

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

REGIONAL INSURANCE FACILITY DEVELOPMENT PROGRAM (RIFDP) - PHASE I

(RG-T1541)

PLAN OF OPERATIONS

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BASIC SOCIOECONOMIC DATA

Basic socioeconomic data, including public debt information, please refer to the following address:

Guatemala: http://www.iadb.org/countries/indicators.cfm?id_country=GU&lang=en

Honduras: http://www.iadb.org/countries/indicators.cfm?id_country=HO&lang=en

El Salvador: http://www.iadb.org/countries/indicators.cfm?id_country=ES&lang=en

Nicaragua: http://www.iadb.org/countries/indicators.cfm?id_country=NI&lang=en

Costa Rica: http://www.iadb.org/countries/indicators.cfm?id_country=CR&lang=en

Dominican Republic: http://www.iadb.org/countries/indicators.cfm?id_country=DR&lang=en

INFORMATION AVAILABLE IN THE FILES OF ICF/CMF

Integrated Disaster Risk Management and Finance Approach (OP-47/GN-2354-7).

Integrated Plan for Natural Disaster Risk Management.

<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1780133>

Apoyo para el Desarrollo de Programas de Financiamiento de riesgos de desastres naturales en países del COSEFIM (RG-T1478).

Technical Note: Main issues related to the IDB Pilot Program for the structuring of a regional insurance facility for the COSEFIM countries.

<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1780121>.

ABBREVIATIONS

COSEFIM	<i>Consejo de Secretarios de Finanzas y Ministros de Hacienda de Centroamérica y República Dominicana</i>
DRFA	Disaster Risk Finance Approach
FDRM	Financial Disaster Risk Management
ICF/CMF	Capital Markets and Financial Institutions Division
IDB	Inter-American Development Bank
MDDPF	Multi Donor Disaster Prevention Fund
RIFDP	Regional Insurance Facility Development Program

PLAN OF OPERATIONS
RIFDP- Phase I
(RG-T1541)

EXECUTIVE SUMMARY

Beneficiary:	Regional - Central America		
Executing agency:	Inter-American Development Bank (ICF/CMF)		
Target Beneficiaries:	Two COSEFIM member countries		
Financing:	Multidonor Disaster Prevention		
	Trust Fund (MDP):	US\$	1,000,000
	Total:	US\$	1,000,000
Objectives:	The objective of the Program is to support the development of parametric disaster risk insurance facilities for two COSEFIM member countries by financing the first phase of the Regional Insurance Facility Development Program. This phase will encompass the design of parametric models and insurance policies for natural disaster risk, as well as the corresponding institutional vehicles.		
Execution timetable:	Execution Period: 8 months		
	Disbursement Period: 12 months		
Special contractual conditions:	The Single-Source Selection method will be used to contract Swiss Re, according to the Bank procurement policies.		
Exceptions to Bank Policies and Procedures:	None		
Environmental and social review:	The Program was reviewed by the ESR on December 8, 2008, and was classified with "C" category, meaning that no environmental assessment studies or consultations are required.		
Coordination with Other Donors:	The World Bank, within the COSEFIM strategy for natural disasters risk management development.		

