World Bank Group

Looking for Comprehensive Risk Management Solutions for the OECS countries: The World Bank Group Perspective

Eugene N. Gurenko
Senior Insurance Specialist
email: egurenko@worldbank.org

World Bank Insurance Practice

Washingon DC
May5, 2003

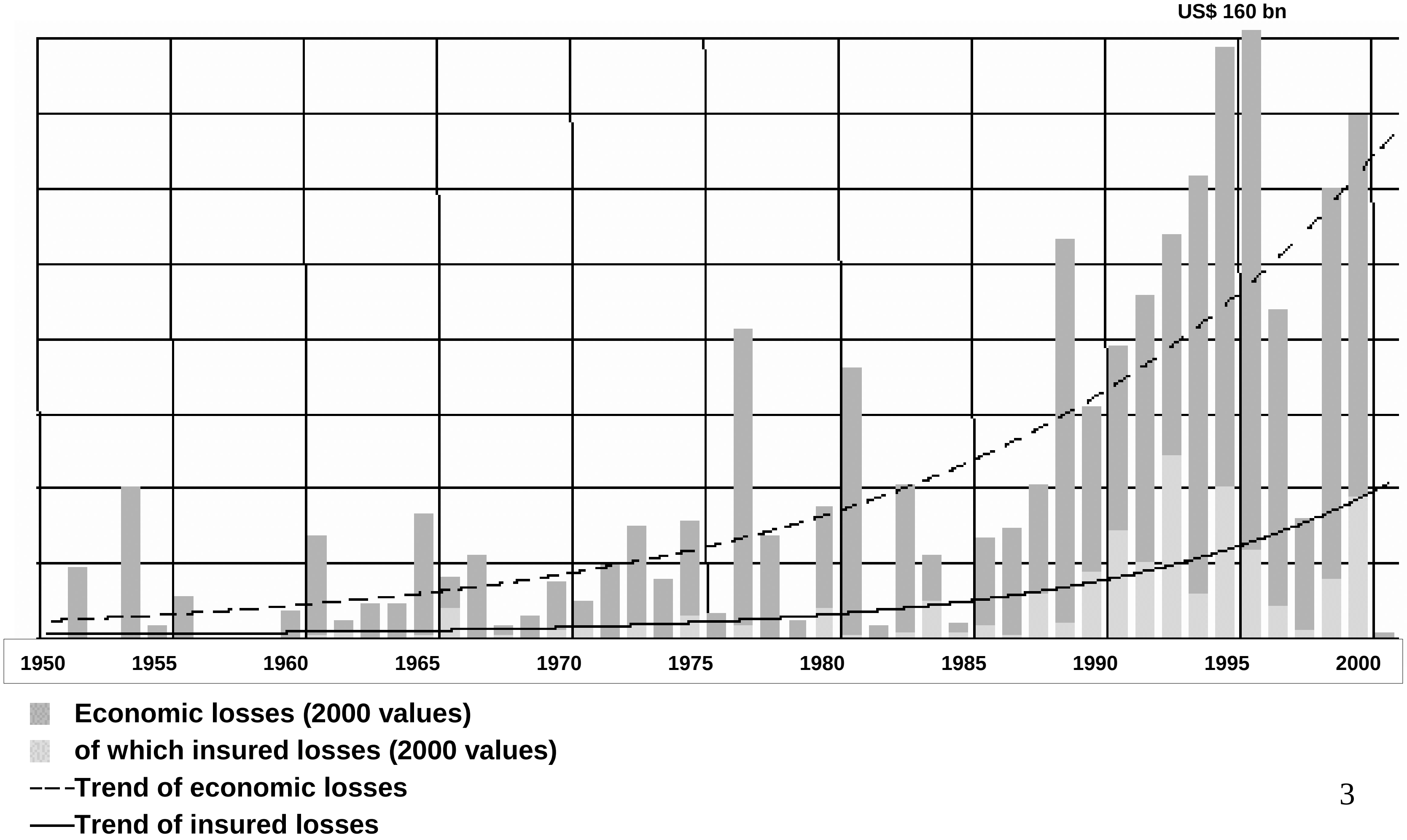
KEY MESSAGES

World Bank Group

- OECS is highly vulnerable to natural disasters;
- Domestic insurance industry although developed has insufficient risk bearing capacity and is highly dependent on global reinsurers;
- Global reinsurance capacity at times can be scarce and is subject to major pricing volatility
- Catastrophe risk management solutions at the country level must be sought

