



ADB

Insurable infrastructure Workshop

Nadi; 2-3th December 2024



Contents

1. PCRIC; the Establishment and policy perspectives
2. PCRIC; the Technical and mechanical aspects
3. And the linkages to PRIFIF



PCRIC: Who we are and what we do?

We are the PCRIC; Established under a **captive insurance law domiciled** in the Cook Islands to;

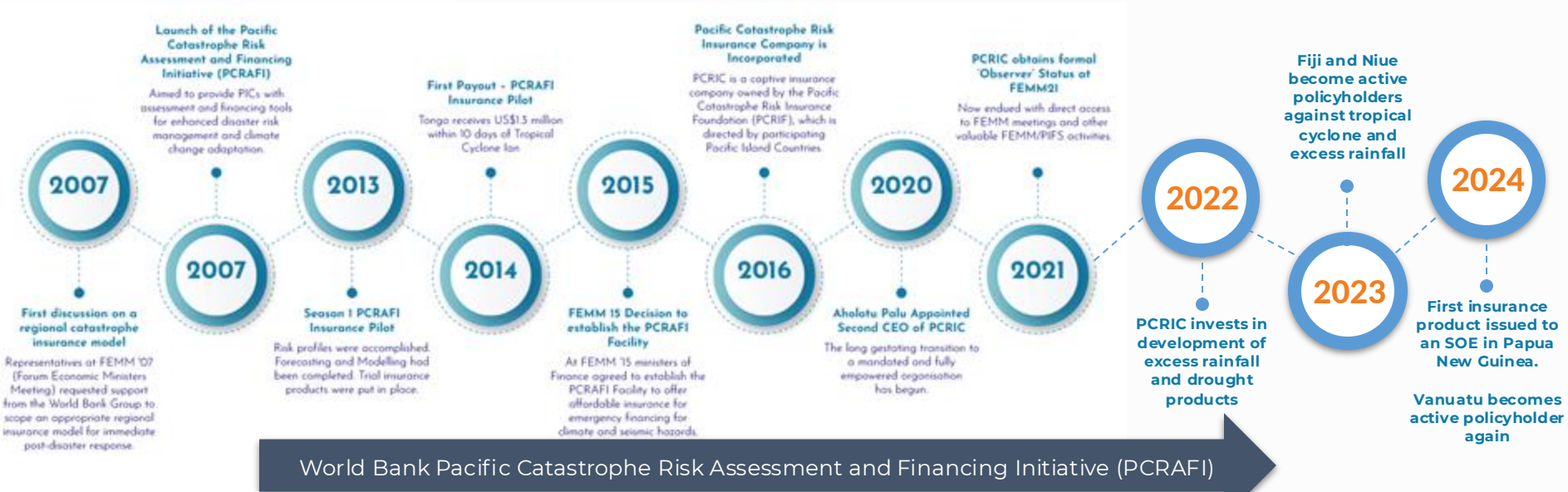
1. Provide macro **disaster risk financing/insurance** (CDRFI) products to Pacific Island Countries (PICs);
2. Provide CDRFI **policy advisory, education and capacity building**.

Products are **“parametric” financing/insurance** instruments which:

- Known as **Risk Pooling or development Insurer (4 Risk Pools in the World; CCRIF, ARC, SEADRIF)**
- Provide PICs with a **rapid cash payout** following a major/applicable natural disasters
- Act as a form of **direct budget support** to the government to finance the immediate relief needs post disaster; protection fiscal balances
- **Develop insurance products** to support critical SOEs/NGOs facing losses from the risk of disasters
- **Not designed to cover ALL losses** a government faces
- A **Pre-arrange financing instrument** addressing anticipatory and early action needed for building resilience pre and post natural disasters.



