Terms of Reference

Selection of Placing Broker for CCRIF SPC

1 Background

In 2007, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) was formed as the first multi-country risk pool in the world, and was the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets. It was initially designed as a regional catastrophe fund for Caribbean governments to limit the financial impact of devastating hurricanes and earthquakes by quickly providing financial liquidity when a policy is triggered. CCRIF was developed under the technical leadership of the World Bank and with a grant from the Government of Japan. It was capitalized through contributions to a multi-donor Trust Fund by the Government of Canada, the European Union, the World Bank, the governments of the United Kingdom and France, the Caribbean Development Bank and the governments of Ireland and Bermuda, as well as through membership fees paid by participating governments.

In 2014, the facility was restructured into a segregated portfolio company (SPC) to facilitate expansion into new products and geographic areas and is now named CCRIF SPC. The new structure, in which products are offered through a number of segregated portfolios, allows for total segregation of risk. In April 2015, CCRIF SPC signed an MOU with COSEFIN - the Council of Ministers of Finance of Central America, Panama and the Dominican Republic - to enable Central American countries to formally join the facility. The expansion to Central America and the Caribbean is supported through the World Bank administered Central America and Caribbean Catastrophe Risk Insurance Program Multi-Donor Trust Fund (MDTF) established for that purpose. The MDTF channels resources from various donors, including: Canada, through the Department of Foreign Affairs, Trade and Development, the United States, through the Department of the Treasury; the European Union, through the European Commission, and Germany through the Federal Ministry for Economic Cooperation and Development.

Funding under the Program has been allocated to: (i) expand the services and membership of CCRIF SPC through a recipient-executed Project implemented by CCRIF SPC. The Central America and Caribbean Catastrophe Risk Insurance Project (P149670) was approved by the Regional Vice President for Latin America and the Caribbean on June 30, 2015**.** The Project is implemented by CCRIF SPC (CCRIF Segregated Portfolio Company, formerly the Caribbean Catastrophe Risk Insurance Facility). The Project development objective is to improve affordability of high-quality sovereign catastrophe risk transfer associated with earthquakes and climate-related events for CCRIF participating countries. The expansion of membership into Central America has the potential to diversify the risk portfolio, improve access to reinsurance markets hence reduce the cost of risk transfer, allowing these benefits to be passed on to its members.

CCRIF SPC is registered in the Cayman Islands with a board of directors which is responsible for governance and the strategic direction of the company and a chief executive officer with responsibility for managing the company on a day to day basis. It operates as a virtual organization, supported by a network of service providers covering the areas of risk management, risk modelling, captive management, reinsurance, reinsurance brokerage, asset management, technical assistance, and corporate communications and information technology. CCRIF SPC offers earthquake, tropical cyclone and excess rainfall policies to Caribbean and Central American governments, and sectoral solutions for electric utilities and fisheries. CCRIF SPC helps to mitigate the short-term cash flow problems small developing economies suffer after major natural disasters. CCRIF SPC's parametric insurance mechanism allows it to provide rapid payouts to help members finance their initial disaster response and maintain basic government functions after a catastrophic event.

Nineteen Caribbean governments are currently members of the facility: Anguilla, Antigua & Barbuda, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, Saint Lucia, Saint Vincent & the Grenadines, Saint Maarten, Trinidad & Tobago and Turks & Caicos Islands. Nicaragua is the first Central American government to become a CCRIF SPC member, Panama and Guatemala have since joined the facility.

CCRIF SPC's sustainability relies on certain key factors:

- Continuing operations with the capacity to fund payouts, within the agreed timeframe, while maintaining adequate capital and reserves
- Ability to attract members by offering relevant products with competitive pricing while at all times reinforcing the objectives and limitations of parametric insurance coverage
- Supporting the membership with technical assistance and ensuring a close working relationship with members that value the need for parametric insurance coverage in light of more frequent and severe natural disasters.

CCRIF's strategic plan focusses on expansion beyond the Caribbean market into Central America for existing and new products. In addition to greater outreach, a presence in both regions allows for additional risk pooling and greater cost efficiencies. Optimal risk transfer is central to CCRIF's sustainability, and underpins:

i. Continuing operations with the capacity to fund payouts, within the agreed timeframe, while maintaining adequate capital and reserves
ii. The ability to attract members by offering relevant products at attractive pricing

The Chief Executive Officer is the most senior full-time officer of the Facility and is ultimately responsible to the Board for the effective management of the company. The day-to-day operations of the CCRIF are managed by the Chief Operations Officer supported by a team of service providers undertaking risk management, financial planning and the management of technical assistance programmes. Working under the supervision of the CEO, the Chief Risk Management officer (CRMO) is responsible for providing technical leadership and advice to the management and board as it relates to the areas of risk management, financial planning, catastrophe modeling, and (re)insurance placement. This position will therefore seek to provide technical input and review as well as act as an independent evaluator to the work two of CCRIF's main service providers – the Risk Management Specialist (RMS) and the Placement Broker