Insured and Uninsured Losses from Natural Disasters (in US Billions)

World Bank Group

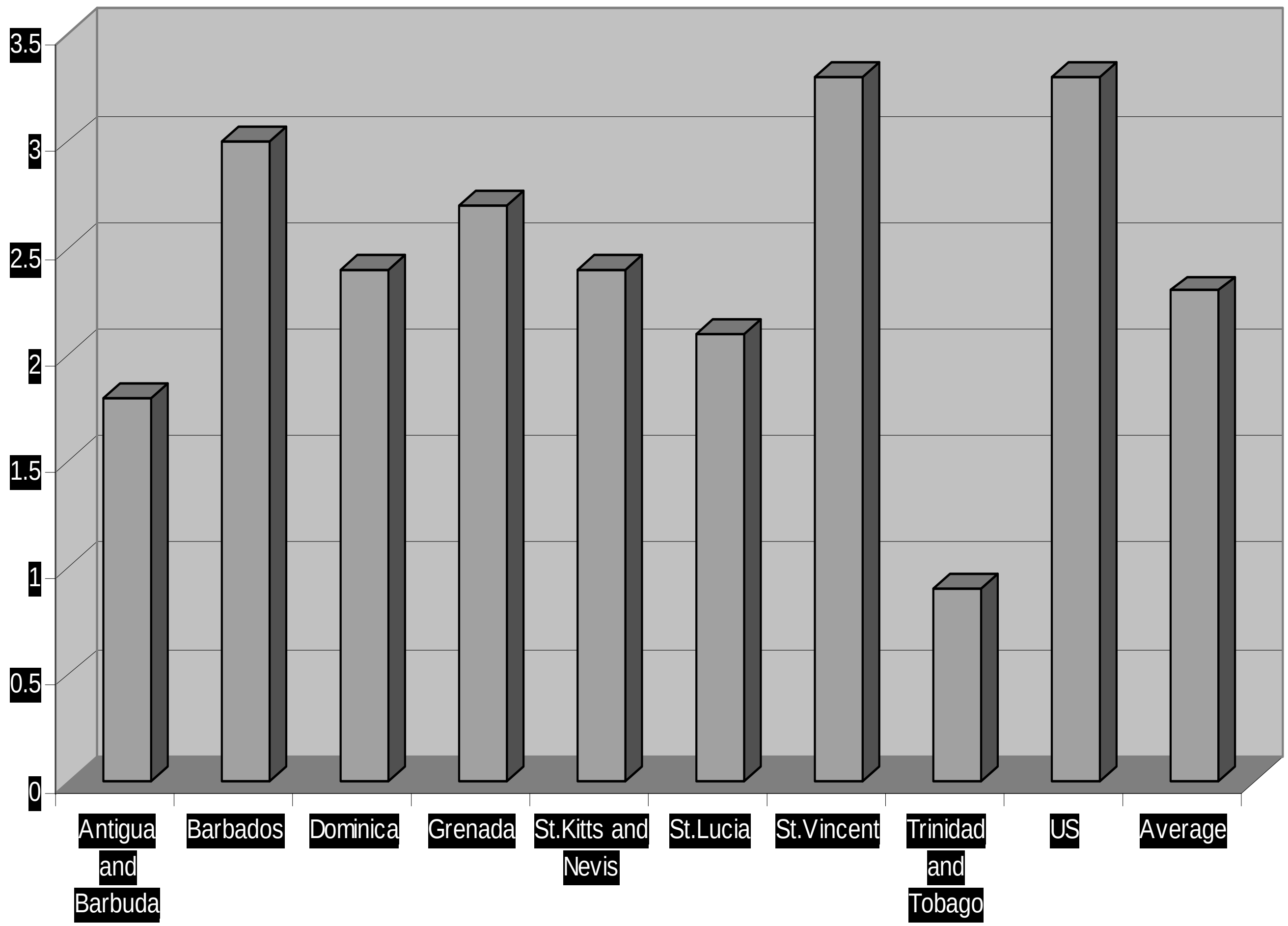


Regional Vulnerabilities to Natural Disasters

- The East Caribbean region can expect 2.5 storms per year;
- Category 3 hurricanes can be expected to occur every second year;
- Category 5 storms every fifth year
- Nine hurricanes have hit the Islands in the 1990s
