How to become a member of CCRIF SPC and purchase coverage

STEP 1: SIGN THE CCRIF PARTICIPATION AGREEMENT

Q: What do countries need to do to get initial coverage from CCRIF?
A: A country signs a Participation Agreement to become a CCRIF member and pays an initial Participation Fee.

Q: How much is the Participation Fee?
A: Normally, the amount of the Participation Fee is equivalent to one year's premium. For COSEFIN countries, the Participation Fee will be covered by the Multi-Donor Trust Fund, which has been capitalized by contributions totalling US$40 million from the European Union and the governments of the USA and Canada.

Therefore, Central American countries need to pay only the annual premium for the first year. This effectively reduces the cost of joining CCRIF by 50 per cent.

Q: What does the Participation Agreement contain?
A: The Participation Agreement is the formal contract document issued by CCRIF SPC to allow a country to participate in the CCRIF insurance programme and certifies the payment of the Participation Fee by the insured country. The agreement specifies the responsibilities of the insurer and the insured country and indicates the details of the Participation Fee.

STEP 2: CHOOSE YOUR PRODUCTS

Q: What perils do you want covered?
CCRIF SPC offers Earthquake (EQ), Tropical Cyclone (TC) and Excess Rainfall (XSR) policies to Caribbean and Central American governments.

Q: How does a government decide which perils to cover?
This depends on the country's exposure to earthquake/tropical cyclone and excess rainfall risk, which is indicated in the CCRIF Multi-Peril Risk Evaluation System (MPRES) model and Rainfall Model, respectively. The probabilities of a severe event can help guide the country's choice, which ultimately depends on how much risk the country is willing to bear and how much it wishes to transfer to others.

CCRIF prepares country risk profiles for tropical cyclones and earthquakes as well as Rainfall Risk Profiles for member countries. These profiles are reviewed and approved by the countries. A country's risk profiles are proprietary documents and are made publicly available only with the permission of the member country.

Risk profiles that have been approved for public viewing are available on the CCRIF website under Country Risk Profiles.

STEP 3: DECIDE THE AMOUNT OF YOUR ANNUAL PREMIUM

Q: How much in annual premium do you want to pay for each peril?
Countries can purchase coverage up to US$100 million per peril. There is no limit in terms of how many events per year that a policy can cover once the coverage limit has not been reached. The maximum coverage is specified in the policy contract as the policy coverage limit.

Q: How is the premium value determined?
The value of the annual premium is determined by the amount of coverage a country decides to purchase, the attachment and exhaustion points of that coverage, and the risk profile of the country. These parameters are described below.

STEP 4: SELECT PARAMETERS

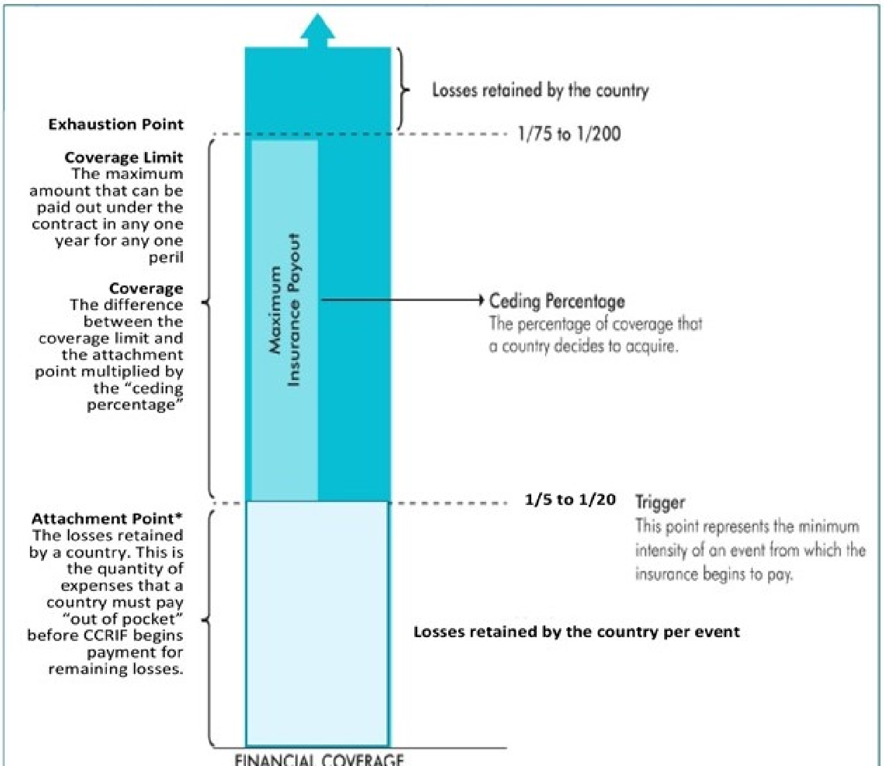
Q: What are the parameters in a CCRIF policy?
A: The main elements in a CCRIF policy are:

- The attachment point
- The exhaustion point
- The ceding percentage
- The coverage limit

See figure at right.

