

## INTER-AMERICAN DEVELOPMENT BANK

### TECHNICAL COOPERATION PROFILE - REGIONAL

#### I. BASIC PROJECT DATA

<b>Program Name:</b>	Regional Insurance Facility Development Program (RIFDP) Phase II		
<b>Program Number:</b>	RG-T1590 <sup>1</sup>		
<b>Country/Region:</b>	Regional - Central America		
<b>Team Members:</b>	Guillermo Collich (ICF/CMF), Team Leader; Juan José Durante (ICF/CMF); Juan Martínez (ICF/CMF); Anne Marie Lauschus (LEG/SGO), and Annabella Gaggero (ICF/CMF).		
<b>Beneficiary:</b>	Regional - Central America		
<b>Executing Agency:</b>	Inter-American Development Bank (ICF/CMF)		
<b>Financing plan:</b>	Swiss Technical Cooperation Trust		
	<b>Fund:</b>	US\$	500,000
	<b>Total:</b>	US\$	500,000
<b>Technical and basic responsibility:</b>	Capital Markets and Financial Institutions Division (ICF/CMF)		
<b>Tentative dates:</b>	Profile: December 2008 / PO: December 2008 Execution: August 2009 – February 2010		

#### I. BACKGROUND AND PROBLEM STATEMENT

- 1.1 Each year natural disasters in Latin America and the Caribbean affect about 4 million people, causing some 5,000 deaths and US\$ 3.2 billion in physical losses. Moreover, the risk exposure of the Region to natural hazards such as earthquakes, hurricanes, drought and floods has steadily increased, with annual losses rising at a rate of more than four times GDP growth. It is becoming imperative for the countries to develop financial disaster risk management instruments that allow a more effective and efficient management of the extraordinary liquidity needs that arise in the immediate aftermath of these events.
- 1.2 In response to this need, in 2007 the Bank developed the Integrated Disaster Risk Management and Finance Approach (DRFA) (OP-47/GN-2354-7), to extend and complement the Disaster Risk Management Policy (GN-2354-5), its Guidelines (GN-2354-11), and the Action Plan for Natural Disaster Risk Management (GN-2339-1). The DRFA proposes the development of various financial mechanisms, amongst them an insurance facility, to foster more effective disaster risk financing practices and long term fiscal contingent liability management.

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<sup>1</sup> Project resources will be used to finance Phase II of the RIFDP. Phase I will be financed by a US\$1,000,000 technical cooperation grant (RG-T1541) from the Multi Donor Disaster Prevention Fund.

- 1.3 Based on concerns over their present vulnerability to natural disasters and their limited ability to effectively respond to them, in October 2007 the COSEFIM<sup>2</sup> countries requested Bank assistance to: (i) strengthen their planning, budgeting, and fiscal mechanisms to deal with the financial consequences of natural disasters; and (ii) develop a regional natural disaster insurance facility. This operation responds to this request.
- 1.4 Bank analysis in the Region indicates that the lack of reliable and sequential data on natural disasters makes it difficult to underwrite risks and thus pose a barrier to the development of insurance products on an indemnity basis. In addition, international reinsurers are reticent to underwrite natural disaster risk in emerging economies, because their insurance markets are underdeveloped and poorly regulated. However, the international insurance industry has recently developed parametric insurance and reinsurance products that are able to overcome these shortcomings, because of the manner in which they indirectly model the risks. And, it is the Bank's opinion that this parametric approach best suits COSEFIM countries.
- 1.5 **Swiss Technical Cooperation Trust Fund project eligibility:** The development of the parametric products mentioned above is costly and the Bank can play an important role by providing financing for the technical assistance needed to model and structure the first parametric insurance facilities for Central America and the Dominican Republic. The resources of this project will be used to support the implementation of these new financial instruments for natural disaster risk transfer.

## II. PROGRAM OBJECTIVE AND DESCRIPTION

- 2.1 The objective of the RIFDP is to support the development of parametric disaster risk insurance facilities for two COSEFIM countries<sup>3</sup>, as a pilot program. The purpose of this operation (Phase II)<sup>4</sup> is the structuring and operational launching of the facilities, including the activation of the insurance and reinsurance coverage. This operation has the following two components:
- 2.2 **Component 1: Setup of parametric disaster risk insurance vehicles.** This component will include the following: (i) preparation and execution of all legal documentation for Captives approval, formation and administration; (ii) setup of accounting and claims payment structure between countries, Captives and

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<sup>2</sup> *Consejo de Secretarios de Finanzas y Ministros de Hacienda de Centroamérica y República Dominicana (COSEFIM).* COSEFIM members are Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

<sup>3</sup> Likely to be Guatemala and Honduras, since senior authorities of the Ministries of Finance in both countries have already expressed their preliminary interest in the insurance facilities and are in the process of formalizing their request to the President of the Bank.

<sup>4</sup> The purpose of the RIFDP Phase I is to design parametric models and insurance policies for natural disaster risk for two COSEFIM member countries; as well as the corresponding institutional vehicles (Captives).



reinsurers; (iii) selection of all independent third parties to be involved with the functioning of Captives (asset managers, auditors, Captive managers).