- Concentrated economic risk exposures per country as key crops and tourism will suffer most from such catastrophic events
- Direct economic loss from hurricane Gilbert on Jamaica in 1988 amounted to US$956 or 27% of GDP and the public deficit increased by 8% from an earlier expected

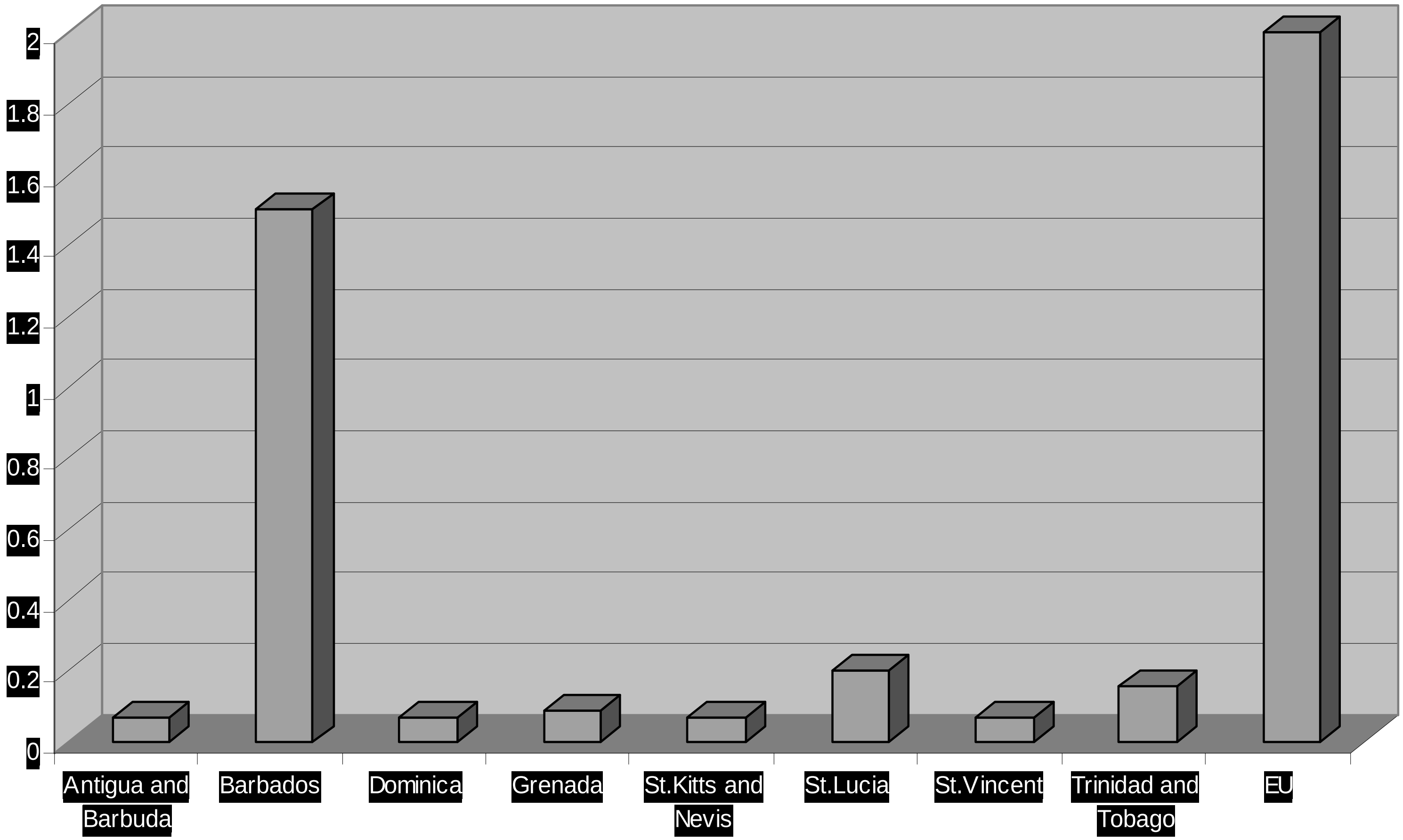
Insurance Penetration in the Caribbean (P&C Insurance Premium as %GDP)

