

# PCRIC acts as Regional Company for One Blue Pacific Continent

## Key Information

**Vision:** To strengthen the resilience of the Pacific region to disaster and climate risk impacts.

**Mission:** To increase the range of disaster risk assessment tools and risk transfer products offered to the region and be the partner of choice in cost-efficient disaster risk finance.

**Objective:** To provide disaster risk finance products including catastrophe risk insurance against natural and climatic disasters to Pacific Island Countries, with an aim of providing liquidity to enable governments deliver relief efforts as quickly as possible after a disaster.

**Establishment:** Established as a captive insurer by legal statute in the Cook Islands on June 10, 2016 after the approval granted by the Forum Economic Ministers Meeting in 2015.<sup>1</sup>

## Context

The financial losses caused by natural disasters continue to rise, and Pacific Island Countries (PICs) experience the greatest impacts. Natural disasters generate significant fiscal risk and create major budget volatility. Even countries with robust disaster risk management programs can still be highly exposed to the economic and fiscal shocks caused by major disasters. PICs are highly exposed to adverse natural events, including tropical cyclones, earthquakes, volcanic eruptions, and tsunamis, which can result in disasters affecting the entire economic, human, and physical environment. These events negatively impact the PICs' long-term development. The critical challenges confronting PIC governments in the aftermath of a disaster include securing access to immediate financing for emergency relief and response and for the maintenance of essential government services until additional resources become available. Forum Leaders in their meeting in 2019 reaffirmed the importance of country-driven, inclusive and coordinated action to strengthen climate and disaster resilience. PCRIC is the catalyst to realize the Leaders' stated ambition.

<sup>1</sup>Agreed to establish a PCRAFI facility in the form of a Trust, whose beneficiaries are participating FICs (with the sole purpose to establish and own an insurance captive) to provide disaster and climate risk insurance, created as an independent legal entity; Agreed to establish the dedicated PCRAFI facility, with support of PIFS and the World Bank, by August 2016 for the start of the fifth season of the PCRAFI insurance program; Directed PIFS, World Bank and partners to develop the necessary linkages and agreements with other regional facilities to ensure the necessary transfer of experience and technical knowledge to the Pacific.

## What is PCRIC?

PCRIC is a regional captive insurance company owned by PICs<sup>2</sup> that provides post-disaster liquidity to support rapid relief and technical assistance to help countries build resilience to disaster and climate risks and thus sustain development gains. By pooling the risk of several countries together PCRIC is able to provide PICs with access to international insurance markets at competitive rates, and is also able to attract the support of international partners. It is governed by the Pacific Catastrophe Risk Insurance Act 2016 enacted in the Cook Islands and fully owned by the Pacific Catastrophe Risk Insurance Foundation (PCRIF).<sup>3</sup>

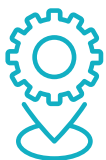
## Where is PCRIC is located?

PCRIC is domiciled in the Cook Islands.

## How does PCRIC work?

PCRIC offers financial products to provide PICs with finance in the immediate aftermath of a natural disaster event. By providing rapid liquidity to affected PICs, PCRIC helps countries respond quickly and sustain hard-won development gains. PCRIC policies renew on the 1st of November every year for a 12-month period.

PCRIC works to achieve its objective of providing liquidity to increase the ability of national governments to respond more quickly to disasters through five main strategic themes:



### 1. Regional Integration:

Become a Pacific Islands institution and the regional provider offering disaster risk financing and insurance products



### 2. Technical Capability:

Effectively and efficiently operate regional open risk information and underwriting platforms



### 3. Compelling Value Proposition:

Deliver on the reasonable expectations of clients and other stakeholders



### 4. Global Partnering:

Fully leverage the global Climate Risk Insurance landscape to the benefit of Pacific Island countries and peoples



### 5. Operational Excellence:

Ensure PCRIC is an effective organization with sustainable financing

<sup>2</sup> Current Council of Members: Cook Islands, Fiji, Marshall Islands, Tonga and Samoa; Current Policyholders: Cook Islands, Tonga and Samoa.

