



The Educator



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Do not fear, for I am with you;
Do not anxiously look about you, for I am your God.
I will strengthen you, surely I will help you,
Surely I will uphold you with My righteous right hand.
Isaiah 41:10

The insurance industry could face \$3bn loss from Dorian in the Caribbean:....¹

Our thoughts and prayers are with the people of the Bahamas, who a month ago, and once again, during hurricane season, have been less fortunate.

According to the Caribbean Disaster Emergency Management Agency (CDEMA), hurricane Dorian, the fourth named storm of the 2019 Atlantic Hurricane Season, impacted the Northern islands of the Commonwealth of The Bahamas from Sunday, September 1 to Tuesday, September 3, 2019 for approximately 68 hours. Hurricane Dorian devastated Abaco, Grand Bahama and the surrounding Cays, with the southern eye-wall remaining "stationary" for approximately 36 hours over Grand Bahama.

At the peak of strength, sustained winds increased to 185 mph and gusts up to 220 mph. The estimated rainfall was 12-15 inches and storm surge, 18-23 feet above sea level. The islands have been devastated, with huge property damage and loss of life.

What was even more stunning was its slow path across the Bahamas of hurricane Dorian which will likely go down in history as the slowest, strongest hurricane to ever hit the Bahamas. This Category 5 storm becomes the fourth of this strength to hit the Bahamas since 1900, and the first with winds of 185mph.

The Bahamas was hit by hurricanes at least four times between 2015 and 2019.

According to *Reinsurance News*, "Catastrophe risk modeller Karen Clark & Company (KCC) has estimated that the total insured cost of Hurricane Dorian in both the Caribbean and the US will be \$5.2 billion. The estimate reflects a \$3.6 billion loss in the Caribbean and a \$1.5 billion loss in the US, as well as losses of \$23 million in Puerto Rico and \$84 million in the US Virgin Islands.

The estimate includes both insured and uninsured losses to building, contents, and business interruption exposures for commercial, residential, and industrial projects, and excludes infrastructure and auto losses.

¹ Source: *Reinsurance News*, various articles. Reprinted with kind permission.

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Initial reports suggest that some areas of the islands have been utterly devastated, with the International Red Cross estimating that 45% of the homes on Grand Bahama and the Abaco Islands have been severely damaged or destroyed, representing some 13,000 properties.

Due to Dorian's track, much of the Caribbean experienced little or no damage outside of the Bahamas.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC)

On September 26, 2019, from its office in Cayman Islands, CCRIF announced that it has made two payouts to the Government of The Bahamas totalling US\$12.8 million (US\$12,824,153) following the passage of Hurricane Dorian that caused widespread devastation in the northern part of the country affecting 2 of the 16 main islands that make up this archipelago of islands and cays.

The Bahamas has 3 tropical cyclone policies and 3 excess rainfall policies with CCRIF – each covering a section or zone of the archipelago - North West, South East and Central. The Government received US\$11,527,151 from the triggering of its tropical cyclone policy and US\$1,297,002 from its excess rainfall policy for the North West zone – which includes Abaco Islands and Grand Bahama.

In a Press Release CCRIF noted that payouts are made within 14 days of an event, but in this case CCRIF made an advance payment of 50 per cent of the preliminary estimated payout for tropical cyclone within 7 days to allow the Government to begin to address its most pressing needs - with the remaining 50 per cent paid within the 14-day window for all CCRIF payouts. In response to the payout, Deputy Prime Minister of The Bahamas Peter Turnquest said in the press, "the Caribbean Catastrophe Risk Insurance Facility is worth it. The hurricane insurance is going to give us roughly \$10.9 million [the initial payout estimate] which is more or less in line with what we expected".

Since its inception in 2007, CCRIF has made 40 payouts totalling about US\$152 million to 13 of its 21-member governments. Nineteen Caribbean governments are currently members of the facility: Anguilla, Antigua & Barbuda, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, Saint Lucia, Saint Vincent & the Grenadines, Saint Maarten, Trinidad & Tobago and Turks & Caicos Islands. Nicaragua is the first Central American government to become a CCRIF SPC member.

CCRIF's technical assistance (TA) programme

Over the years CCRIF has provided resources from its TA Programme to governments to support specific projects after a natural disaster. For example, The Bahamas was the recipient in 2012 of a TA grant of US\$85,000 following the passage of Hurricane Sandy for the construction of a new sea wall at Sandypoint Beach. Similar size grants have been provided over the years to Jamaica (US\$100,000) for the rehabilitation of the Muirton Boys Home following Hurricane Sandy in 2012); Dominica (US\$100,000) for the construction of new fencing at the Douglas-Charles Airport which was damaged by the Tropical Storm Erika in 2016; and Belize (US\$100,000) for the purchase of 30 automated weather stations.