I. BACKGROUND AND JUSTIFICATION

A. Background

- 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, in the last decade 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 the GDP growth. The magnitude of the necessary resources to confront these costs and the governmental answers, based almost exclusively in ex-post financing, are increasingly insufficient to cover the damages caused by these events. It is becoming crucial for the countries to begin the development of ex-ante Financial Disaster Risk Management (FDRM) instruments that allow a more effective and efficient coverage of the extraordinary liquidity needs that arise in the immediate aftermath of the emergencies caused by these events.
- 1.2 In October 2007, COSEFIM¹ countries, based on concerns over their present vulnerability to hurricanes, earthquakes and floods, their ability to cover the fiscal gap and their desire to more proactively pursue disaster risk management and finance mechanisms, formally requested Bank assistance to: (i) strengthen planning, budgeting and fiscal mechanisms to deal with managing the financial consequences of natural disasters in a sustainable way; and (ii) develop a regional natural disaster insurance facility.
- 1.3 In response to this need, the Bank developed the Integrated Disaster Risk Management and Finance Approach (DRFA) (OP-47/GN-2354-7), in order to extend and complement the Disaster Risk Management Policy (GN-2354-5), and the Action Plan for Natural Disaster Risk Management (GN-2339-1). In this context, the Bank defined four main courses of action to concentrate the support to beneficiary countries: (i) development of domestic insurance markets, (ii) creation or strengthening of reserve funds, (iii) development of contingent credit lines, and (iv) creation of parametric insurance facilities for natural disaster emergencies.
- 1.4 This operation is the result of Bank's exploratory analysis on the most effective alternatives to provide disaster insurance to the COSEFIM member countries. This analysis was carried out in close consultation with the countries and private international financial service providers. The main finding of the analysis was that the largest impediment to this type of insurance on an indemnity basis is the lack of reliable and sequential data on natural disasters that makes it difficult and highly expensive to underwrite risks. In addition, international reinsurers are reticent to underwrite natural disaster indemnity risk in emerging economies, due

¹ Consejo de Secretarios de Finanzas y Ministros de Hacienda de Centroamérica y República Dominicana (COSEFIM). COSEFIM members are Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

to the fact that most of their insurance markets are underdeveloped and poorly regulated.

B. Justification

- 1.5 The international insurance industry has recently developed parametric insurance and reinsurance products that are able to overcome the above mentioned domestic markets shortcomings regarding indemnity insurance. In the Bank's opinion, these parametric approach best suits the COSEFIM member countries needs under the current circumstances. The problem that remains is that developing parametric models from the ground up is costly, and while earthquake models are already fairly developed, effective hurricane models that accommodate flooding due to sea surge and hurricane precipitation are either rudimentary or non-existent for the Central American region.
- 1.6 Multidonor Disaster Prevention Trust Fund project eligibility: The Bank considers that it can play an important role in solving this problem by providing financing for the technical assistance needed to model and structure the first parametric insurance facility for Central America and the Dominican Republic.
- 1.7 The Bank has already begun to work with Swiss Re in this endeavor. A joint strategy for structuring a regional insurance facility for natural disasters in Central America and the Dominican Republic has been conceptualized, that could eventually be adapted and implemented in other interested countries in the Region. It is also worth mentioning that the execution strategy developed for this Program will constitute an unprecedented example of public-private partnership in the Latin American insurance markets. The Facility will be innovative in its design and the coverage more effective than that of existing comparable experiences in the region² (the CCRIF - Caribbean Catastrophe Risk Insurance Facility, created and administered by the World Bank).

II. PROGRAM DESCRIPTION

A. Program's goal and purpose

- 2.1 The main objective of this Program is to support the development of parametric disaster risk insurance facilities for two COSEFIM member countries by financing the first phase of the RIFDP. The goal of this first phase is to design an operational proposal for the development of disaster risk insurance facilities in

² See Technical Note: Main issues related to the IDB Pilot Program for the structuring of a Regional Insurance Facility for the COSEFIM member countries
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1780121>.

two COSEFIM member countries. The proposal shall include parametric models and insurance policies for natural disaster risk for the two countries, as well as the corresponding institutional vehicles.

- 2.2 The RIFDP as a whole could be construed as a pilot program because, once developed, the model and structure can be adapted to provide parametric insurance in other countries at significantly lower cost than otherwise possible. Moreover, given the modular design approach to be used, and as familiarity with the parametric insurance becomes established, it would be even possible to progressively merge them and structure a regional facility, which will result in lower administrative costs. By absorbing the initial modeling and structuring costs, the Bank's aim is to encourage broader participation of the international private insurers in these underserved Central American markets.

