Donor Pledging Conference for the Caribbean Catastrophe Risk Insurance Facility

Paul Wolfowitz
President, World Bank Group
February 26, 2007

Paul Wolfowitz: Thank you Caroline, and thank you and your staff and Managing Director, Graeme Wheeler for the terrific work that has gone into putting this together.

I guess, as Caroline said, perhaps it is appropriate we have on this occasion been exposed to some of the risks of weather, that is the sense of what this conference is all about, and we are talking about trying to deal with things that are much, much more serious obviously than a small snow storm in Washington.

It’s a pleasure to welcome all of you to this pledging conference for the Caribbean Catastrophe Risk Insurance Facility. As Caroline said, Prime Minister Mitchell of Grenada can’t be with us, but we do welcome Premier Brown of Bermuda, Minister Davies of Jamaica who has been the regional champion for the CCRIF.

We are pleased to be hosting this conference because the funds that we raise today would help establish the Caribbean Catastrophe Risk Insurance Facility that so many Caribbean economies need most urgently.

After the devastation caused by Hurricane Ivan in the Caribbean three years ago, governments in the region asked the World Bank for its assistance to establish an insurance system that would cover their urgent needs for liquidity in the aftermath of disasters. The Catastrophe Risk Insurance Facility will be critical in helping vulnerable countries start repairs quickly and for the most vulnerable citizens in these countries, this facility will be particularly important.

On behalf of the World Bank Group, I would like to thank the government of Japan for providing financial support to this initiative; without their initial grant support, the facility would have to charge higher insurance premium rates to recover its startup costs of some $1.8 million.

On average, one major hurricane affects a Caribbean country every two years. Most recently losses resulting from hurricane Ivan in Grenada amounted to 200% of that country’s Gross Domestic Product. Jamaica and the Cayman Islands also experienced significant destruction. Natural disasters like that compound the development challenges for Caribbean countries, who already suffer from severe poverty. Nearly one-third of the people in Grenada, for example, are poor. Nearly three quarters of the citizens of Haiti are in that category. And even in the Bahamas where the per-capita income is nearly $15,000, about 9% of the population still lives in poverty. I mention those numbers because poor countries are more vulnerable to disaster than rich ones. They are the countries that can least afford to suffer damages that are twice the size of their GDP from just a single hurricane.

In any country rich or poor, it is usually the poorest who are worst hit by natural disasters of all kinds; we saw that here in United States during Hurricane Katrina. When extreme weather strikes, small farmers suffer failed crops and disrupted water supplies, making it difficult to earn their living or feed their families. Their task of recovering from these hardships can be staggering. For people who are already living on the edge, disaster is truly disastrous. There is only so much that we can do to prevent the loss of crops or water supplies, but we can help ease the burden of recovery.
Caribbean countries share many of the same vulnerabilities that other developing countries experience but in addition to the usual challenges these countries are also smaller both geographically and in their capacity to borrow. Their small size makes it much harder to recover after disaster strikes. Larger countries are better able to absorb the impact of natural disasters because the costs of recovery can be shared across both affected and unaffected areas. When you are a small island state there is usually no part of a country that is unaffected and its limited borrowing capacity of these small countries also prevents them from accessing loans when they are hit. That makes them less able to spread the financial risks of exposure overtime.

Until now small states have had to turn to international donors for financing after disaster strikes. That kind of post-disaster funding from bilateral and multilateral agencies can be an important part of a government catastrophe risk management strategy, but that kind of assistance usually takes time to materialize and when it does it is usually devoted only to fairly specific projects. Very few donor possibilities exist to finance budget outlays such as civil servant salaries or other government obligations that need to be met in emergencies.

Small states also have limited access to insurance facilities. Their transaction costs are high in part because the startup costs are high and also because of the relatively small business that they bring to the reinsurance market. In the absence of well-functioning insurance markets, it is governments and households then end up paying the price and that often includes the poorest governments and the poorest households. This is the first ever regional disaster insurance facility in the world.

The CCRIF is an innovative initiative to respond to the needs of small countries facing natural disasters. By pooling risk together, Caribbean countries will be able to reduce their individual premium by approximately 40% and the facility also represents a very important shift, from reacting to disaster after the fact, to a more proactive approach to disaster management and mitigation. Governments will purchase catastrophe coverage similar to business interruption insurance. That would give them an early cash payment so they can meet their most immediate needs after a natural disaster.

But insurance is only one part of the answer; we must continue to strengthen institutional preparedness and we also need to prepare infrastructure to better withstand the effects of major natural disasters through better building codes, urban planning and disaster management. I know that a number of countries and donors represented here today are already engaged in that type of work.

The joint efforts that have brought this facility to fruition should be duplicated in other important areas of development in the region. This facility could service a pilot program that could be extended to other small states such as the Pacific Islands where the need is similar. Extending this pool to small states beyond the Caribbean that face similar natural hazards would provide us also with further opportunities to diversify risks; that would lower the cost of insurance to individual states.

I am very pleased that eighteen Caribbean governments have now confirmed their participation in the Caribbean Catastrophe Risk Insurance Facility; that is more than double the number of countries needed to make the facility viable. This high level of enrollment will allow the CCRIF to diversify its portfolio and to access reinsurance on better terms. To ensure that the facility is up and running before the opening of this year’s hurricane season in June, we need donors to help capitalize the reserve fund.

In that connection, I am very pleased to announce today that the World Bank will make some US$27 million in IDA credits available for premium payments to IDA countries. We are also requesting from our Board an initial contribution of $10 million in grants for the reserve fund.

We cannot stop the force of nature, but when disaster hits we can at least help shorten the time, which takes countries, communities and families to start rebuilding their lives again, and that is money well spent, because the faster countries recover, the less the economic losses will be.
I am confident that other donors will follow suit here today, so that we can launch the facility as soon as possible.

I want to thank you all for attending, I want to thank all the people who worked so hard to bring us this far and I look forward to a very successful morning, thank you.