Credit ratings

Reinsurance News also reported that AM Best is to review the credit ratings of the major property/casualty (P&C) and life/health insurance companies operating in the Bahamas following the devastating impact of Hurricane Dorian in the region.

The ratings have been placed under review with developing implications in light of the widespread destruction and limited information that is currently available with regard to loss of life and property, as well as the status of the medical delivery system and overall economic impact.

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AM Best acknowledged that rated P&C insurers in the Bahamas typically purchase significant catastrophe protection.

The ratings will be removed from under review with developing implications following a complete analysis of each company's financial strength in the aftermath of Hurricane Dorian.

The Caribbean Experience

The loss data for the last ten years – 2010 to 2019 indicates that there were 29 events with a payout to date in the range of 46 billion US dollars. The worst years were 2017 and 2019. Two of the of 3 worst events being within the last 3 years.

As noted, The Bahamas was hit 4 times from 2015 to 2019. It is reported that a hurricane passes near the Bahamas, on average, every two years. A hurricane makes a direct hit on the islands, on average, every four years. One Category 5 hurricane and seven Category 4 hurricanes have struck the Bahamas since storms were first recorded in 1851. With sustained winds of 185 mph, Dorian was the strongest hurricane on record to strike the Bahamas.

According to CCRIF, in the Caribbean, the general insurance business model is such that natural catastrophe hazards play a dominant part in risk assessment and management. Catastrophe hazards require particular attention because they do not follow the usual 'laws' of insurance; in particular, single events can cause losses to a large proportion of clients covered by an insurance company simultaneously, especially if that company only underwrites risk in one or a few geographically neighbouring islands. The need to be able to pay lots of claims all at once requires insurers either to purchase reinsurance, which is expensive, or to hold a large amount of cash reserves, which is also expensive. Thus, the cost of underwriting catastrophe risks, particularly in the Caribbean, requires particular attention to be paid to assessing that risk, both now and in the future.

The Caribbean insurance industry has been in existence, principally as a component of the larger financial products and services industry with relatively few independent insurers in the region.

Caribbean insurance companies have not been motivated to generate and expose significant capital for underwriting catastrophe perils. Characteristically, they limit their catastrophe risk retention levels to under 15 percent, the remainder being ceded to reinsurers. The availability of reinsurance affects the profitability of Caribbean insurance companies, as it governs the ability to write policies and thus generate subsequent income from reinsurance commissions. Tight markets, i.e., high premiums, have a pass-through effect, including proportionately higher commissions.

The trends towards liberalization of trade and commerce are meeting a mixed response from the local Caribbean insurance industry. On the one hand, companies welcome the ability to invest assets in harder-currency areas. On the other hand, they fear outside competition. It is as apparent that the insurance industry needs to be rationalized as it is evident that there are far too many companies in proportion to population and GDP.

Pricing

With global warming hurricanes are getting stronger and intensifying faster. In recent years the Caribbean area has seen its share of natural disasters, and its insurance markets have been through one of their most difficult periods. As a result, Caribbean insurers need to evaluate their portfolio risks with greater precision so that they can prove to reinsurers their true exposures and thereby maintain reinsurance protection at reasonable cost.

At the core of the business of insurance is the assessment and management of risk. The basic principle of insurance is that the insured must pay a premium commensurate with the risk we bring to the insurance pool. Therefore, insurers and reinsurers must properly price risk – in the end, the insurance consumer must be able to judge whether that price is reasonable.

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Reinsurers play a key role in the pricing of property risks in the Caribbean, as most of the properties insured in the region are heavily reinsured, often on a proportional basis with the insurer's retention covered by its catastrophe program.

Policy coverage restrictions are generally designed and imposed by foreign reinsurers, and their effect falls on the policyholders rather than on the insurance companies.

However, reinsurance rates have increased for most companies in 2018 following an active hurricane season, with Hurricanes Florence and Michael driving large losses and Tropical Storms Isaac, Helene, Joyce and Kirk also impacting pricing.

Primary property and casualty (P&C) insurers in the Caribbean market remained mired in a protracted soft market cycle, but rising reinsurance costs could force companies to introduce some much-needed rate increases, according to a report by A.M. Best.

As losses become larger and more frequent, reinsurers may withdraw capacity as they will be unable to provide a reasonable payback period.

Strange but true

Because of the death and destruction caused by Dorian, the storm's name will almost certainly be retired by the World Meteorological Organization (WMO), the United Nations' group that determines which hurricane names will be used in upcoming years.

A nation hardest hit by a storm can request its name be removed because the storm was so deadly or costly that future use of the name would be insensitive. The names of two of last year's most destructive storms – Florence and Michael – were retired by the WMO earlier this year.

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