B. Components

- 2.3 The first phase will encompass the research, analysis and due diligence required to determine the feasibility of establishing parametric insurance facilities for natural disasters in the two countries and design the institutional and financial framework of the facilities. 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.
- 2.4 The second phase, to be supported by the technical cooperation program RG-T1590, will encompass the actual structuring and operational launching of the facility, including the activation of insurance and reinsurance coverage.
- 2.5 The RIFDP Phase I activities have been clustered into two components: 1) due diligence process for designing and setting up the insurance facilities, and 2) design of country-specific natural catastrophe risk models for earthquake and hurricanes to be used by each of the related facilities.
- 2.6 **Component 1:** Due diligence process for designing and setting up the insurance facilities. This component will carry out all necessary research, analysis and due diligence activities required to determine the feasibility of establishing the parametric insurance facilities for natural disasters in the two countries and design the legal, organizational, and financial framework of the facilities. This will include: (i) identification, analysis, and recommendations on potential domiciles for insurance facilities' vehicles (the Captives); (ii) analysis of legal and administrative issues related to the Captives setup process; (iii) legal and financial analysis and recommendations for capitalization; (iv) identification and recommendations for compliance of all local administrative and regulatory requirements for setup, ownership and operation of the Captives in selected domiciles, including but not limited to, local taxes and legal jurisdiction issues; (v) diligence on government approval procedures for Captive setup, in order to insure compliance with both the country and the domicile legal and regulatory

requirements; (vi) due diligence, screening and evaluation of all independent third parties to be involved with the functioning of the Captives such as asset managers, auditors, Captives managers among others.

- 2.7 **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. This component includes all technical activities related to the model customization and design of the country specific parametric natural disaster risk triggers. This will include: (i) the adaptation of the commercial Central America earthquake and tropical cyclone models to estimate the vulnerability for the countries' populations to these perils, including customized merger of precipitation and soil conditions models to develop landslide triggers, calibration of vulnerability functions, and performance of analysis based on the LandScan population database; (ii) the completion of a detailed analysis of the risk of the potential impact on the populations from earthquake and hurricane including impact distributions, reflecting the exceedance probabilities and expected losses, to be used for syndication to potential cat-bond investors and reinsurers; (iii) transaction support as necessary, depending on the form of syndication. In the case of a rated securities placement, such support shall include review of documentation to conform to legal and actuarial requirements for syndication.

III. COST AND FINANCING

A. Summary cost table

- 3.1 The total budget for the Phase I of the Program in two countries is estimated in US\$1,000,000 (see Table 1 below).

Table 1 – Budget for RIFPD, Phase I (in US dollars)			
Description	Fund (MDDPF)	Local	Total
Component 1: Due Diligence process for setting up the insurance facilities	\$430,000	0	\$430,000
Component 2: Design of natural catastrophe models	\$530,000	0	\$530,000
Contingent costs	\$40,000	0	\$40,000
Total	\$1,000,000	0	\$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, since the basic modeling of hurricane and earthquake risk would have been already defined, structured and priced. If 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.

B. Description and composition of financing

- 3.3 The cost of the project is estimated in US\$1,000.000, to be financed with non-reimbursable resources from the Multidonor Disaster Prevention Trust Fund.

C. Sustainability

- 3.4 The project was dimensioned with enough resources to ensure adequate and timely execution of its components, given the goal of this operation (the preparation and delivery of a complete operational proposal for development of the facilities). Identification or provision of resources to assure future sustainability is not necessary.

IV. EXECUTING AGENCY AND MECHANISM

A. Executing Agency

- 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.
- 4.2 Swiss Re is leader in developing global risk transfer solutions. As a financial services firm, it has 144 years of experience and an excellent track record in the international insurance markets. Swiss Re is a proven expert in risk and capital management and a leader in capital market solutions. The company is also the world's leading and most diversified reinsurer earning about US\$26 billion in net premiums in 2007. Over the last few years, Swiss Re has become a pioneer in natural disaster risk solutions and catastrophe bonds. It has developed a series of models to measure different types of risks and is particularly interested in developing parametric risk coverage for Latin America and the Caribbean.