The CRMO, oversees the work of the Placement Broker with respect to the development of the company's annual risk transfer programme and the execution of that programme. The Risk Transfer and Underwriting Committee of the Board is responsible for:

- Development and implementation of CCRIF's risk transfer strategy both as a whole and for individual products/underwriting pools.
- Development and implementation of underwriting guidelines for individual products, including pricing approach, capacity for CCRIF retention, and controls on coverage conditions at the policyholder level.
- Dynamic Financial Analysis modelling and overall compliance with CCRIF's internal financial security and reinsurance purchasing strategies as laid out in CCRIF's Operations Manual.

This Committee comprises the following:

- Three directors with knowledge and expertise in insurance; and
- Chief Executive Officer, CCRIF;

Technical support to the Committee is provided by the CRMO and the Placing Broker.

2 Objectives of CCRIF Reinsurance Strategy

i. *Risk Transfer Strategy:* The Placing Broker will liaise with the CRMO and Risk Management Specialist of CCRIF SPC to provide feedback/advice on CCRIF's Reinsurance Management Framework and its long-term reinsurance strategy to set clear objectives on retention, capital exposure and risk transfer. Guided by the CRMP, the Risk Management Specialist and Placing Broker, CCRIF will adopt an annual risk transfer strategy, approved by the Board of Directors, based on a determination of the optimal risk retention, limit on reinsurance, pricing, terms and conditions and capacity of both capital market instruments and the reinsurance market to absorb CCRIF's ceded risk. The Board and Risk Transfer & Underwriting Committee will authorize the Placing Broker to lead communications with reinsurance firms and potential capital market investors.

ii. *Procurement of Reinsurance based on Best Commercial Practices:* As part of the risk transfer strategy, CCRIF will purchase reinsurance coverage based on best commercial practices consistent with its internal guidelines, and in a manner acceptable to its stakeholders. Procurement related to the purchase of reinsurance is conducted with the support of the Placing Broker. CCRIF SPC follows an open and competitive process consistent with its policy for tendering and retendering for consultants to contract a Placing Broker to assist the Facility in obtaining reinsurance. This process is currently carried out every three years. The Placing Broker, together with the Risk Management Specialist, as mandated by the Risk Transfer and Underwriting Committee of the Board, follows standard commercial practices to place CCRIF risk in the reinsurance and capital markets, such practices being open and competitive.

i. *Compliance with Anti-Corruption Practices:* CCRIF follows the World Bank's Anti-Corruption Guidelines (ACG) and must ensure that the Placing Broker operates in full compliance. This will require (i) sharing all relevant information on fraud and corruption allegations, and access to the Placing Broker's records to the World Bank for inspection or audit by itself or by an independent auditor satisfactory to the Bank; and (ii) in case of fraud and corruption, terminate the Risk Transfer Agreement and request restitution. In accordance with CCRIF's internal guidelines, the Placing Broker will be obligated to (i) declare that they, their officers, or their employees have not engaged in any Prohibited Practice; (ii) refrain from engaging in any Prohibited Practice; (iii) report to the other party any allegations of any Prohibited Practice; (iv) cooperate with the other party in any investigation into allegations of any Prohibited Practice including allowing the other party to inspect its books and records; (v) take all reasonable measures to prevent any Prohibited Practice by its officers or employees, all in connection with each Risk Transfer Contract; and (vi) by notice to the other party, terminate the Risk Transfer Contract if the other party fails to comply with its obligations under said Risk Transfer Contract.

3 Goals

CCRIF's reinsurance goals are summarized below and are detailed in CCRIF's Reinsurance Buying and Risk Control Policy.

i. In structuring its reinsurance programme, CCRIF aims:
   - To safeguard the interests of the insured governments;
   - To protect the Facility's balance sheet from the adverse impact of large catastrophe events;
   - To the largest extent possible, to ensure that financial results are consistent with the underlying level of risk.

ii. CCRIF must ensure that reinsurance or other risk transfer cover is placed in the best interest of the Facility on behalf of the Segregated Portfolios and its Participants; that is, on a timely basis and subject to reasonable terms and conditions. CCRIF will continue to make efforts to reduce premium prices by securing the most competitive pricing from the reinsurance market, while maintaining the high quality of its products as well as sufficient reserves to guarantee its financial stability.