- 2.3 **Component 2: Implementation of financial Risk transfer instruments and activation of insurance and reinsurance coverage.** This component will include: (i) structuring of reinsurance contracts; (ii) initial assessment of time, data needs for placement syndication, including modeling, process and likely capacity vs. pricing vs. credit quality; (iii) reinsurance syndication: auction, pricing, and placement (competitive open market process), and (iv) issuance of policy and attachment of risk transfer policies.

### III. BUDGET

- 3.1 The total budget cost for the Phase II of the Program, for the two countries, is expected to be US\$ 500,000. See Table 1 below:

Table 1 – Estimated Budget (in US\$)			
Description	Fund	Local	Total
Component 1: Setup of parametric disaster risk insurance vehicles	\$270,000		\$270,000
Component 2: Implementation of Risk transfer instruments and activation of insurance and reinsurance coverage	\$190,000		\$190,000
Contingent costs	\$40,000		\$40,000
<b>Total</b>	<b>\$500,000</b>		<b>\$500,000</b>

- 3.2 The insurance facilities to be developed through this Program would be the first of their type in the region. There could be some economies of scale for additional countries to be included at a future time because the modeling of hurricane and earthquake risk would have already been defined, structured and priced. As other countries become interested in the facility, the set-up costs would be lower, as part of the design work could be adapted or replicated.

### IV. EXECUTING AGENCY AND STRUCTURE

- 4.1 The Inter-American Development Bank (ICF/CMF) will be the executing agency for this Program. To conduct most of the work, the Bank will directly contract consulting services from Swiss Re Financial Services Corporation (Swiss Re) a member of the Swiss Re Group. ICF/CFM will have primary technical and administrative oversight responsibility over this contract.

### V. SPECIAL FEATURES

- 5.1 It is proposed to sole source the due diligence and design of this insurance facility to Swiss Re. As a leader in the structuring of natural disaster risk solutions Swiss Re has a significant comparative advantage as it has participated in more major

natural disaster risk programs than any other reinsurer. Accordingly, ICF/CMF will follow the Bank's policies for sole source selection and contracting of consulting firms (GN-2350-7).

## **VI. ACTION PLAN**

- 6.1 After completion of Phase I of the Program, a comprehensive operational proposal for the setup of parametric disaster risk insurance vehicles and the implementation of the financial risk transfer instruments –including activation of insurance and reinsurance coverage– shall be presented to the related countries. Upon their formal approval and signature of all the necessary contractual commitments, the Bank will begin execution of this operation RIFDP, Phase II.

## **VII. ENVIRONMENTAL AND SOCIAL STRATEGY**

- 7.1 This operation will not generate any significant social or environmental negative impacts. On the contrary, since they will develop pilot, parametric models for natural disaster risk and will structure the insurance policies and the corresponding institutional vehicles, they will have positive social impacts. According to the Toolkit program, it was classified with “C” category, meaning that no environmental assessment studies or consultations are required.

## **VIII. APPROVAL**

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*Original signed*

Kurt Focke  
Division Chief, ICF/CMF

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*Dec. 9, 2008*

Date

## Gaggero, Annabella

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**From:** ESRNet  
**Sent:** Monday, December 08, 2008 4:53 PM  
**To:** ICF-CMF  
**Cc:** Collich, Guillermo J.; Durante, Juan Jose; Lugo, Gloria; Martinez Alvarez, Juan; Gaggero, Annabella; ESRNet  
**Subject:** CLEARED/ RE: RG-T1590 Regional Insurance Facility Development Program - Phase I and II

Project classification: C

As specified under the ESR procedures this operation has been cleared by ESR secretariat. No further action is required in the ESR process.

Thank you very much,

ESR team

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**From:** ICF-CMF  
**Sent:** Monday, December 08, 2008 10:18 AM  
**To:** ESRNet  
**Cc:** Collich, Guillermo J.; Durante, Juan Jose; Lugo, Gloria; Martinez Alvarez, Juan; Gaggero, Annabella  
**Subject:** RG-T1590 Regional Insurance Facility Development Program - Phase I and II

Estimados señores:

En atención a sus instrucciones, favor encontrar adjunto el perfil y anexos del toolkit de la cooperación técnica RG-T1590 para su revisión.

Atentamente,

Annabella Gaggero  
Capital Markets and Financial Institutions Division (ICF/CMF)  
Inter-American Development Bank  
Tel. (202) 623-1491  
annabellag@iadb.org

<< File: IDBDOCS-#1781708-v4-TC\_Profile.DOC >> << File: IDBDOCS-#1792695-v1-Safeguard\_Policy\_Filter\_Report.DOC >> << File: IDBDOCS-#1792709-v1-Safeguard\_Screening\_Form.DOC >>

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**From:** ESRNet  
**Sent:** Friday, December 05, 2008 4:05 PM  
**To:** Durante, Juan Jose  
**Cc:** Collich, Guillermo J.; Lugo, Gloria; Gaggero, Annabella; Martinez Alvarez, Juan; ESRNet  
**Subject:** RE: RG-T1541 y RG-T1590 Regional Insurance Facility Development Program - Phase I and II  
**Importance:** High

Estimado Juan José,

ESR necesita un email por operación, te pido que nos envíes en 2 emails por separado c/ CT. con los respectivos anexos del toolkit para poder revisarlos la próxima semana.

Muchas gracias.

Laura Ferrer  
ESRteam  
Ext. 2659