B. Executing mechanism

- 4.3 ICF/CMF will monitor and oversee the technical and administrative execution of the operation to ensure its quality and timely and adequate execution. As mentioned before, most of the technical work shall be conducted through a consulting firm. The primary consultancy contract would be with Swiss Re which would manage all of the activities described in the components. To ensure a proper execution, the countries will create multidisciplinary teams to coordinate the completion of all necessary activities and actions.

C. Program implementation readiness

- 4.4 Phase I of the RIFDP Program will be ready to move forward once the Government's letter of intent from at least one of the countries is received by the

Bank, and the consultancy contract with Swiss Re is signed. Once the present operation is completed, operational proposals shall be presented to the beneficiary countries. Upon their formal approval and signature of all the necessary contractual commitments to ensure adequate and timely structuring and launching of the facilities, the Bank will begin the execution of Phase II of the RIFDP (RG-T1590).

D. Execution period and disbursement schedule

- 4.5 The Execution period of the present Plan of Operations will be 8 months (expected from January to August 2009) and the disbursement period will be 12 months, starting from the date of approval of the present Plan of Operations by the Bank.

E. Procurement

- 4.6 As mentioned in paragraph 4.1, the Bank will directly contract Swiss Re to perform the due diligence and design activities contemplated in this operation. ICF/CMF will follow the Bank's policies for single-source selection and contracting of consulting firms (GN-2350-7).

V. MONITORING AND EVALUATION

A. Monitoring

- 5.1 The work would be undertaken primarily by Swiss Re, under technical and administrative supervision of ICF/CMF. Swiss Re will work closely with ICF/CMF, particularly in interactions with the client countries. There will be continuous coordination, reporting, and communication between Swiss Re and the Bank. Swiss Re will have to inform the Bank by sending progress reports of all the different activities described above to execute the components of the Program.

B. Technical and basic responsibility

- 5.2 The Bank's Capital Markets and Financial Institutions Division (ICF/CMF) will have the primary technical and administrative oversight responsibility over the Program.

C. Progress and final reports

- 5.3 The Program progress will be reported through the Project Performance and Monitoring Report (PPMR) and the Project Completion Report (PCR) will be prepared, according to Bank's policies and portfolio monitoring requirements.

VI. PROGRAM BENEFITS AND RISKS

A. Program benefits and developmental impact

- 6.1 The potential benefits of this type of parametric disaster risk insurance facilities are clearly greater than their development costs. They will permit the countries to obtain a more efficient financial coverage of damages (therefore lower costs) and rapidly available liquidity at the onset of catastrophic disasters. It will also strengthen growth stability in their economies by transferring financial risks of extraordinary expenses caused by natural disasters emergencies to the international insurance and capital markets.

B. Target Beneficiaries

- 6.2 The RIFDP will provide insurance facilities design cost coverage for two COSEFIM member countries. The direct beneficiaries of the facilities will be the ministries of economy and finance of the beneficiary countries. Indirectly, the benefits of the present Program would reach the totality of the population of the beneficiary countries.

C. Risks

- 6.3 Detailed operational risk assessment matrix, including specific mitigation measures is attached.

VII. ENVIRONMENTAL AND SOCIAL REVIEW

- 7.1 This operation has been reviewed and cleared by the ESR on December 8, 2008.
- 7.2 This operation will not generate any significant negative social or environmental impacts. Moreover, since it will support the development of parametric natural disaster risk coverage for the beneficiary countries, it will have potential positive social impact. According to the Toolkit, this operation was classified with "C" category, meaning that no environmental assessment studies or consultations are required.

VIII. APPROVAL

Vo.Bo.

