

## Initial Market Assessment - Country Scoping Note:Haiti<sup>1</sup>

### Executive Summary

**With the Caribbean Catastrophe Insurance Facility (CCRIF), the Micro-insurance Catastrophe Risk Organisation (MiCRO), and the Alternative Insurance Company (AIC), Haiti has world champions of catastrophe insurance at the macro and micro level.** Nonetheless, there are various opportunities to help scale up the impact they currently have. The CCRIF has found it more difficult than anticipated to adapt its excess rainfall model to Haiti, and the existing earthquake and tropical cyclone cover could be increased meaningfully by paying higher premium. AIC has substantially promoted property micro-insurance in their partnership with Fonkoze, and wants to reach larger populations with other products and additional distribution partnerships. One way to do this might be to retail a catastrophe property insurance based on the CCRIF parameters.

**The insurance sector in Haiti, however, is generally weak and poorly supervised.** Ongoing projects by the development partners are addressing this but advance slowly, and could benefit from more focus, urgency and top level support. Possible incentives could be the outlook to insure public assets, which deserves to be discussed with the government and would provide a powerful demonstration case. Possibilities for mandatory catastrophe insurance like in Turkey should also be considered. Both require a strong professional insurance sector. A further motivation for strengthening the insurance sector is the untapped potential for agriculture (index) insurance that has already attracted projects.

**Social protection has become a priority of the government, and can be further strengthened with market-mediated insurance mechanisms,** like for example cash transfers that increase in amount or outreach based on specific populations' needs approximated by disaster loss indices. Haiti can benefit from a growing body of evidence that shows how public private partnerships and the use of insurance related principles benefit low income households.

### 1. Background

#### 1.1 Haiti's exposure to natural disasters

**Due to its geographic location, Haiti is highly exposed to both hydrometeorological and geophysical hazards.**Haiti is most remembered for the devastating **earthquake** that killed over 200,000 people in 2010 including one out of three civil servants, affected 3.5 million more, and resulted in a cholera epidemic. 13 out of 15 ministerial buildings, 4,200 schools, and more than 60% of the country's hospitals were damaged or destroyed.

<sup>1</sup>This scoping note is part of a series of seven country scoping notes produced by WB/GFDRR and DFID, with inputs and feedback from the expert-level group (including representatives of Allianz, DFID, European Commission, GIZ, ILO, Munich Re, SECO, Swiss Re, USAID, WB, and Willis Re). This scoping note aims to inform the Political Champions Group (PCG) on potential opportunities to promote stronger partnerships between the public sector and the private sector to increase disaster resilience of vulnerable populations using market-mediated insurance solutions. The team has made every attempt to verify the contents presented, but the information should be interpreted with due consideration to its limitations resulting from the fact that indirect sources have been used where primary sources were not available. Contact: Olivier Mahul, [omahul@worldbank.org](mailto:omahul@worldbank.org).

**Haiti is, however, also exposed to considerable risks from hurricanes, floods, landslides and drought.** Over the past 30 years, Haiti has been hit by six hurricanes, its West and South Departments lying in the path of the strongest hurricanes which, along with other tropical storms, regularly cause loss of life, livestock, destruction of agricultural lands, erosion, river siltation, the increased incidence of water-borne diseases, and famine. **Floods** contribute considerably to the country's vulnerability. The most populated cities are all nestled in the valleys along the coast. When it rains, the steep, often barren hills around them flush rain water towards the urban areas. Widespread deforestation in the upper reaches of these valleys, coupled of lacking drainage infrastructure, exacerbate the geographical propensity. Various departments experience repeated **droughts**, brought about by a combination of erratic rainfall patterns coupled with a limited water management infrastructure and which have destroyed crops, reduced agricultural production, and decreased food security. The capital city of Port-au-Prince is particularly vulnerable, with a large portion of its inhabitants residing on flood plains in poorly constructed housing with under-developed waste management.

Haiti therefore is among the top five countries worldwide in respect of **exposure to multiple hazards**, with 93% of the area and 97% of the population exposed to two or more hazards<sup>2</sup>. Its Disaster Risk Index is 6<sup>3</sup>. Its WorldRiskIndex is 11.45%, making it 32<sup>nd</sup> in the global ranking<sup>4</sup>; this is driven by the country's exposure of 20% together with vulnerability: 72% (being the 10<sup>th</sup> most vulnerable country), susceptibility: 64% (ranking 9<sup>th</sup> worldwide), lack of coping capacities: 89% (also ranking 9<sup>th</sup>), and lack of adaptive capacities: 62%.

## 1.2 Economic, financial and fiscal impact of natural disasters

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**Natural disasters have massive financial, fiscal and economic impact in Haiti.** Haiti faces annual average losses of more than 25% of urban produced capital from earthquakes<sup>5</sup>. The 2010 earthquake caused directly attributable economic losses amounting to 120% of GDP and indirect macroeconomic effects including a 5% decline in real growth. The IMF estimated the resulting fiscal gap due to revenue collapse at between US\$250-350 million, and uncertainty regarding the value of collateral and the financial conditions of banks' clients led to a credit crunch. The particularly vulnerable Port-au-Prince metropolitan area contributes around 85% of the country's tax income and 70% of its customs income. Country-wide modeled exposure is made up in equal proportions by residential, commercial, institutional and agricultural assets, but geographic distribution varies considerably by administrative area.