The WHY? Yesterday, Today and Tomorrow; Evolution Over Time



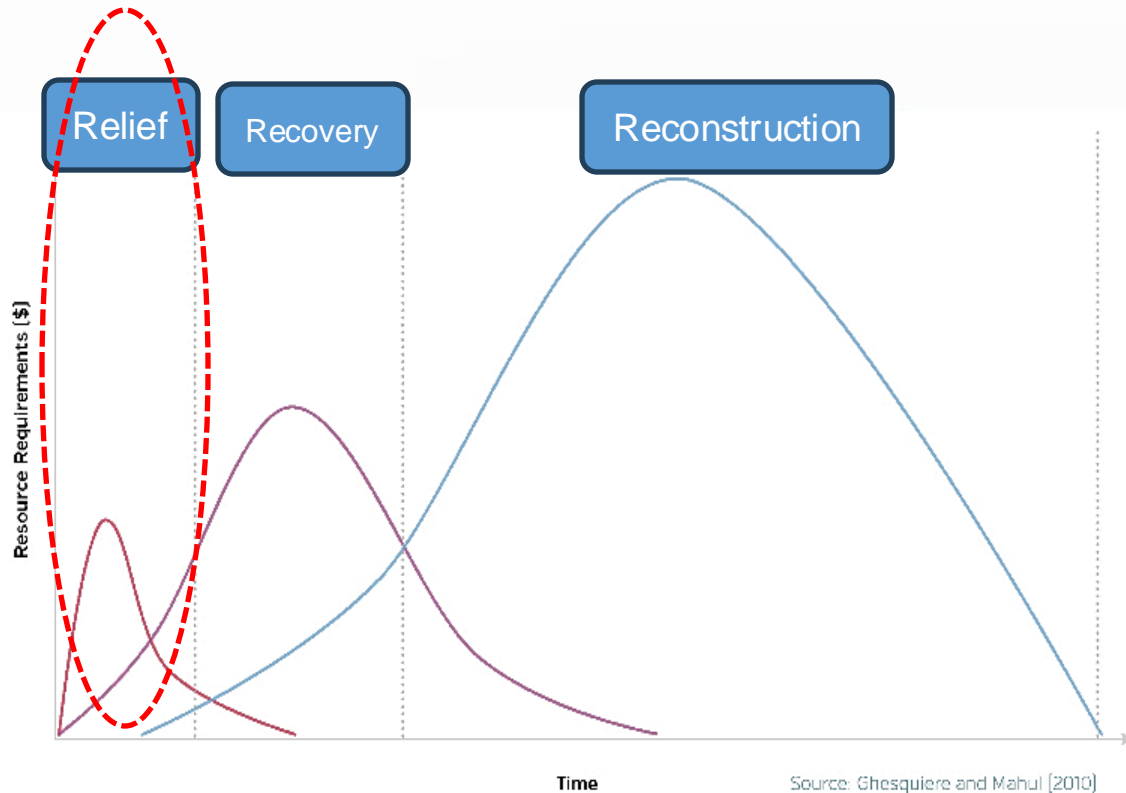
- ✓US\$11 million payouts made till date
- ✓Two were made under PCRAFI: **TC Ian, 2014, Tonga, \$1.27m & TC Pam, 2015, Vanuatu, \$1.9m**
- ✓The other two were made by PCRIC: **TC Gita, 2018, Tonga, \$3.5m & TC Harold, 2020, Tonga, \$4.5m**

PCRIC Governance and Management

- Established in the Cook Islands in **2016**; Supported financially and technically by the WB
- Traces its origins to a pilot insurance program launched by the **World Bank in 2013** under the **Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI)**
- **PCRIF Act (2016 sovereign) 2021** (sovereign and others, including a segregated cell)
- **Participating Countries**
 - **Active policy holders:** Cook Islands, Fiji, Niue, PNG, Samoa, Tonga, Vanuatu.
 - **Foundation member:** Marshall Islands
 - **Other eligible countries:** Kiribati, Federated States of Micronesia, Nauru, Palau, Solomon Islands, Timor-Leste and Tuvalu
 - **Donor countries:** Japan, UK, USA, Canada, Germany
- **PCRIF is governed by the Council of Members (CoM)** responsible for the strategic directions of the PCRIC. Convenes biannually and is comprised of participating member countries and the contributing donors
- **Board of Directors;** 5 Directors including the Chairperson responsible to the operational and business management of PCRIC