World Bank Group



Minimum Capital Requirements for Insurers (US$ millions)

World Bank Group



World Bank Group

Snapshot of the Caribbean P&C Industry

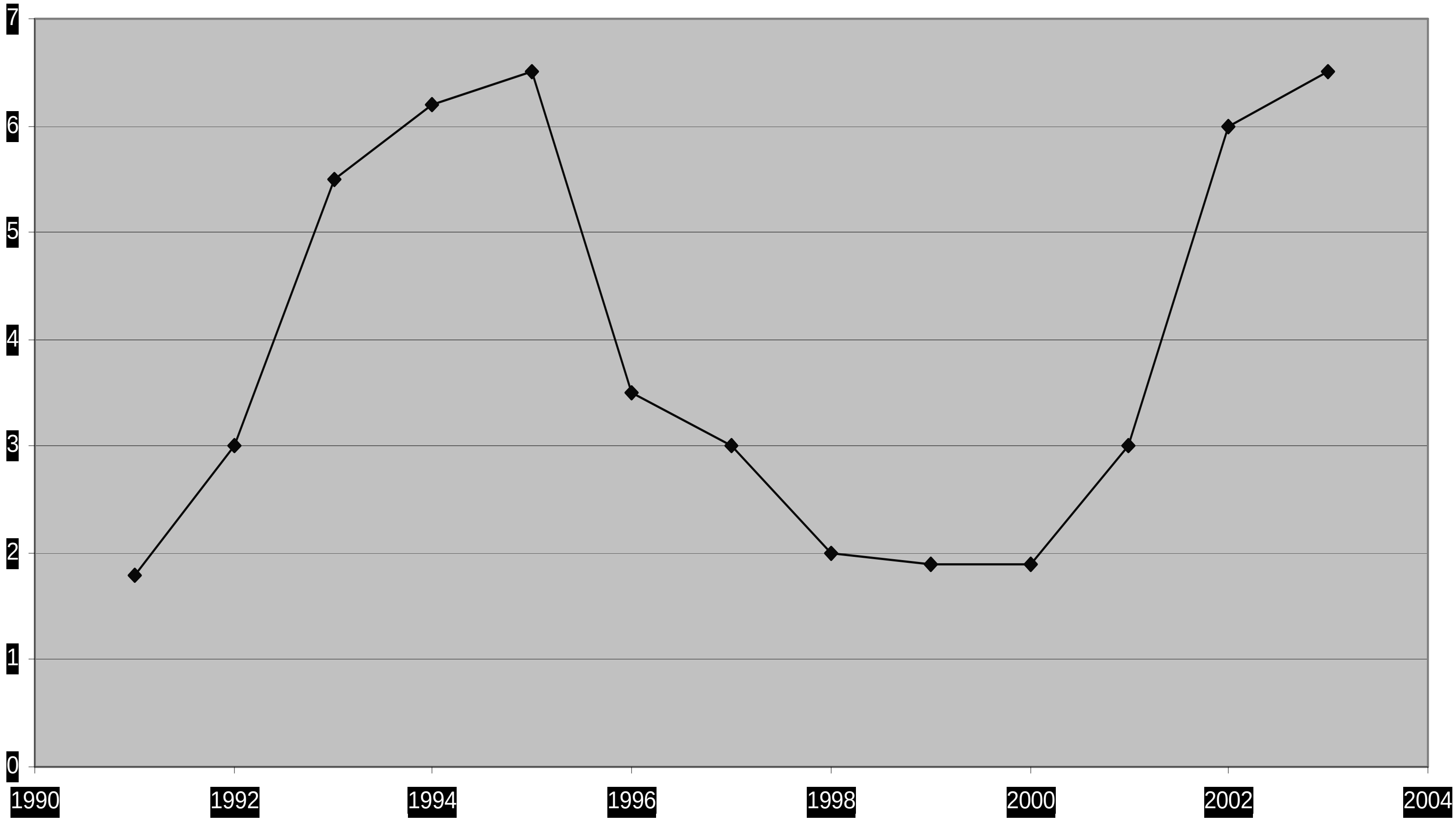
	Antigua and Barbuda	Barbados	Dominica	Grenada	St.Kitts and Nevis	St.Lucia	St.Vincent and the Grenadines	Trinidad and Tobago	EU
Number of Insurers	16	22	13	19	9	21	12	29	
Solvency Margin	Min.capital or 10% of PI	$0.25 or 25% of PI	Min. Capital or 10% of PI	$0.06m or 10% of PI	Min. capital or 10% of PI	$0.07m or 20% of PI	Min.capital or 10% of PI	Min. capital or 10% of PI	Min.capital AND 17-22% of PI