Original firmado

Kurt Focke, Division Chief, ICF/CMF

Original firmado

Mario Marcel, Manager, ICF/ICF

17 de diciembre de 2008

**REGIONAL: REGIONAL INSURANCE FACILITY DEVELOPMENT PROGRAM - PHASE I
(RG-T1541)
ANNEX I – LOGICAL FRAMEWORK**

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
To support the development of parametric disaster risk insurance facilities for two COSEFIM member countries by implementing the first phase of the Regional Insurance Facility Development Program (RIFDP).	The RIFDP proposal.	The governments' letters of intent sent to the President of the Bank formally requesting the participation in the RIFDP. All proposal documentation.	Political support for this program during Phase I.
PURPOSE			
To undertake the due diligence required to establish the parametric insurance facilities, design the institutional and financial framework of these vehicles as well as to build out the natural catastrophe models.	At least one parametric disaster risk insurance facility operational proposal was prepared and presented to the government.	Final Operational Proposal Report (Phase I). Project Completion Report (PCR).	Political support for this Program during Phase I. Governments undertake all necessary actions under their responsibilities for this phase.
COMPONENTS			
1. Due diligence process for designing and setting up the insurance facilities.	At least one due diligence process completed.	Final Due Diligence Report	Governments undertake all necessary actions under their responsibilities to enable timely completion of due diligence process.
2. Design natural catastrophe models.	Natural catastrophe model designed and necessary validation performed.	Perils pricing quotation reports Validation Report	Governments undertake all necessary actions under their responsibilities to support data collection/availability. Adequate and timely completion of catastrophe model design achieved.
ACTIVITIES			
Component 1 1. Identification, analysis and recommendations on potential domiciles for insurance facilities vehicles (the Captives). 2. Legal and financial analysis and recommendations for capitalization, legal	Adequate domicile identified Legal and financial analysis on captives' administration completed.	Progress report on domicile options. Progress report for setting-up the captives.	Identification, analysis and recommendations timely completed. Recommendations timely completed.

OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>setup and administration of the captives by the countries.</p> <p>3. Identification and recommendations for compliance of all local administrative and regulatory requirements for setting-up, ownership and operation of the Captives in selected domiciles, including local taxes and legal jurisdiction issues.</p> <p>4. Due Diligence on government approval procedures for Captive setting-up, in order to insure compliance with both the country and the domicile legal and regulatory requirements</p> <p>5. Due diligence, screening and evaluation of all independent third parties to be involved with functioning of Captives (asset managers, auditors, Captives managers, etc.)</p>	<p>All local administrative and regulatory regulatory requirements for settin-up, ownership and operation of the Captives in selected domiciles identified.</p> <p>Due diligence completed.</p> <p>Identification process of all independent third parties involved in captives' functioning completed.</p>	<p>Progress report on all local requirements for the captives in the selected domiciles.</p> <p>Progress Report on compliance with country and domicile requirements.</p> <p>Identification process report.</p>	<p>All local requirements for setting-up, ownership and operation of the Captives in the selected domiciles accomplished.</p> <p>Governments undertake all necessary actions under their responsibilities to enable timely completion of due diligence process.</p>
<p>Component 2</p> <p>1. Build-up of earthquake and hurricane data sets and country specific parametric natural disaster risk models.</p> <p>2. Technical activities needed to develop the countries specific models, including: defining the variables for the natural catastrophe models, vulnerability, data points, detail analysis of the risk of the potential impact, transaction support and model calibration.</p>	<p>Data sets and parametric models ready.</p> <p>All Technical activities needed to develop the model completed.</p>	<p>Models Validation Report</p> <p>Perils pricing quotation reports</p>	<p>Correct data sets and country parametric natural disaster risk models timely prepared to operate.</p> <p>Adequate and timely completion of all the technical activities.</p>