PCRIC Entry point within the Disasters Phases



Timeliness of funding

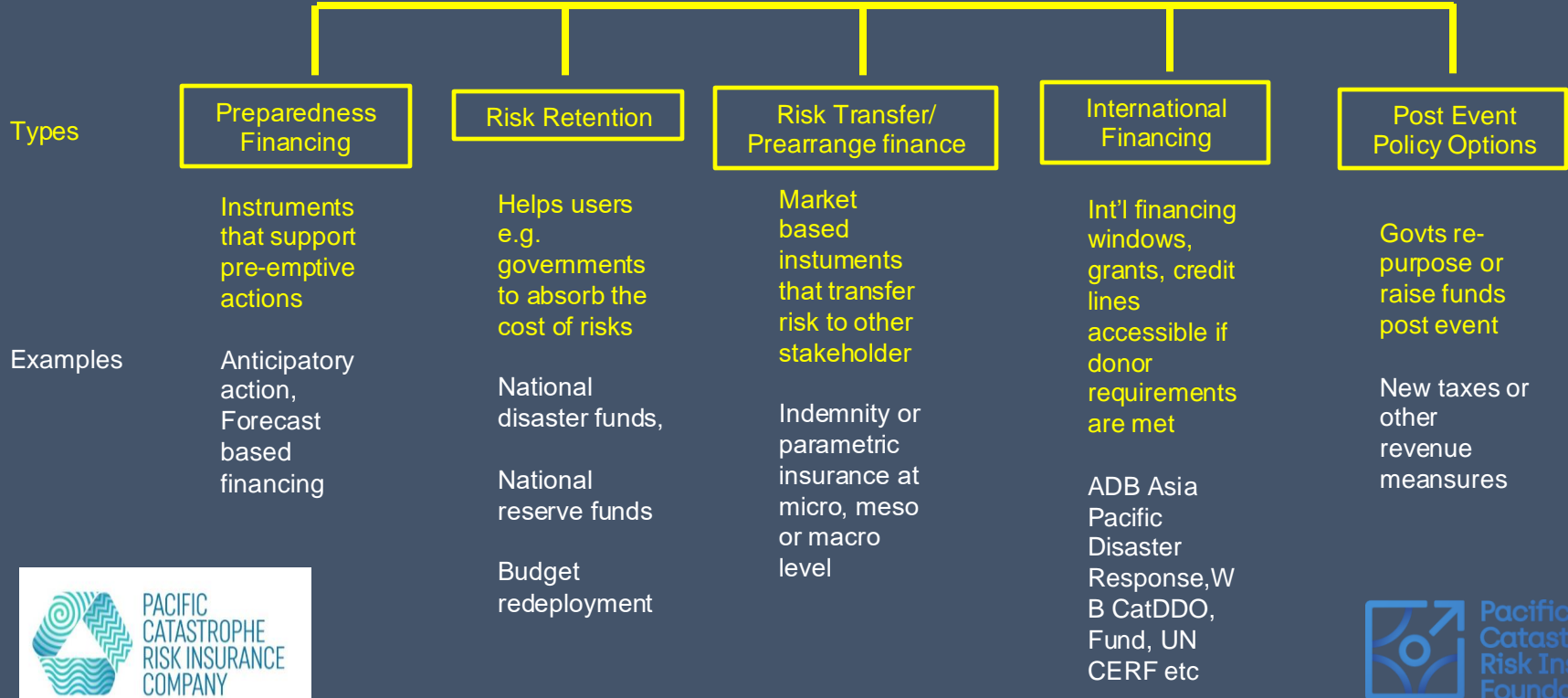
Speed matters, but not all resources are needed at once.

