Can Public-Private Insurance Provide Sufficient Disaster Coverage?

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Pro-vide sufficient protection to disaster-prone countries in the region? What should be done to improve governments' access to such public-private facilities?

ASimon R. Young, CEO of Caribbean Risk Managers Ltd. and facility supervisor of the Caribbean Catastrophe Risk Insurance Facility:"The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is the world's first multi-country risk pool, and is also the first catastrophe fund to utilize parametric policies. It oper-ates as a public-private partnership, pro-viding a joint reserve mechanism for Caribbean governments, designed to limit the financial impact of natural disasters by quickly providing liquidity when a policy is triggered. CCRIF represents a cost-effec-tive way to prefinance short-term sover-eign liquidity after a hurricane or earth-quake, filling the gap between immediate response aid and long-term redevelop-ment financing. CCRIF's role in compre-hensive disaster management is clearly highlighted in its response to the Jan. 12earthquake in Haiti. Immediately after the earthquake, CCRIF indicated that the ini-tial magnitude/location information (the 'parameters' required to calculate the loss) suggested that a payout would be trig-gered. Within a day, CCRIF announced that Haiti would receive $7.75 million and within 14 days the payout—approximately 20 times Haiti's $385,500 premium for earthquake coverage—was made to Haiti's government. Selection of different cover-age options and payment of five times more premium could have yielded a pay-out of almost $100 million. While theCCRIF payout to Haiti is small com-pared to the actual losses, the funds were apparently well-received. According to Associated Press estimates, less than 1 percent of pledged aid to Haiti will pro-vide actual liquidity to the government; thus CCRIF's payout will play a critical role in helping to keep the wheels of gov-ernment turning—by allowing the pay-ment of salaries for the public sector, for example."

A **Samantha Hu, based in Shanghai, and Gerardo Rodriguez-Albizu, based in Miami, associates at Diaz Reus & Targ, LLP**:"Natural disasters such as earthquakes, floods and droughts in a developing country can have a devastat-ing effect and cripple a country's already fragile economic climate. How to miti-gate such risk is a major challenge for governments in the developing and developed world alike. The unique char-acteristics offered by public-private insurance mechanisms should provide sufficient protection to disaster-prone countries. First, the public sector pos-sesses the political and legal capabilities to set up the necessary infrastructure for the private sector to work unhindered. Second, private insurance companies are uniquely adept at dealing with economic catastrophes. Third, private insurance companies, coupled with the public sec-tor's political and socioeconomic capital,possess unbridled access to global finan-cial markets. This combination allows local governments and NGOs to share the risks inherent in insuring the eco-nomic sustainability of disaster-pronecountries. Although public-private part-nership insurance mechanisms can meet the challenge, local governments play a pivotal role in providing access to those facilities. For example, a predictable and universally accepted legal framework is key. A stable, regulated insurance and capital market provides the private sec-tor with the comfort level needed to partner with governments or NGOs. Moreover, it will provide private insurers with efficient access to global markets, thus creating the ideal environment to insure against such catastrophes like the one experienced in Haiti.

A Nikhil da Victoria Lobo, vice president of Insurance and Specialty at Swiss Re in New York:"By issuing its member governments parametric insur-ance policies, the CCRIF provides a transparent method for governments to quantify their risk exposure and transfer this exposure to the insurance and capi-tal markets. The policies provide rapid funds to offset immediate emergency expenses, reducing reliance on post-dis-aster aid. Today, in addition to the

CCRIF, the World Bank's Multi Cat Program and the IDB's insurance facility for Central America also offer sovereign parametric insurance. With hundreds of millions of dollars of capacity annually, these platforms allow governments tochoose what risk they retain and what they transfer. The CCRIF has proven that parametric insurance works. Haiti's parametric earthquake insurance policy paid its full policy limit shortly after the disaster, and the CCRIF also made pay-ments to members in 2008 and 2007 for other disasters. Unfortunately, Haiti's earthquake policy was relatively small, with more resources allocated to the hurricane policy. Therefore, three steps should be taken to grow sovereign catas-trophe risk transfer in the region. First, multilaterals and reinsurers should bet-ter explain to governments how these insurance platforms work and how they complement risk mitigation and man-agement. Second, governments should join one of the platforms, using pilot transactions to build institutional capac-ity, enhance risk evaluation and foster risk consciousness. Finally, donors should fund further development and expansion of these platforms, even sup-porting initial premiums to encourage governments as first movers. Haiti's earthquake was another painful reminder that natural disasters are unforeseeable in their timing and unpre-dictable in their impact. Insurance can-not solve these challenges but it can deliver a powerful antidote to alleviate some of the pain.

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