iii. Reinsurance placement and other risk transfer strategies for the Facility on behalf of all Segregated Portfolios (SPs) shall be implemented by the Placing Broker as directed by the Facility's Board and/or Board Committees. During the period of the contract the SPs include Caribbean EQ/TC SP, Caribbean XSR SP, CA SP, COAST SP, CPU SP and potentially a SP to be established for a water utilities product. The risk transfer strategies shall be developed by the Risk Management Specialist, in collaboration with the Placing

Broker, the CRMO and the Management Committee of any SP and, upon approval by the CEO, shall be recommended to the Facility's Board for approval prior to the start of negotiations between the Facility and Participants on the one hand and the Facility and reinsurers (and/or other risk transfer agents) on the other.

iv. The Placing Broker will carry out all aspects of reinsurance administration for all SPs as well as providing high quality support in strategy, analytics work and marketing advice to CCRIF based on industry best practices.

4 Scope of Work

In developing its reinsurance programme, CCRIF will give due consideration to the following factors:

- The organization's risk tolerance and catastrophic risk potential;
- Potential risk aggregation;
- Retention levels and reinsurance attachment points;
- Available programme participants;
- Market conditions and coverage affordability;

Each member's individual contribution to the collective exposure is analyzed, as well as the aggregation of exposures throughout the portfolios of the SPs on behalf of which the Facility is obtaining reinsurance. This will be achieved by the following means:

- Run in-house catastrophe risk model to ascertain a portfolio per-event and annual – aggregate loss exceedance curve;
- Utilize loss 'event set' to replicate in-house portfolio exposure analysis in third-party model (via Placing Broker); and
- Using a scenario approach, assess the maximum loss that might result from one single event.

The Risk Management Specialist, in conjunction with the Risk Transfer and Underwriting Committee of the Board of Directors, must continually evaluate which risk transfer structures are most suited to achieving the objectives of the Facility. These solutions can either be provided by the capital markets and/or the traditional reinsurance market, and it is the Risk Management Specialist's duty to ensure that all options are considered and assessed with a view to achieving CCRIF's financial objectives and those of its SPs. Once the most suitable risk transfer structure has been selected, it should be stress-tested by applying the Facility's Dynamic Financial Analysis (DFA) model, and further tested by a third-party DFA model to be provided by the Placing Broker.

All cessions to reinsurers or payments to capital markets will be approved only if they have achieved maximum efficiency in line with the objectives of the Facility. The anticipated total amount of premiums paid/ceded and coverage secured must be unanimously approved by the Risk Transfer and Underwriting Committee prior to giving renewal instructions. Programme quotations and participations are to be sought from reinsurers operating in a range of established reinsurance markets, including –but not limited to- the UK, USA, Bermuda and Europe. The potential exposure of any one reinsurer or capital market participant to the total programme for a given year is limited to a maximum of 50 per cent, and a minimum of three participants on any contract/layer is required. Current programme participants are expected to maintain a minimum Standard & Poor's (S & P) credit rating of A- or an equivalent A- rating from AM Best, with any new participants to the programme similarly to hold a minimum Standard & Poor's rating of A-. The overall weighted average rating of the programme should be A- or preferably higher.

The Placing Broker must have an independent security committee to analyze reinsurers throughout the life of the contract, using market knowledge aligned with information from the professional security rating analysts (rating agencies S&P, AM Best). In the event ratings of a participating reinsurer falls below CCRIF's minimum requirements, the participation must be replaced by another reinsurer with the required rating.

Reinsurance and other risk transfer placements for CCRIF SPC shall be implemented and administered by the Placing Broker, where Placing Broker is licensed to do so. It is understood that any risk transfer activities for which the Placing Broker is not licensed appropriately may be carried out by an appropriately licensed affiliate of Placing Broker, where this is appropriate and lawful and only with the prior written approval from CCRIF. The Placing Broker will provide the Risk Management Specialist with regular updates on market conditions. The strategic use, through risk retention, of the respective balance sheets of the SPs on behalf of which the Facility enters into risk transfer arrangements is a variable that should assist in achieving the best per-risk cost risk transfer programme possible.

The extent of the risk transfer programme at the extreme end of the risk spectrum will be guided in general by the CCRIF's risk transfer strategy document. Proposed alternative risk transfer structures, including pricing aspects, should be stress-tested by using the Facility's DFA model, and the Placing Broker's DFA model.