No single financial instrument can address all risks

Climate & Disaster Risk Financing or De-risking instruments

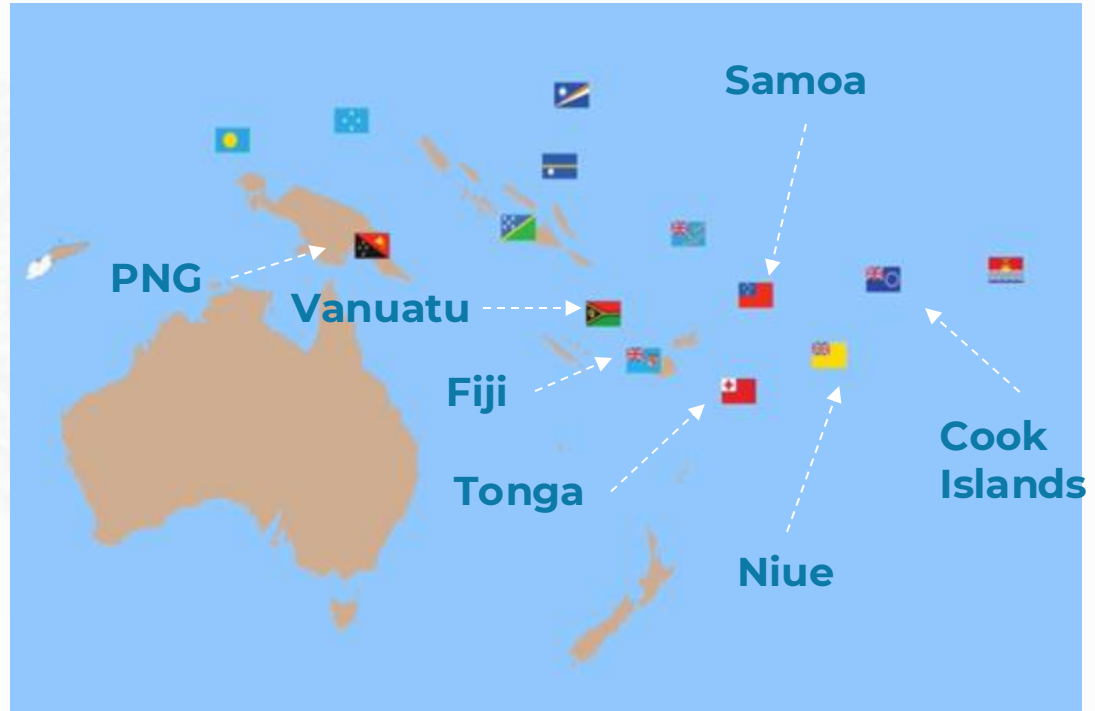
CDRF

Financial protection for disaster response

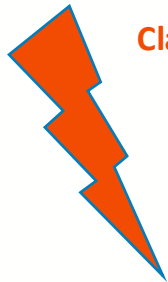
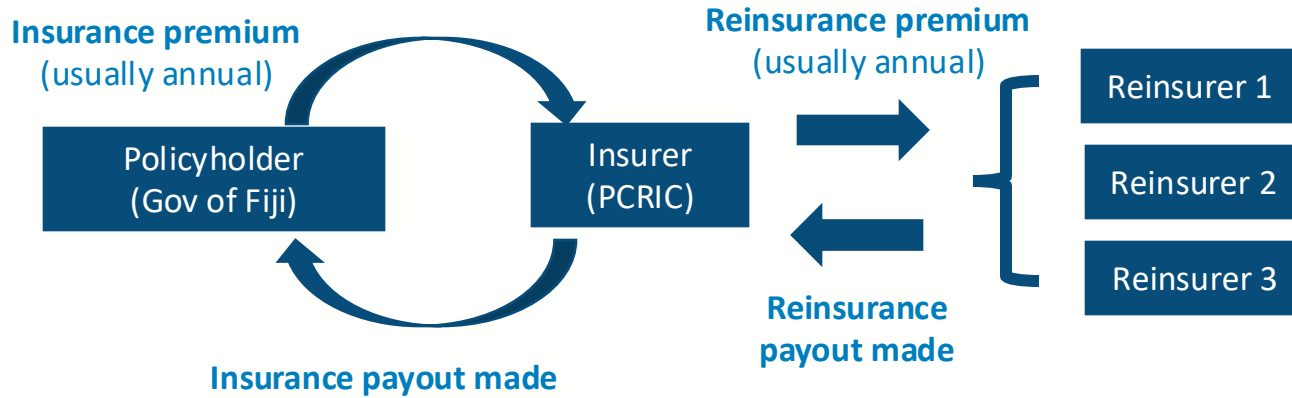


Ongoing Strategic Activities: Strengthening Climate Adaptation and Resilience-Building Priorities for PICs

- **Ongoing stakeholders** engagement (policy holders and potential new one)
- **Diversification**; Sectors, SOE, NGOs, Utilities and products; drought, extreme heat etc
- **Education and capacity building** programs
- **Ongoing Regional and Global Partnering** recognising the three As; **A**vailability, **A**ccessibility and **A**ffordability
- **Pooling climate and disasters risks** based on risk layering approach- risk redistribution
- **Capital Investment and Price restructuring**
- **Responding to demand** in areas the market isn't provided;
- **Global reinsurance facility**



How an insurance contract works: **indemnity** insurance



Claim event occurs

Loss adjuster determines loss

Benefits:

