Caribbean Countries Pool Risks Ahead Of 2007 Hurricane Season

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February 28, 2007—Imagine how you would feel if your home was hit by a hurricane and you learnt that the damage amounted to twice your annual income.

That's pretty much what happened to the tiny island nation of Grenada in 2004 when it was struck by Hurricane Ivan, one of the most intense Atlantic hurricanes on record.

Ivan damaged nine out of ten private homes in Grenada, devastated the tourism industry, and destroyed 90 percent of the country's nutmeg trees – formerly mainstays of the economy. Altogether, the losses amounted to 200 percent of Grenada's gross domestic product.

And Grenada was not Hurricane Ivan's only victim. Jamaica, the Cayman Islands, and St. Vincent and the Grenadines were also hit, causing losses totaling more than $3.4 billion.

The magnitude of the devastation prompted the Heads of Government of the Caribbean Community (CARICOM) to request the World Bank's help in establishing an insurance system. With a $1.8 million grant from Japan, the Bank worked with local Caribbean institutions to design a suitable mechanism.

The result is the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the world's first ever multi-country catastrophe insurance pool.

"The Caribbean Catastrophe Risk Insurance Facility will be critical in helping vulnerable countries start repairs quickly," said World Bank President Paul Wolfowitz at a donor pledging conference for the Facility on February 26.

"And for the most vulnerable citizens in these countries, this facility can help them start rebuilding their lives sooner rather than later."

Caribbean states are highly susceptible to natural disasters – on average, one major hurricane affects a country in the region every two years – and have only limited options available to respond. With small economies and high debt levels, they often depend on donors to finance post-disaster needs, but donor resources often arrive late or not at all.

"External shocks such as natural disasters are of course not unique to this Region, but their frequency and impact on small island states is exceptional," said Dr. Omar Davies, Jamaica's Minister of Finance and Planning. "Given the size of these islands, a hurricane can in the space of a few hours, obliterate the entire economy."

The CCRIF will enable governments to purchase catastrophe coverage akin to business interruption insurance that will provide them with an early cash payment after a major hurricane or earthquake.

Pooling their risk will save the 18 participating countries some 40 percent in individual premium payments.

The mechanism will be triggered by the intensity of the event (e.g., winds exceeding a certain speed). This means countries will get automatic payments, without having to wait for an assessment of the damage.

"The Facility represents an important shift from reacting to disasters after they hit, to being much more proactive about disaster management and mitigation," said Caroline Anstey, World Bank Country Director for the Caribbean.

The pledging conference hosted by the World Bank brought together Ministers and other representatives of 18 governments from the Caribbean region, international and regional organizations, and donors.

Donors from Bermuda, Canada, France, the United Kingdom, the Caribbean Development Bank, and the World Bank pledged a total of US$47 million to the CCRIF reserve fund. These contributions will enable the CCRIF to become operational in time for this year's hurricane season, which begins in June.

Ambassador Denis Antoine on behalf of Dr. Keith Mitchell, Prime Minister of Grenada, told participants:

"The Facility provides access to catastrophe risk insurance that would otherwise not be available to Caribbean Governments. The fact that 18 countries have agreed to participate speaks volumes about the necessity for this Facility."

Mr. Paul-Antoine Bien-Aimé, Haitian Minister of Interior, praised the CCRIF for supporting local management of risks.

Graeme Wheeler, Managing Director of the World Bank, highlighted the Facility's potential for replication. "I hope, in particular, that small island states in the Pacific will take note of the groundbreaking work being done in the Caribbean," he said.

Several participating countries, including the Bahamas, Dominica, St. Lucia, and Antigua and Barbuda, underscored the need to extend coverage under the Facility to other types of natural disaster, such as floods. Such an extension is planned as the next stage of the Facility.

For Philippe Coessens of the European Union, the CCRIF is "a crucial link in the disaster relief chain that has been missing."

But though a useful tool, insurance is not a panacea. Further work must be done in parallel to strengthen institutional preparedness and improve infrastructure to better withstand the effects of major natural disasters through better building codes, urban planning, and disaster management.

Owned, operated, and registered in the Caribbean Region, the CCRIF signals Caribbean countries' growing commitment to work together to reap the benefits of economies of scale.