Traditional Reinsurance-Specific Steps

The standard market practice followed by CCRIF SPC for reinsurance placement consists of the following six steps:

1. Term sheet produced by Placer (CCRIF SPC is the placer). The term sheet includes information on such elements as time period for physical parameters, risk for each country, triggers for each country, disbursement terms, settlement procedures, the underwriting model, and who declares a loss;
2. The Placing Broker gauges universe of re-insurers, within the parameters defined by the Placer. These parameters can include elements like credit rating and capacity of targeted reinsurance companies;
3. The Broker and Placer go on a road show with the underwriting model (and often accompanied by technical note) to the defined universe of re-insurers;
4. The Broker asks reinsurers for indicative or firm pricing for a specified validity period, typically 2-3 weeks;
5. Companies respond with pricing and risk-taking interest for the validity period; and
6. The Placer and each of the selected reinsurers enter into contracts based on standard term sheets (with financial terms and share of coverage specific to each reinsurer).

Reinsurance through Financial Swaps and Catastrophe Bonds

Access to capital markets may be achieved through financial swaps associated with collateralized reinsurance or the issuance of a Catastrophe Bond to be placed with specialized investors around the world. CCRIF may access the capital markets through other private financial institutions, specialized investors (e.g. investment banks, hedge funds), and/or in collaboration with the World Bank, pursuant to a decision of CCRIF SPC Board's Risk Transfer and Underwriting Committee in coordination with the Placing Broker.

Insurance Administration

Recording of Policies

Reinsurance contracts will be forwarded by the Placing Broker to the CCRIF Insurance Manager, without any undue delay, once fully completed and signed, along with any endorsements, cover notes, etc. The Risk Management Specialist must approve any reinsurance contracts prior to placement.

Identification of Claims Subject to Reinsurance Recovery

As soon as possible after a catastrophe event, the Risk Management Specialist will brief the Board on the total expected payout of the loss, including the expected recovery from reinsurers and each reinsurer's corresponding share. The Risk Management Specialist will also provide to the Placing Broker and any other parties to whom the Facility has a commitment (e.g. as the Calculating Agent in an ISDA swap transaction) the provisional payout calculation within one day of an event for any event in which any policy underwritten by CCRIF is due for a payout

For any event for which the total claims will exceed CCRIF's retention, the Placing Broker will initiate the reinsurance recoveries process in accordance with the relevant contract conditions in force. Depending on the nature of the transaction, either the Risk Management Specialist, on behalf of the Facility, or the Placing Broker will initiate the recovery process from any impacted capital market portions of the risk transfer programme.

The Risk Management Specialist will provide to the Placing Broker (and any other necessary parties) the final payout calculation immediately on its completion (which will follow the conditions outlined in the underlying policy). This will include a breakdown of expected reinsurance recoverables and an accounting of reinsurance payouts received.

Role of the Placing Broker

The Placing Broker will be responsible for all aspects of risk transfer to the traditional reinsurance market and/or alternative Risk Transfer ('R/T') markets. This will include, but may not be limited to:

a. Support for strategy and analytics work: model review including both catastrophe risk models and DFA models;
b. Reinsurance placement, and/or risk transfer to alternative markets according to the risk transfer strategy(ies) that have been approved by the Facility's Board of Directors or have received its no objection;
c. Reinsurance administration including, but not limited to premiums collection and claims settlement, payments for reinsurance on account of the Facility, and acting on behalf of the SP in relation to these services and upon instruction from the CCRIF. Reinsurance premiums are to be posted to reinsurers' accounts and paid in accordance with terms of trade extended to the Placing Broker. In the event of a payout, the Placing Broker will act on CCRIF's behalf to expeditiously collect amounts due contractually, and post amounts into the account of the Facility.
d. Collection of market intelligence and other market monitoring, including development, implementation and monitoring of Reinsurance Buying Guidelines/RT guidelines for the Facility; and
e. Continuous monitoring of reinsurers' rating, such that if a reinsurer obtains a rating below minimum rating requirements, the Placing Broker will promptly replace it; the replacement of the reinsurer will be handled in accordance with the terms of the reinsurance agreement.

The Placing Broker is responsible primarily for seeking to obtain the best reinsurance pricing and terms and conditions –in accordance with best reinsurance market practices- for the Facility on behalf of its constituent SPs.

All reinsurance placement by the Facility on behalf of these Segregated Portfolios shall be subject to the Guidelines on Risk Transfer, the internal guidelines and regulatory authority (as approved by the Facility Board of Directors) of the contracted Placing Broker as outlined in its contract; and any additional guidance set forth in any separate Operations Manual that an individual SP may have and which has received the no objection of the Facility's Board of Directors.

The Placing Broker or its affiliate must also meet regulatory requirements needed to place reinsurance in all of the international risk transfer markets (including traditional reinsurance and alternative/capital markets) on behalf of the Facility, and provide a summary of their experiences as manager/ co-manager or as structuring agent of capital market solutions.

5 Time Schedule and proposed Fees

The contract shall be for a period of three years starting December 1, 2022, with the possibility of an extension for one further year.

Payment under the contract must be fee based and will be negotiated in accordance with stated Scope of Works.