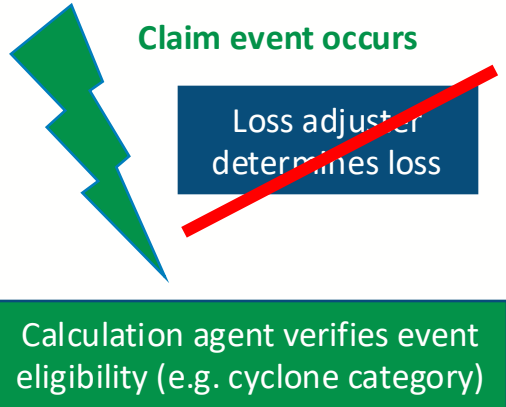
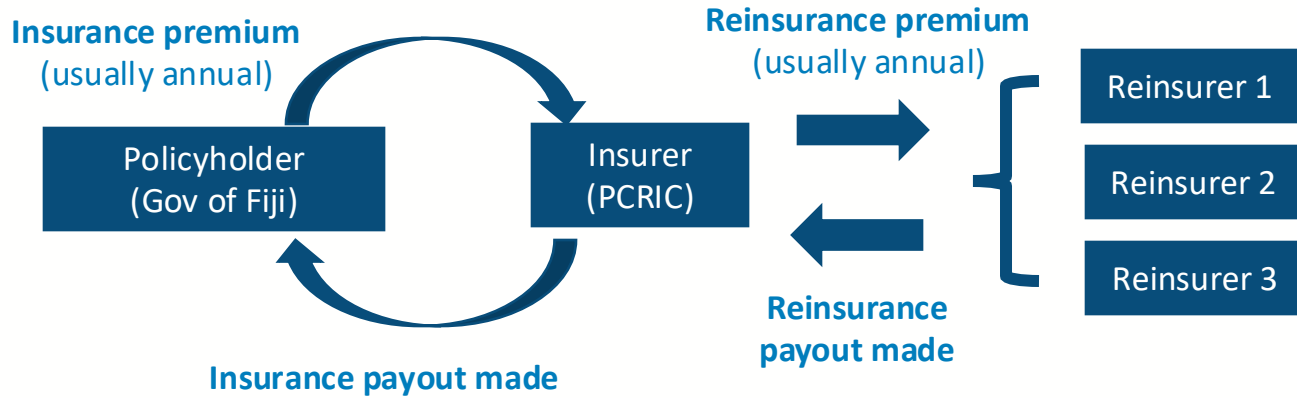
- Comprehensive coverage against a wide range of risks.
- Tailored coverage that can be customized to specific needs.

Limitations:

- May not be available for the risk faced.
- Deductibles and exclusions may apply.

• **Complex claim processes and slow payout.**

How an insurance contract works: parametric insurance



Benefits:

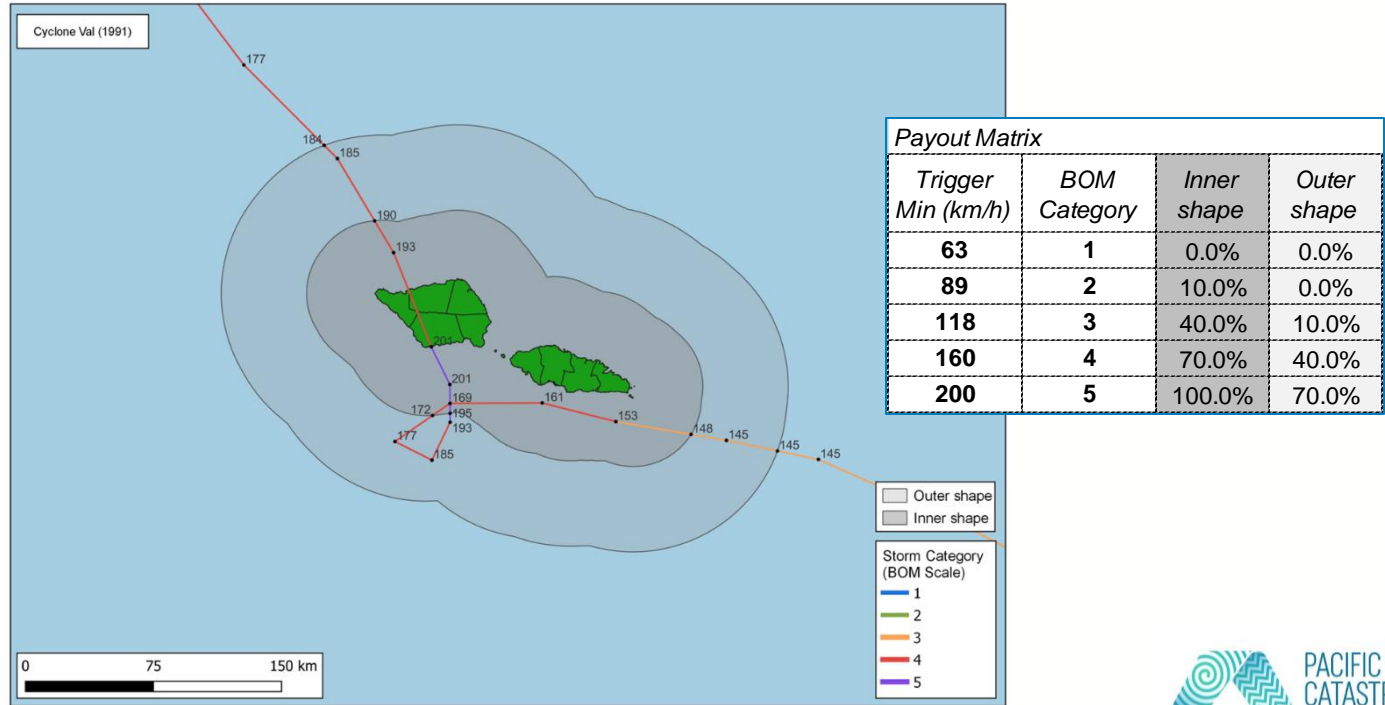
- Quick payout based on pre-defined triggers
- Transparent and objective claims process
- Customizable coverage tailored to needs and premium availability

