

INTER-AMERICAN DEVELOPMENT BANK

TECHNICAL COOPERATION PROFILE - REGIONAL

I. BASIC PROJECT DATA

Program Name:	Regional Insurance Facility Development Program, RIFDP, Phase I		
Program Number:	RG-T1541 ¹		
Country/Region:	Regional - Central America		
Team Members:	Guillermo Collich (ICF/CMF), Team Leader; Juan Jose Durante (ICF/CMF); Anne Marie Lauschus (LEG/SGO); Juan Martínez (ICF/CMF); and Annabella Gaggero (ICF/CMF).		
Beneficiary:	Regional - Central America		
Executing Agency:	Inter-American Development Bank, ICF/CMF		
Financing plan:	Multi Donor Disaster Prevention Fund		
	(MDDPF):	US\$	1,000,000
	Total:	US\$	1,000,000
Technical and basic responsibility:	Capital Markets and Financial Institutions Division, ICF/CMF		
Tentative dates:	Profile: December 2008 / PO: December 2008 Execution: January-August 2009		

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.

¹ Resources from this operation will be used to finance the Phase I of the RIFDP. The second phase will be financed by a US\$500,000 technical cooperation grant (RG-T1590) from the Swiss Technical Cooperation.

- 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 COSEFIM² 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's countries and the Dominican Republic.
- 1.5 **Multidonor Disaster Prevention 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 design 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, as a pilot program, of parametric disaster risk insurance facilities for two COSEFIM countries³. The purpose of this operation (Phase I) is to design parametric models and insurance policies for natural disaster risk for two countries, as well as the corresponding institutional vehicles.⁴ This operation has the following two components:
- 2.2 **Component 1: Due diligence process for designing and setting up the insurance facilities.** This component will undertake all necessary research, analysis and due diligence required to determine the feasibility of establishing a parametric insurance facility for natural disasters in the two countries and design the legal, organizational, and financial framework of the facilities. This

² *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.

³ 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.

⁴ The purpose of the RIFDP Phase II is the structuring and operational launching of the facilities, including the activation of the insurance and reinsurance coverage.

component will include: (i) identification, analysis and recommendations on potential domiciles for off-shore insurance facilities' vehicles (the Captives); (ii) legal and financial analysis and recommendations for capitalization, legal setup and administration of the Captives by the countries; (iii) identification and recommendations for compliance of all local administrative and regulatory requirements for setup, ownership and operation of the Captives in selected host countries, including local taxes and legal jurisdiction issues; (iv) due diligence on government approval procedures for Captive setup, in order to ensure compliance with both the country and the host country legal and regulatory requirements; (v) due diligence, screening and evaluation of all independent third parties to be involved with the functioning of Captives.

- 2.3 **Component 2: Design of natural catastrophe models.** Activities under this component will include the build-up of earthquake and hurricane data sets and country-specific parametric natural disaster risk models. The component will include all the necessary technical activities needed to develop the models such as the definition of variables for the natural catastrophe models, including, but not limited to, vulnerability, data points and model calibration.

III. BUDGET

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

Table 1- Estimated Budget (in US\$)			
Description	Fund	Local	Total
Component 1: Due diligence process for setting up the insurance facilities	\$430,000		\$430,000
Component 2: Design natural catastrophe models	\$530,000		\$530,000
Contingent costs	\$40,000		\$40,000
Total	\$1,000,000		1,000,000

- 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 of the 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 There would be a meeting to launch the RIFDP – Phase I in the two countries selected to introduce the teams and discuss the work plan with the governments. The Governments would define the type and intensity of disasters and the locations it wishes to cover.
- 6.2 The Program will be ready to move forward once the Governments letter of intent from at least one of the countries is received by the Bank, and the consultancy contract with Swiss Re is signed.
- 6.3 After finishing the first phase, the Bank will present the complete operational proposal to the countries. Only after receiving the countries' formal acceptance of the proposal, and their commitment of necessary resources to go forward, the Bank shall initiate the second phase of this Program.

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 transfer and will structure the insurance policies and the corresponding institutional vehicles, they will have positive social impacts. According to the Toolkit program the Program was classified with "C" category, meaning that no environmental assessment studies or consultations are required.

VIII. APPROVAL

Vo.Bo. Original signed
Kurt Focke
Chief, ICF/CMF

Original signed
Mario Marcel
Manager ICF/ICF

Dec. 9, 2008
Date

Gaggero, Annabella

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-T1541 y 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

From: ICF-CMF
Sent: Monday, December 08, 2008 10:16 AM
To: ESRNet
Cc: Collich, Guillermo J.; Durante, Juan Jose; Lugo, Gloria; Martinez Alvarez, Juan; Gaggero, Annabella
Subject: RE: RG-T1541 y 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-T1541.

Con respecto a este programa, cabe mencionar que fue enviado para revisión del ESR en marzo de este año. Sin embargo, dado que la operación ha cambiado, estamos enviando nuevamente los documentos para su revisión. Para mayor información, adjunto una copia del e-mail de clearance del ESR del 25 de marzo de 2008.

Atentamente,

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

<< File: IDBDOCS-#1535737-v8-TC_Profile.DOC >> << File: IDBDOCS-#1792665-v1-Safeguard_Policy_Filter_Report.DOC >> << File: IDBDOCS-#1792680-v1-Safeguard_Screening_Form.DOC >> << Message: RE: REGIONAL. Trabajos preparatorios para financiamiento de riesgo de desastres (RG-T1541) >>

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.