Financing for Resilience of SIDS: Insurance Perspective

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State Insurance Corporation was established in 1977. This decision by the Government was motivated by their desire to offer insurance protection to the nation at an affordable cost and also to reduce the drain on the precious foreign reserves.

We are situated in a region which is prone to natural disasters such as earthquakes and hurricanes. The Corporation has position itself to confront these natural disasters by ensuring that there is adequate reserves and reinsurance protection in place.

Between 1989 and 2017 the island experienced several hurricanes amounting to hurricane claim settlement of EC$117million dollars which equals the written premium for the period.

How can we be better prepared given the changes in the strength and severity of the storms affecting the region?

The effects of natural disasters affect every aspect of the country:

- Schools closure. The effects on our students preparing for National Assessment, CSEC and CAPE exams
- Damage to infrastructure – public and private buildings, roads and bridges
- Effects on the Air and Sea Ports
• Damage to business, loss or damage to buildings and contents
• Damage to the agriculture sector and the effects on food security
• Effect on tourism - damage to hotels and reduction in reservations
• Water, electricity and telecommunication
• Damage to health care facilities

After hurricanes, Hugo in 1989 and Luis in 1995 the island saw improvements and retrofitting in the construction and renovation of buildings. These ranged from various improvements in the building codes such as:

• Guidelines for size and locations of wall openings
• Typical guidelines for wall corner details
• Typical wall junction details
• Guidelines for reinforced concrete gable arrangement
• Guideline for hip roof construction
• Guideline for rafter / ring beam connection
• Guideline for timber framing for wall
• Stud and top plate connection
• Guidelines for foundation anchorage
• Guidelines for metal sheet fixing and purlin to rafter connection
• Guideline for timber rafter connection to concrete
With these guidelines and significant compliance, insurance companies could strategize on the adequacy of reinsurance protection that is needed.

However, there is need to ensure strong compliance and some form of certification to prove compliance. If this is achieved policyholders would benefit by receiving reduced premiums and catastrophe deductible.

We could not image that losses from any storm could exceed that of Hurricane Luis. Yet in 2017 the storms were stronger, the effect on Barbuda and other neighbouring islands were alarming.

Immediately we had to adjust our strategy to ensure that we had enough financial protection – this resulted in increasing the amount of reinsurance protection – this led to further increased cost in our operation.

• Can we cope with the effects of the super storms?
• How can we improve our building codes and infrastructure to mitigate the effects of the super storms?
• As Small Island how do we cope?
• Should we continue to improve the construction guideline which could make owning your own property a challenge?
• Can we penalize our client further for the changes in the strength of the storm?
Given our mandate to provide affordable insurance we cannot increase the cost of insurance so that it is outside the affordability of our clients.

Our role is to accept risk and to pool the losses among the policyholders. This outcome can be achieved easily for non-natural disaster losses. However, regular natural disaster affect this ability by significantly reducing the reserves of the company and its shareholders fund.

Catastrophe losses affect a large amount of the policyholders at the same time, putting additional pressure on the insurance company. Who are further pressured by the reinsurers who provide support for the region. At our latest discussions with our reinsurers we were informed that their profit for the last ten years from the region was wiped out as a result of the 2017 storms. The reinsurers also indicated that they expect to see an increase in the rates that is given to the policyholders, they advised will be greatly monitored.

With these revelations should or can the Caribbean effectively put in place its own reinsurance pool to provide that protection to the various companies that operate in this geographical area?

Or should our government take on the role of offering catastrophe insurance to its citizen based on a comprehensive risk management strategy that may include:

- Risk identification and regulatory measure
- Identification of hazard-prone areas and limits on their use
  - Land-use allocation and control

- Risk reduction
  - Improvement in building codes
  - Infrastructure retrofitting
  - Creating a culture of prevention
  - Use of materials with specifications to reduce the effect of natural disasters
  - Retrofitting existing structures as seen in post Hurricane Luis (as a loss mitigation measures)
  - Use of protective devices e.g. Hurricane straps and shutters

- Financial protection
  - Budget planning
  - Risk transfer e.g. insurance or self-insurance
  - Use of incentives e.g. property tax reduction, reduction in insurance premiums

- Preparedness
  - Alert and early warning systems
  - Response management systems
  - Creating a natural disaster preparedness and loss mitigation culture
• Post disaster reconstruction
  o Recovery, rehabilitation plans

Many insurance companies affected by the 2017 storms face additional reinsurance cost to reinstate their reinsurance protection after the first loss, however these same insurance companies faces further financial challenges if they are affected by two storms and have to reinstate their reinsurance coverage a second time. The financial burden creates cause for concern and the availability of the insurance company to continue to operate efficiently.

The regulators would maintain a cautious watch on the company’s operations and financial strength to ensure that the policyholders remain protected.

The concept of a regional reinsurance pool continues to create interest. Risk Pooling is a type of risk management, which is largely used by insurance companies to protect some identified risks. The insurance companies create a pool to manage and protect the catastrophic risks that are very harmful to the country and the world as well. These risks can be included in terms of floods, earthquakes and storm.

• How would this concept function in a region where most of the island could be affect from one event within hours or days?
• Can the small economies in the Caribbean effectively utilize the concept of large numbers that drives the industry?
• Would the arrangement allow for diversification of risk?
• What would be the involvement of the various governments if any?
• The establishment of a regional pool would have to be compulsory to all the insurance companies operating within the region to ensure its success and ability for diversification.
• Would our governments be willing to regulate this concept?

What makes a Pooling Arrangement Successful?

• There must be demonstrated long term success
• A structure or facility large enough to provide adequate level of risk diversification from unrelated risk or premium
• An arrangement that supports stable underwriting results
• Clear governance based on contractual guidelines and transparency with active member participation
• Clearly established exit provisions

A collaborated effort among insurance companies, disaster preparedness agencies and government is needed to create a culture of loss mitigation and disaster planning to improve the awareness of the effects of natural disasters and to create ways to mitigate the effects on the individual, the economy and the country.

Several Caribbean territories including Antigua and Barbuda participate in the Caribbean Catastrophe Facility Fund which
allows member countries to purchase liquidity coverage that provides budget support after a major earthquake or hurricane, giving them time to mobilize additional resources for longer-term reconstruction activities. The Facility acts as a joint reserve mechanism backed by the international reinsurance markets. The Facility provides coverage at a significantly lower cost than Caribbean governments could obtain individually from the insurance market.

Within our region it is critical that we take all reasonable steps to mitigate the effects of natural disasters. It is important to note that insurance penetration is very low, the major contributor would be the ability of the citizens to afford insurance. This places a further burden on the government to assist after a natural disaster with repairs to private property and infrastructure repairs while working within budgetary constraints.