Limitations:

- Potential mismatch between payout and actual losses
- Pricing challenges for innovative products or uncertainty of future losses

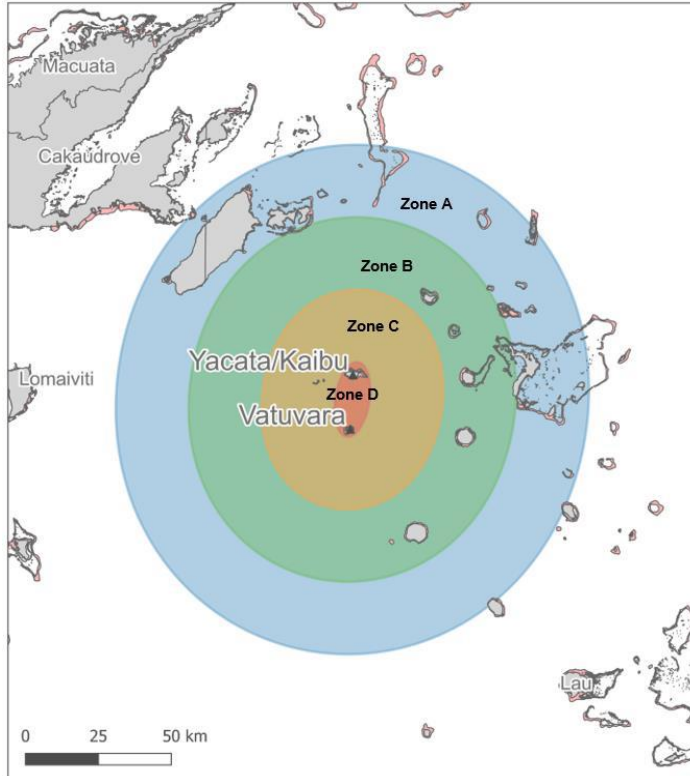
A new approach to tropical cyclone

Tropical Cyclone (TC): a dual-trigger approach for most countries



Example policy: Vatuvara Foundation

The policy issued to Vatuvara Foundation on 17 January 2024 is a cat-in-a-circle policy specifically for the response costs for coral reef clean-up and restoration, and community assistance.