Annex II - Detailed Budget (RG-T1541)			
Description	Fund	Local	Total
Componente I			
Due diligence process for designing and setting up the insurance facilities			
1. Identification, analysis and recommendations on potential domiciles for insurance facilities vehicles (\$45,000.00	\$0	\$45,000.00
2. Legal and financial analysis and recommendations for capitalization, legal setup and administration of the captives by the countries			
2.1 Legal analysis for capitalization, legal setup and administration of Captives	\$50,000	\$0	\$50,000
2.2 Financial analysis for capitalization, legal setup and administration of Captives	\$50,000	\$0	\$50,000
2.3 Advisory on Accounting treatment and regulations	\$10,000	\$0	\$10,000
2.4 Selection and management of outside legal consultants	\$5,000	\$0	\$5,000
2.5 Legal review of all local legal documentation	\$10,000	\$0	\$10,000
3. Identification and recommendations for compliance of all local administrative and regulatory regulatory requirements for setup, ownership and operation of the Captives in selected domiciles, including local taxes and legal jurisdiction issues			
3.1 Selection and management of outside regulatory tax / accounting consultants	\$5,000	\$0	\$5,000
3.2 Identify all local regulatory issues for setup and ownership of government Captive, including but not limited to local tax, jurisdiction, regulatory and legal framework issues	\$40,000	\$0	\$40,000
3.3 Identify local regulatory process for fund transfers between Countries-Captive-Reinsurers	\$20,000	\$0	\$20,000
4. Due Diligence on government approval procedures for Captive setup, in order to insure compliance with both the country and the domicile legal and regulatory requirements			
4.1 Diligence on government approval procedures for Captive setup	\$20,000	\$0	\$20,000
4.2 Preparation of Executive Report detailing initial findings and conclusions of Due Diligence	\$10,000	\$0	\$10,000
4.3 Legal review and approval of Executive Report including preparation of Agreement Letter from countries	\$10,000	\$0	\$10,000
4.5 Drafting of overall Due Diligence Report	\$40,000	\$0	\$40,000
4.6 Legal input and review of Due Diligence Report	\$30,000	\$0	\$30,000
5. Due diligence, screening and evaluation of all independent third parties to be involved with functioning of Captives (asset managers, auditors, Captives managers, etc.)			
5.1 Due diligence, screening and evaluation of all independent third parties to be involved with functioning of Captives (asset managers, auditors, Captive managers)	\$10,000	\$0	\$10,000
5.2 Support during the independent transaction evaluation	\$10,000	\$0	\$10,000
5.3 Advise on government representation and relationships with Captive Board	\$10,000	\$0	\$10,000
Componente II			
Design natural catastrophe models.			
1. Build-up of earthquake and hurricane data sets and country specific parametric natural disaster risk models.	\$500,000	\$0	\$500,000
1.1 Build out of Hurricane data set and model			
2. Technical activities needed to develop the models, including defining the variables for the natural catastrophe models, including, but not limited to, vulnerability, data points and model calibration.			
2.1 Collaboration with countries and/or their designated representatives on variables for natural catastrophe models	\$10,000	\$0	\$10,000
2.2 Pricing of indicative quotation for Earthquake coverage	\$10,000	\$0	\$10,000
2.3 Pricing of indicative quotation for Hurricane coverage	\$10,000	\$0	\$10,000
3. Resources to collaborate in the independent evaluation/validation of proposal	\$10,000	\$0	\$10,000
On-going coordination, reporting and communication with IDB and countries on transaction progress and structure	\$20,000	\$0	\$20,000
Travel and administrative expenses associated with due diligence process	\$20,000	\$0	\$20,000
Contingent costs	\$45,000	\$0	\$45,000
TOTAL	\$1,000,000	\$0	\$1,000,000

Inter-American Development Bank
Operations Procurement Office (VPC/PDP)

Project: Regional Insurance Facility Development Program (RIFDP) Phase I
Operation number: RG-T1541

Annex III
PROCUREMENT PLAN

- A) All contracts for the proposed TC will be carried out in accordance with the
**“Policies for the Selection and Contracting of Consultants Financed by the
Inter-American Development Bank” (GN-2350-7).**