Source: John Pollner, World Bank, 2001

Historical Excess of Loss Reinsurance Rates for OECS

World Bank Group

(middle layer of reinsurance)



Brief Summary of Insurance Industry Highlights in the Caribbean

- Highly fragmented ($1 million in GPW per company)
- Low risk bearing capacity
- Operates largely as agencies for cat risk
- Expense ratios are high 30-40% due to low economies of scale (14,000 residents per company vs. 107,000 in the US)
- Rates charged for cat risk directly reflect the volatility of global reinsurance pricing cycle and high expense ratios

World Bank Group

Latest Trends in the Global Reinsurance Industry

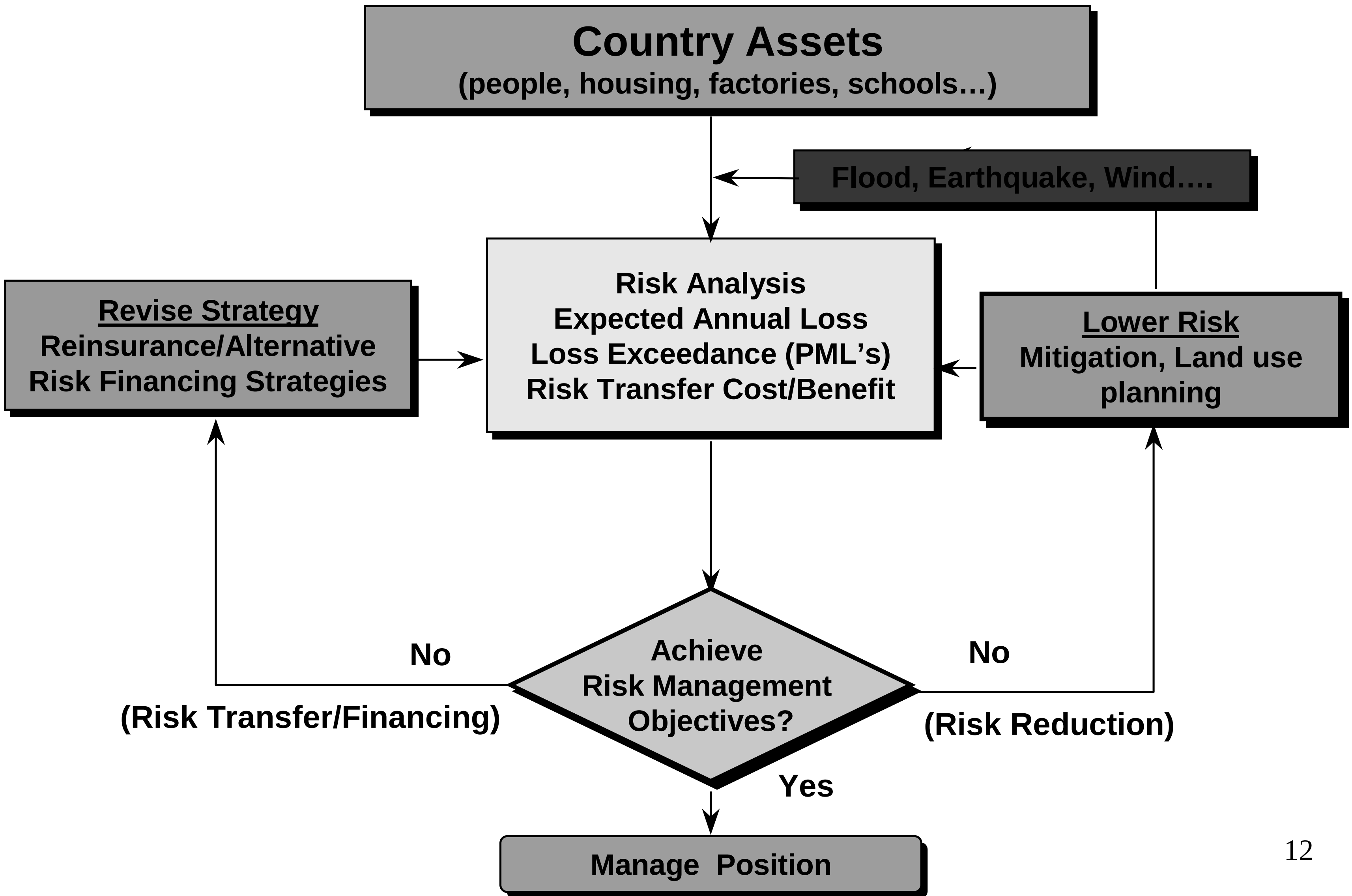
- Poor investment returns, low interest rates and recent heavy losses led to 20-30% increases for personal lines in 2002 and additional 10-15% in 2003.
- Inflow of new capital insufficient to replace lost capital
- Flight to quality
- Active reduction of investment risk exposure
- Increased interest in ART products that make more
- More efficient use of limited capacity