The attachment point is the loss value at which the policy contract is triggered and acts like a deductible.

The exhaustion point is the severity of the event loss at or above which the maximum payment is exhausted.



*The attachment point can be described as the minimum severity of the event loss which gives rise to a payment and therefore is the loss value at which the policy contract is triggered. The attachment point therefore functions like a deductible in a standard insurance policy.

The attachment and exhaustion points are selected on the basis of return periods – the period of time during which an event is expected to occur once. For example, an attachment point of 10 years refers to an event that is expected to happen once every 10 years – or a 1-in-10 year event.

Note: While countries generally select the attachment point as a return period (for example, 10 years), the policy states the attachment point as the equivalent dollar value of loss which that return period represents in the country's risk profile.

CCRIF specifies a minimum attachment point for each peril but countries can select a higher attachment point. For recent policy years, for example, CCRIF member countries have selected attachment point return periods in the range 10 - 30 years for tropical cyclones; 10 - 100 years for earthquakes and 5 years for excess rainfall events.

For recent policy years, CCRIF member countries have selected exhaustion point return periods in the range of 75 - 180 years for tropical cyclones; 70 - 260 years for earthquakes and 25 - 50 years for excess rainfall events.

The **ceding percentage** reflects what fraction of the risk between the attachment and exhaustion points that the government wishes to transfer to CCRIF.

The **coverage or policy limit** is the total amount that can be paid out under a policy. It is the difference between the attachment and exhaustion points multiplied by the ceding percentage.

Q: How does a country decide what its parameters should be?
A. The country needs to decide which events it wants the policy to cover (those that are more frequent but less intense, or those that are less frequent but more destructive). This will determine when a policy is triggered (selection of the attachment point) as well as the maximum payout (selection of the exhaustion point and ceding percentage).

As with any insurance policy, where the attachment point is set depends on how much the government wants to pay and how much risk it wants to bear itself. In turn, this depends on what other resources the government has to cover lower layers of risk. For example, if a country has available a reserve fund for natural disasters and/or a contingent credit line from a development bank, it may want the attachment point to be at the point where the reserve fund or the credit line runs out.

A lower attachment point means that the policy would be more likely to trigger in any given year than with a higher return period. In effect, this would signify that the policy provides coverage for events that occur more frequently. However, the premium for this coverage would be higher. With all other things constant, a policy with a 10-year return period would have a higher premium than one with a 15-year return period, but it would trigger for a less severe event, thus providing a payout to the country for that event.

The choice of the exhaustion point depends on where the government wants to end coverage, after which all the remaining risk would revert to the country.

Each year, CCRIF meets with member countries to present possible policy options within the context of the countries' risk profiles and budgetary constraints to assist them in selecting the most appropriate policy parameters.

Q: Why should a government obtain CCRIF coverage if it is already well prepared for low-intensity events, given that high intensity events are very rare?
A: It is critical for countries to be prepared for frequent, low-intensity events. Insurance products are not normally the right instruments for this, as the costs would be too high. At the same time, COSEFIN countries are exposed to potentially severe events, which would quickly exceed the government's own capacity to respond. This is where governments find that quick liquidity can be very useful, especially since loans and international assistance often take longer to disburse.

Q: What happens if a country decides that the attachment and exhaustion points initially chosen are not the right ones? Can they be changed in subsequent years?
A: Yes. Policies have a one-year duration. Countries can change or refine the parameters of the policy when they renew each year.

Detailed information regarding CCRIF policies and coverage selection can be found in two key documents:

- Understanding CCRIF's Hurricane, Earthquake and Excess Rainfall Policies (Spanish)
- Understanding CCRIF - A Collection of Questions and Answers - Revised February 2016 (Spanish)

STEP 5: REVIEW AND SIGN THE POLICY AND ANNEXES

Q: What does the policy contain?
A: The policy is the formal contract document issued by CCRIF SPC to an insured country.

The policy:

1) Puts the insurance cover into effect
2) Serves as a legal evidence of the insurance agreement
3) Sets out the exact terms on which the coverage has been provided
4) States associated information such as the (a) specific perils covered, (b) duration of coverage, (c) amount of premium, and (d) the trigger level (attachment point), exhaustion point and coverage limit
5) Provides information on the calculation of modelled losses.

STEP 6: SUBMIT PAYMENT FOR POLICY PREMIUM

Q: How does a country pay the premium?
A: CCRIF sends invoices to each member country that include: the premium amount for each policy, policy characteristics and instructions for payment.

For more information:

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