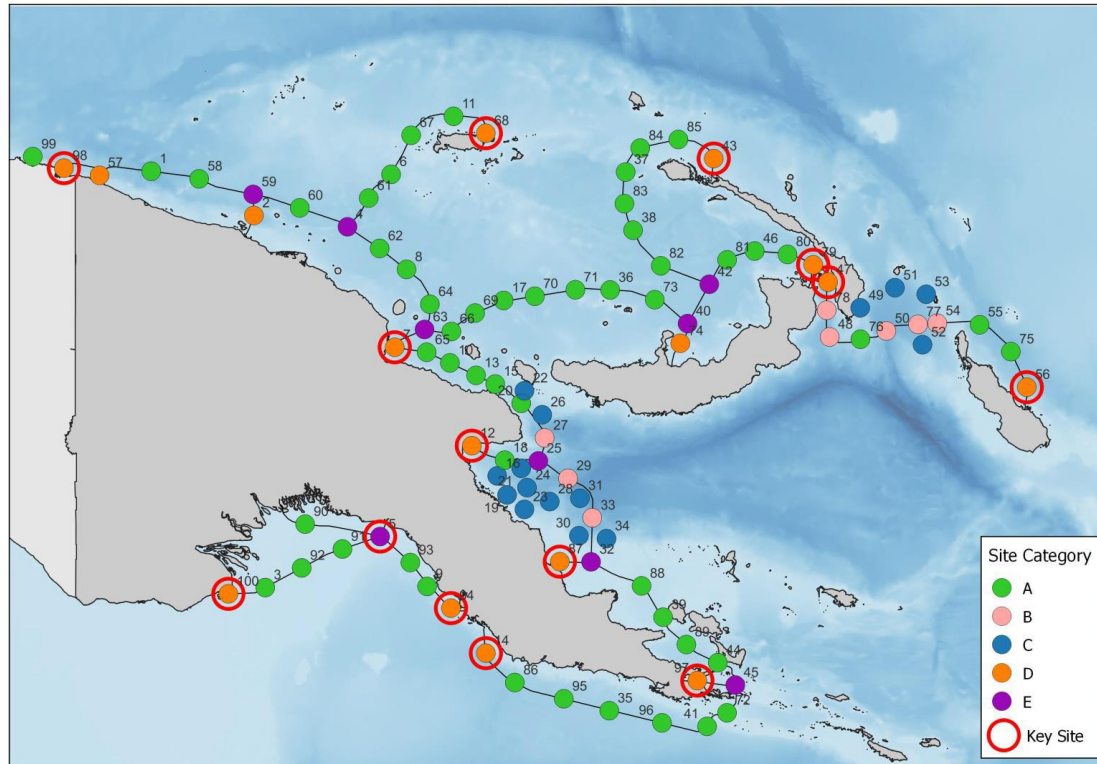


	Payout (% of coverage limit)			
	Zone A	Zone B	Zone C	Zone D
Cat 2	0%	0%	10%	15%
Cat 3	10%	15%	20%	40%
Cat 4	15%	20%	40%	80%
Cat 5	20%	40%	80%	100%

This type of policy could be developed to provide payouts for tropical cyclone risk for specific infrastructure assets.

Example policy: PNG Earthquake

The policy for PNG Data Co. is an example of a **local-observation-based** policy based on a network of seismometers.



We use five different site types, each with different thresholds to 'trigger'

- (A) Impacted by direct ground shaking only;
- (B) Impacted also by debris flows;
- (C) Potential debris flow source;
- (D) Nearshore cable landing points;
- (E) Cable junctions

The payout is determined by the number of sites that meet their respective trigger.

What PCRIC can offer for infrastructure development

- PCRIC is able to develop **bespoke parametric insurance policies against a variety of natural hazards** as a way of addressing the protection gap faced by countries, sectors, or infrastructure projects.
- This can be a complement to traditional indemnity insurance, especially if natural hazards are excluded from an indemnity policy.
- PCRIC is able to **mobilise donors and development partners** to support the technical analysis required to develop policies as well as the provision of coverage
- PCRIC is already **supported by a number of governments across the region** who provide oversight and can influence PCRIC's future strategic direction
- Through the use of leading catastrophe models and strategic partnerships, PCRIC has been able to attract **competitive reinsurance pricing** across all of our policies, showing the trust in PCRIC that the market has, as well as the interest from reinsurers in covering risks in the Pacific



PCRIC's segregated portfolio structure

- PCRIC is set up as a **segregated portfolio company**, meaning that separate 'cells' can be set up which have their own assets and liabilities, and their own governance structure.
- This allows for the **ring-fencing of donor-funded capital** which support different products and purposes.
- **The proposed PRIFIF could be set up as a new segregated cell within PCRIC**, benefitting from the existing organization and experience of PCRIC.
- In the short term, PCRIC is best suited to offering **parametric insurance for natural hazard risk**, although additional offerings could be explored in the longer term.

