



Jamaica increases Climate-resilience through the First-ever Sovereign Catastrophe Bond for a Small Island in the Caribbean

Supported by the World Bank, GRiF and USAID, a catastrophe bond provides the Government of Jamaica with USD 185 million in storm protection

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Jamaica faces the adverse effects of a changing climate. A recent catastrophe (cat) bond transaction complements Jamaica's portfolio of disaster risk financing (DRF) instruments increasing its financial resilience against disasters. In July 2021, the World Bank issued this cat bond that provides the Government of Jamaica (GoJ) with USD 185 million of insurance cover for eligible named storm events from July 2021 to December 2023.

Country context

Jamaica is highly exposed to natural and climate-related hazards, both geological and hydrometeorological, hurricanes, and earthquakes posing threats to Jamaicans' livelihoods and the country's macroeconomic and fiscal outlook. Resulting disasters have cost Jamaica an estimated USD 1.2 billion between 2001 and 2010. The damages and losses from Hurricane Ivan in 2004 alone exceeded USD 350 million. The GoJ is implementing a DRF strategy that aims to improve its financial resilience through prearranged financing instruments including a contingency fund, contingent credit, and catastrophe insurance from the Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC). The country's first-ever cat bond transaction complements these instruments and reduces its financing gap in a cost-efficient approach.

The World Bank issued cat bond currently provides the GoJ with financial protection for three years. The types of event that will trigger a payout were predefined during the structuring of the transaction based on the requirements of Jamaica. If a tropical storm occurs, the GoJ will issue a notice to the independent calculation agent who will determine the payout amount based on the central pressure and storm track. The World Bank will transfer the payouts to the GoJ as soon as a calculation report is available. The transaction structure includes an innovative reporting feature resulting in a quick payout calculation. It is the first cat bond to use a cat-in-a grid parametric trigger design, with payouts determined on the basis of the track and central pressure of the storm.

Project Description

Key product innovation and market changes

- The physical trigger (central pressure) allows for a more transparent explanation to the general population than other triggers as to why the cat bond is triggered (or not triggered), for example, "modelled loss" triggers.
- The full territory of Jamaica is covered/protected through 19 cells, each one with different parameters and with boosted protection to key regions, e.g. Kingston.
- Once triggered, the GoJ will receive a fast payout, in the space of just weeks rather than months.
- The "basis risk" was reduced: for the first time the amount of the payout is defined as a "cumulative" rather than "maximum" damage in accordance with the central pressure.
- The cat bond was placed during the pandemic and actually tested the insurance-linked securities markets.
- This cat bond transaction adds a significant protective layer against potential negative impacts on Jamaica's sovereign credit risk following a catastrophe event. Fitch Rating is considering it as a factor for a more stable sovereign rating. This factor may increase the sovereign's demand for cat bonds.



The GoJ with financial support from the Global Risk Financing Facility (GRiF) and the United States Agency for International Development (USAID) pays a premium for the cover, which the World Bank transfers to the cat bond investors. The premium is fixed during the life of the bond, removing the uncertainty of the cost. GRiF also finances transaction costs such as legal fees, structuring and placement fees, and intermediation fees.

The issuance of the instrument was possible because of ongoing technical assistance to the GoJ by the Financial Solutions for Climate and Natural Disaster Risks Program in the Caribbean, funded by the United Kingdom and managed by the World Bank.

In September 2021, a [special report by Fitch Ratings](#) recognized how the cat bond significantly strengthens Jamaica's disaster risk reduction strategy. This is another positive outcome for Jamaica since improved credit-risk assessments can translate into lower and more stable funding costs for sovereigns.

Challenges & Lessons Learned

Strong and ongoing policy dialogue and technical assistance on DRF with the the Ministry of Finance is fundamental for development of risk-transfer solutions: The cat bond is the latest milestone in a longstanding World Bank engagement on DRF with the GoJ, including policy reforms, investment, and technical assistance.

An instrument is most effective when it is part of an integrated DRF strategy: The cat bond is only one component of the DRF strategy of the GoJ. It is complemented by a contingency fund, contingent credit and catastrophe insurance from the CCRIF, which all work to strengthen the financial resilience of the GoJ.

Donor support enables uptake of DRF solutions in developing countries: Preparation and execution of a cat bond transaction can involve significant costs. Donor funds executed through World Bank trust funds were important for supporting this programme from initial concept through to execution.

"We are pleased with the successful placement of this catastrophe bond, which adds an indispensable layer of disaster risk financing that complements our multi-layered approach."

Dr The Hon. Nigel Clarke, Minister of Finance and the Public Service, Government of Jamaica

Hazards covered

Windstorm

Product/Solution

Sovereign Risk Transfer

Topic / Theme the project addresses

Private Sector, Risk Finance, Climate & Disaster Risk Management, Technology & Innovation

Objective of the project

Expanding Jamaica's financial protection against losses arising from severe tropical cyclones, and assisting Jamaica to develop and implement a risk-transfer instrument.

Beneficiaries

3,000,000 indirect beneficiaries

Involved organizations/parties in the project

- Government of Jamaica
- World Bank
- AIR Worldwide
- Swiss Re Capital Markets and Aon Securities LLC
- Global Risk Financing Facility – financed by BMZ and FCDO
- USAID



Anticipation



Relief



Recovery



Reconstruction

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