Project: Regional Insurance Facility Development Program (RIFDP) Phase I

Operation number: RG-T1541

Procurement Plan for Consulting Services

Ref. No.	Description and type of the procurement contract	Estimated Contract Cost (US\$ 000)	Procurement method ¹	Review (ex-ante or ex-post)	Source of financing and percentage		Estimated Dates		Status (Pending, in process, awarded, cancelled)	Comments
					IDB %	Local / Other %	Publication of Specific procurement notice	Completion of contract		
	1. Consulting Services ○ Consulting Firm Because of the technical and financial complexity of the works and the level of specialization required, the TC will carry out a single source selection process with the consultancy branch of Swiss Re.	1,000,000	SSS		100	-	n/a	Jan. 2008	Pending	

¹ **Consulting Firms:** QCBS: Quality- and cost –Based Selection; QBS: Quality Based Selection; FBS: Selection under a Fixed Budget; LCS: Least-Cost Selection; CQS: Selection based on the consultant' Qualifications; SSS: Single Source Selection. **Individual Consultants:** NICQ: National Individual Consultant selection based on Qualifications; IICC: International Individual Consultant selection based on Qualifications

**REGIONAL: REGIONAL INSURANCE FACILITY DEVELOPMENT PROGRAM - PHASE I
(RG-T1541)**

ANNEX IV

Justification: Single Source Selection of Swiss Re Financial Services Corporation

The Regional Insurance Facility Development Program requires the development of innovative financial risk transfer products to mitigate the impact of natural disaster events. They are considered indispensable to enable public sector entities to leverage their available funds through international insurance and capital market instruments, allowing governments to smooth and protect their budgets at lower opportunity costs and ensuring more adequate funds for relief activities. The envisioned solution will have to furnish financial instruments with an innovative parametric trigger mechanism to transfer risks to the international insurance and capital markets and provides a payout based on the size of population exposed to a specified event. Classical indemnity-based solutions are both inefficient and extremely expensive.

The international insurance industry has recently developed parametric insurance and reinsurance products. While earthquake models are already fairly developed, effective hurricane models that accommodate flooding due to sea surge and hurricane precipitation are either rudimentary or non-existent for the Central American region.

In the process of identifying the potential companies to help the Bank develop the requested product, the Bank has been meeting with other reinsurance firms over the past year and Swiss Re Financial Services Corporation (Swiss Re) has been the only one willing to dedicate time and effort to develop the insurance facility requested by the COSEFIM member countries. Other financial service providers were only interested in participating in the eventual reinsurance of the policies, once the basic vehicle is operational.

Over the last few years, Swiss Re has become a pioneer in natural disaster risk solutions and catastrophe bonds. It has developed a series of models to measure different types of risk and is particularly interested in developing parametric risk coverage for Latin America and the Caribbean. Moreover, it has underwritten and taken the leading managerial role in more catastrophe bonds than any other company, including leading all sovereign cat bond issuances to date. Since the development of parametric models is very complex and requires very specialized support, Swiss Re has a significant comparative advantage because of its proprietary models, its ability to reinsure and syndicate, and its track record in sovereign natural disaster risk programs.

Since its foundation in 1863, Swiss Re Group has been in the reinsurance business and is a leading reinsurer and the world's largest life and health reinsurer. The company is global, operating from 70 offices in 30 countries, and conducts business in all COSEFIM countries among others in Latin America. Swiss Re has three business groups: Property & Casualty, Life & Health and Financial Services. Swiss Re is rated "AA-" by Standard & Poor's, "Aa2" by Moody's and "A+" by A.M. Best.

Taking into consideration the precedent paragraphs and the Bank procurement policies, it is proposed to use the single-source selection method to directly contract Swiss Re to carry out all the activities for this Program, due to the following reasons:

1. Swiss Re is the only firm who has developed a comprehensive hurricane model, which uses accumulated runoff, flood basins, and soil conditions to calculate the total affected population from wind, flood caused by rainfall, and landside.
2. Swiss Re has the relevant experience for these complex and very specialized consulting services.