution losses due to hurricanes. CCRIF has demonstrated that catastrophe risk insurance can effectively provide a level of financial protection for countries vulnerable to natural disasters. Members can purchase up to US$150 million in coverage for each peril Since 2007, CCRIF has made 44 payouts totalling approximately US$162 million to 14 member governments. Payout amounts increase with the level of modelled loss, up to the pre-defined coverage limit specified in the country policy. CCRIF was not set up to cover all the losses on the ground. So while payouts have been relatively small compared to the overwhelming cost of rebuilding, all recipient governments have expressed appreciation for the rapid infusion of liquidity, which they have been able to use to address immediate priorities and to support the vulnerable.

In 2014, the Facility was restructured into a segregated portfolio company (SPC) to facilitate offering new products and expansion into new geographic areas. Since then, CCRIF welcomed Central American countries to the pool and also introduced two new products – the excess rainfall product in 2014 and COAST (Caribbean Ocean and Aquaculture Sustainability Facility) for the fisheries sector in 2019 – the first such product in the world.

The current strategic plan of the Facility covering the period 2018 – 2021 has a strong focus on scaling up, driven in part by the demand of members, donors and CCRIF's own sustainability assessments. Scaling up has involved rolling out new and improved parametric insurance models to underpin our products for tropical cyclones, earthquakes, and excess rainfall, and developing new products.

CCRIF intends to bring new products to market for drought and agriculture and a rainfall run-off model, the latter being more applicable to Guyana and Suriname that are not yet members of the Facility, Belize and Central America members. CCRIF also is exploring providing parametric insurance to sectors such as health, education and housing. Scaling up is a key strategic objective of the Facility since less than 5 per cent of losses due to natural disasters are covered by insurance in low-income countries such as those in the Caribbean and Central America compared to more than 40 per cent in developed countries.

The importance of catastrophe risk insurance in the face of a changing climate cannot be overstated and is supported by the UNFCCC, G7 leaders and the Paris Agreement all of which have established insurance as an acceptable climate adaptative instrument. Insurance therefore must be an essential component within governments' fiscal policy frameworks and an important tool of changing climate adaptation as we strive to advance the sustainability agenda. However, the parametric insurance products provided by CCRIF should not be viewed in isolation from other disaster risk financing tools.

Countries in both the Caribbean and Central America need to take a more holistic approach to disaster risk financing and build a financial protection strategy that combines a number of risk financing instruments that address different layers or types of risk – incorporating instruments that address low and high frequency and severity events – such as disaster reserve funds (DRFs), contingent credit facilities, risk insurance, CAT bonds etc. All these instruments have unique and distinct characteristics and are necessary to finance early response, recovery, and reconstruction needs while protecting a country's fiscal balance and preventing further disruptions caused by reallocations from other priorities (such as primary health care, education, national security among others). Beyond instruments, countries need a data-rich environment to facilitate risk-informed decisions and enabling DRM governance systems that promote efficiency and accountability

CCRIF is committed to improving the resilience of the Caribbean and Central America to climate change and natural hazards, by increasing the ability of governments to reduce the negative impacts of natural hazards on their economies and societies. The Facility views comprehensive disaster risk management (CDRM) as an integral component of regional development and views the parametric insurance products that it provides as a critical part of countries' CDRM strategies. This commitment is explicit in CCRIF's vision statement, which is: ***"A resilient Caribbean region and beyond with optimized disaster risk management and climate change adaptation practices supporting long-term sustainable development".***

Purpose and Rationale for Undertaking Feasibility Study

The current thrust of CCRIF's scaling up efforts are based on the CCRIF Scaling Up Study undertaken by the Facility in 2017 following Tropical Cyclones Irma and Maria in which the Facility sought to effectively contribute to the bold ambition declared by CARICOM to make the Caribbean the first climate-resilient zone in the world. As CCRIF approached a 2nd decade of operations in 2017, that was an opportune time for the Facility to assess its role in the region, its operations and to determine its financing and capital requirements to meet the needs of the region. The Scaling Up Study and the Stakeholder Assessment both pointed to CCRIF approaching scaling up – in terms of increasing coverage levels amongst existing members, adding new members and offering new products. These recommendations along with other demands from CCRIF members are included in the CCRIF Strategic Plan 2018-21. Much of the above is work-in-progress and reflected in strategies being implemented.

The Facility is preparing to begin its strategic planning exercise that will culminate in a new strategic plan covering the period 2021 – 2024 and beyond. Given the increased frequency and severity of hazard events and the need for broader disaster risk financing solutions, as well as the current economic climate as a result of the COVID-19 pandemic, it is commissioning this feasibility study to assess the expanded role it can or should play in the disaster risk management landscape across the Caribbean and Central American regions as it works collectively with other development partners and governments to advance the resilience agenda of the region.

Scope of Work

The following sets out a list of activities that the consultant is expected to undertake in fulfillment of this feasibility study.

- A stakeholder analysis to assess the Disaster Risk Management (DRM) gaps, needs and challenges among CARICOM and COSEFIN members, focusing on country risk information and identification financial protection strategies
- Review findings of the disaster risk financing studies produced by the World Bank and other multilateral organizations, which have assessed DRM and DRF gaps across the region in sovereign countries as well as overseas territories, to identify potential roles for CCRIF
- An assessment of the country and regional programmes of various development partners engaged in the Caribbean and Central America and possible areas in which CCRIF can establish a long-term cooperation or provide a competitive advantage
- A review of innovative financing instruments (e.g. blue bonds, green bonds, blended financing, debt-for-nature swaps, resilience bonds etc.) that could be recommended for use by CCRIF to build out and enhance the Facility's current capital outlay
- The possible role that CCRIF could play in broader disaster risk financing across the region as it relates to working with the private sector to offer parametric insurance products such as microinsurance products or hybrid products or capital markets instruments.
- An assessment of additional parametric insurance products that CCRIF can develop as demanded by members or which could be introduced to members

- An assessment of innovative financing facilities such as the Green Climate Fund that may be possible for CCRIF to access
- An assessment of new geographic locations that CCRIF could provide technical services and support to and the rationale for same, making reference to risk pooling and the accompanying opportunities
- An assessment of the regulatory and institutional requirements to support an expanded mandate for CCRIF beyond the provision of parametric insurance
- Review of the 2020 Capacity Assessment Report, highlighting new areas of expertise required for implementation of the Expansion Plan
- A detailed analysis of the rationale and level of donor support needed and approaches to reduce the cost of coverage on a short, medium and long term basis
- Development of a Business Plan for CCRIF SPC summarizing the demand assessment, economic environment and market conditions including 5-year financial projections and financial analysis. The Business Plan should include a full description and justification of any new initiatives relating to products, risk transfer instruments along with the rationale for expansion and inputs from CCRIF investment income as well as cost elements such as risk transfer, claims estimations and administrative costs. The Business Plan and Financial Projections should demonstrate the capital requirements over a five-year period, and a basis for donor funding through grants, low cost debt or equity

Level of Effort – **-55 days**

Timing – June 2021 – July 2021

- Inception Report, including outline and approach and methodology – June 30, 2021
- 1st Draft – July 15, 2021
- Final Draft – July 20, 2021
- Final – July 31, 2021