<sup>3</sup> The PCRIF is a self-standing Foundation with a council of members comprising member of the PIC representatives, and representation of donors which provided grant capitalisation.



In order to purchase insurance from PCRIC a PIC must first become a member of the Pacific Catastrophe Risk Insurance Foundation (PCRIF) through payment of a one-off participation fee of US\$50,000. By becoming a member of PCRIF each country can influence the future of PCRIC and ensure the Company is developing and offering products that are appropriate for their post-disaster needs as articulated by each country's national DRF strategy.

## What is parametric insurance?

PCRIC provides 'parametric' insurance, which disburses payouts based on the estimated losses associated with tropical cyclones, earthquakes or tsunamis as calculated by a catastrophe model.<sup>4</sup> The calculated loss is known as the 'modelled loss' and forms the basis of whether a payout is due. As the policies are based on the outcome of a pre-agreed model there is no need to wait for an on-the-ground assessment of actual losses incurred, meaning payouts can be made very quickly after a disaster event.

## What products does PCRIC currently offer?

PCRIC currently offers parametric insurance policies for tropical cyclone risk and for earthquake risk including tsunami. Member countries may choose one or both policies, with payouts being made within 10 days of an eligible disaster event occurring. Since establishment of the company, two payouts had been made only to Tonga for 2018 cyclone Gita (US\$3.5m) and 2020 Harold (US\$4.5m).



## What is the criteria or trigger for a pay-out?

Following a tropical cyclone, earthquake or tsunami event, if the modeled loss as calculated by PCRIC's catastrophe model exceeds a pre-defined threshold, or 'trigger' then a payout will be made. This trigger is calculated to represent the magnitude of loss that would be expected to occur once every ten years on average (a "1-in-10-year event"), meaning every year a country has a 10% chance of a payout being due per policy held. For any modeled loss above the trigger, the amount of the payout increases as the modelled loss increases up to a pre-defined coverage limit per policy. This means higher payouts are due for more severe events.

<sup>4</sup>Such models are based in three key inputs: i) a hazard module, providing data on possible disaster events; ii) an exposure module, providing data on assets exposed to potential disasters, e.g. roads or buildings; and iii) a vulnerability module which includes information on how vulnerable assets are to disaster impacts. Combining these three modules, the model can produce estimates of damages caused by a particular type of event.

## Why is PCRIC, as risk pooling instrument, effective for Pacific Island Countries?

By pooling the risk of several countries PCRIC is able to create a critical mass of business that is more attractive to the international insurance market when compared to individual country policies. At the same time, risk pooling also allows PCRIC to offer a more diversified portfolio of risk to the international market, which helps to reduce premium rates. As PCRIC also benefits from financing from donor partners, these benefits can be passed back to member countries through lower premiums or higher levels of coverage.

## What new products are on the horizon?

In response to requests from member countries, PCRIC is currently developing parametric insurance for excess rainfall events (which may not be due to tropical cyclones) and also droughts. These products will be made available to countries during 2021. In addition, PCRIC is currently going through a restructuring process to become a Segregated Cell Company, which means the Company will be able to offer a broader range of financial products beyond just parametric insurance. PCRIC will also be able to offer products to a wider set of potential policy holders including private sector companies and individuals in the Pacific Region in addition to country governments. Potential new products on the horizon are a contingent savings product for country governments to complement the existing parametric insurance products, and also a product to support domestic insurance markets in member countries.

## Who says what about PCRAFI/PCRIC?

*"We are pleased the PCRAFI Facility has been established to assist in providing Pacific Island countries with insurance coverage against tropical cyclones and earthquakes, we look forward to the Facility growing and developing additional products to help us better meet our post-disaster financial needs in the Pacific region"* **Mark Brown, the then Cook Islands Minister of Finance and Economic Management**

*"This evolution of PCRAFI is a major advancement in the region to mitigate against the financial impacts caused by extreme climate, weather related and geological hazards. Countries have full ownership of the PCRAFI Facility, putting finance ministers in the driving seat for product development and, for designing financial instruments that fit national disaster risk financing strategies"*

**Dame Meg Taylor – Secretary-General – Pacific Islands Forum Secretariat**



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