

## CASE STUDY

# Facilitating Catastrophe Risk Transfer

## OVERVIEW

A US\$30 million catastrophe bond issued by the World Bank under its Capital-at-Risk Notes Program helps the Caribbean Catastrophe Risk Insurance Facility (CCRIF) transfer the natural disaster risk of 16 member countries to the capital markets efficiently and at highly competitive prices.



## Background

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) was established in 2007 with the support of the World Bank, the Government of Japan and other donors. CCRIF provides insurance coverage against earthquake, hurricanes and excessive rainfall to sixteen Caribbean countries<sup>1</sup> by pooling the risks of the countries and transferring a portion of the pooled risks to the re-insurance market.

CCRIF's portfolio has grown since 2007 to about US\$135 million in 2013. As of August 2014, eight payments were made to affected countries. CCRIF was designed as a parametric facility, which provides a fast and transparent payment when triggered. As a reference, the payout from CCRIF

was the first to reach Haiti in the aftermath of the 2010 earthquake.

## Objectives

Thus far, CCRIF has accessed the re-insurance market leveraging on its portfolio diversification to provide attractive coverage to its members. Since 2007, the World Bank Treasury has been intermediating catastrophe (Cat) swaps between CCRIF and the re-insurance market for the top-risky layer of the portfolio.

Building on its long-standing operations and reputation, CCRIF, in coordination with the World Bank Treasury, decided to approach the cat bond or Insurance Linked Securities (ILS) market in order to diversify its sources of risk capital. This market has grown considerably in recent years, attracting large amounts of capital from new investors looking for attractive returns and uncorrelated risks. The influx of new capital has pushed down pricing and created very attractive opportunities for public sector issuers

<sup>1</sup> Anguilla, Antigua & Barbuda, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Dominica, Grenada, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Trinidad & Tobago and the Turks & Caicos Islands

to obtain catastrophe risk coverage.

## IBRD Financial Solution

On June 30, 2014, the World Bank issued a three-year cat bond with a principal amount of US\$30 million linked to hurricane and earthquake risk in CCRIF member countries. Simultaneously, the Bank entered into a swap with CCRIF that mirrors the terms of the bond. The proceeds of the bond are kept in the World Bank's balance sheet. If a natural disaster of the magnitude specified in the terms of the bond contract occurs within its tenure, the Bank will pass the proceeds to CCRIF through the swap. If no such event occurs, investors will receive the principal when the bond matures.

What makes this cat bond particularly innovative is the elimination of the use of a special purpose insurer. Typically special purpose insurers are used to issue cat bonds. In this case the World Bank issued the cat bond directly, using its new Capital-at-Risk Notes Program, under the Global Debt Issuance Facility. Under this approach, the Bank faced the capital markets, while CCRIF continued to face the Bank in a swap format. This significantly streamlined the issuance process in terms of time and cost. CCRIF also benefited from the World Bank's experience as a capital markets issuer with the World Bank Treasury guiding the outreach and investor discussions. Investors in the bond benefited from the opportunity to access new perils.

## Outcome

This marks the first time that CCRIF has utilized the Cat bond market to transfer risk. This is also the first Cat bond directly issued by the World Bank. This financial solution allowed CCRIF to secure multi-year access to insurance at a fixed price, thereby achieving greater stability for its risk transfer program.

## Terms & Conditions

<b>Instrument</b>	Catastrophe (Cat) bond
<b>Issuer</b>	International Bank for Reconstruction and Development (IBRD)
<b>Risks Covered</b>	Caribbean tropical cyclone and earthquake
<b>Size</b>	US\$30 million
<b>Date of Issue</b>	June 30, 2014
<b>Maturity</b>	June 7, 2017
<b>Trigger Type</b>	Parametric modeled loss
<b>Coupon</b>	6 month LIBOR + 6.3% floored at 6.5%
<b>Listing</b>	Luxembourg



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