Why is the World Bank Involved in Building Catastrophe Risk Transfer Systems?

- Mismanagement of catastrophe risk has numerous highly adverse social, economic, fiscal and political implications for the affected countries and insurance industry.
- By ensuring that sufficient liquidity exists after a disaster, risk transfer mechanisms can help to speed economic recovery and reduce government exposure to natural disasters.
- Catastrophe risk management can also assist countries in the optimal allocation of risk in the economy, thus contributing toward higher economic growth, better mitigation and more effective poverty alleviation.

National/Corporate Catastrophe Risk Management

World Bank Group



Source: EQE

Our Track Record and Current Work Program

World Bank Group

- Turkish Catastrophe Insurance Pool – 2.5 million policies (assisted to the GoT with the institutional design, drafting of legal framework, and financing of TA and risk financing)
- South Asia Risk Management (India, Sri Lanka, Bangladesh) – completed; institutional design of a risk transfer program is about to begin
- Preparation of a cat insurance programs in Iran
- Preparation of cat insurance program in Romania
- Restructuring of the existing government risk financing program in Mexico
- Project preparation work in the Philippines
- TA for risk assessment in the Caribbean

Designing Effective Risk Management Programs for Governments

World Bank Group

- **Risk Identification and Measurement**
  - Extensive use of stochastic catastrophe risk models employing the latest scientific research on natural hazards and utilizing stock inventory and vulnerability data (EQECAT, RMS, AIR)
- **Loss control programs**
  - Loss prevention programs/national mitigation efforts/enforcement of building codes, construction supervision.
- **Risk transfer/risk financing**
  - Reinsurance
  - Government
  - Insurance Industry

World Bank Lending Products and Advisory Assistance

World Bank Group

Risk Financing

- **Contingent capital in support of government liquidity needs in the aftermath of natural disasters**
- **Financing of reinsurance premium**
- **Capital support of national cat pools risk financing programs**

TA and Advisory Services

- **Design of legal and institutional frameworks for risk financing;**
- **Assistance and lending for risk mitigation**
- **Independent risk assessments**

Conclusions

World Bank Group

- A combination of factors point to the need for creating a comprehensive catastrophe risk management program for the OECS
- World Bank can offer capital and technical support to the governments in support of their comprehensive risk management programs in the form of contingent liquidity facilities or with
- Creation of well capitalized regional catastrophe reinsurance pool