In 2004, tropical storm Jeanne caused damage in the order of 7% of GDP. In 2008, three tropical storms and one hurricane affecting 865,000 people caused damage in the order of 15% of GDP<sup>6</sup>. In 2012, tropical storms Isaac and Sandy caused an estimated US\$250 million economic loss, severely affecting agriculture including bananas and coffee.

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<sup>2</sup> Natural Disaster Hotspots, A Global Risk Analysis; World Bank 2005

<sup>3</sup> The Disaster Risk Index is a mortality-based index (7 classes; 7=high mortality)

<sup>4</sup> The WorldRiskIndex, as shown in the WorldRiskReport 2011, indicates the probability that a country will be affected by a disaster by combining exposure to natural hazards, susceptibility (as a function of public infrastructure, housing conditions, nutrition and the general economic framework), coping capacities (as a function of governance, disaster preparedness and early warning, medical services, social and economic security), and adaptive capacities to future natural events and climate change. The 2011 Index ranges from 32% for Vanuatu, the riskiest, to 0.02% for Qatar.

<sup>5</sup> GAR 2013

<sup>6</sup> GFDRR Haiti Country Update 2012

Excluding the earthquake, natural disasters are estimated to have reduced growth performance by an average of 1 to 2% of GDP every year.

### 1.3 Government's strategy and commitment regarding disaster risk financing and insurance

**Haiti's long history of political instability has considerably weakened the institutions and governance mechanisms**, which contributes to serious fiscal, regulatory and planning constraints. Given these constraints, the Government faces challenges in the development of strategic policies and programs, coordination across line ministries, and implementation of monitoring and evaluation tools to successfully execute a comprehensive program. Lack of institutional and absorptive capacity forces the government to engage in short-term, reactive planning and actions rather than developing long-term strategies and programs. The 2010 earthquake further deepened the existing governance challenges by severely diminishing already weak government capacity (including numerous deaths at the disaster management office). Institutional weaknesses are most obvious during emergency situations, revealing limited government service delivery, which is exacerbated by donor dependency and low domestic investment in infrastructure and human capital. These weaknesses feature particularly prominently in disaster risk management which is multi-sectoral.

**In 2001, a National Disaster Risk Management System (SNGRD) was established** to handle emergency operations and manage disaster risk, but despite support by the Support Group for International Cooperation and various civil society groups, its capacity is still low and suffers from limited institutional support. Furthermore, the SNGRD remains informal, with no legislative framework; a draft bill on disaster risk management has been presented to the Prime Minister, but whether or not he endorsed it has not been made public yet. The Directorate of Civil Protection is a unit of the Ministry of Interior, with staff on the ministry's payroll but no specific budget for operations. These constraints limit the system's operational capacity. Haiti has no high-level coordination mechanism that convenes line ministries and technical institutions responsible for disaster risk management.

**Despite these institutional constraints, the government has been improving its ability to respond to adverse natural events**, particularly hydro-metrological hazards. Given the limited capacity and support at the central level, the Directorate of Civil Protection has relied on a broad network of local level actors engaged in disaster response activities, such as Municipal Civil Protection Committees that have been established at local level and trained to be mobilized before, during, and immediately after disasters. With substantial donor support to fund the participation fee and annual premium (in the order of US\$400,000 per year), Haiti joined the CCRIF in 2007, a big step towards market based ex ante management of disaster risk. It subsequently benefitted from a US\$7.7 million payout two weeks after the 2010 earthquake – representing about 95% of contributions in cash received the first months. Haiti is expected to be among the first to also avail cover under the CCRIF's upcoming new excess rainfall product; adapting the model to the country has been technically challenging, but negotiations between CCRIF and Haiti are expected to start in September 2013.

## 2. Government's public financial management of natural disasters

### 2.1 Budget instruments

**No meaningful budgetary instruments to address natural disasters were known in the past, but that seems to be changing.** There are no legal, stated contingent budgets or liabilities in the case of a natural disaster, and there are no mechanisms that specify the use of insurance payouts from the CCRIF to the

country's treasury. The government claims to have allocated US\$185 million to disaster risk reduction and management activities<sup>7</sup> in 2012 (more than 15% of the 2013 national budget).

In the past, public budgeting was minor. The Fonds d'Entretien Routier funds emergencies through a special emergency fund established for this purpose, financed each year by an amount of 5% of its general budget (around US\$880,000); unused amounts are carried over to the next fiscal year. And since 1966, private and public employees contribute 1% of their gross salary towards a Fonds d'Urgence. Funding from it is made available at the departmental level after a disaster by the Ministry of Finance, on request of the delegate representing the ministry of interior.

## 2.2 Market-based solutions

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**The CCRIF, an innovative insurance mechanism designed to provide short-term liquidity, has been protecting Haiti since its inception. The scale of the protection offers room for considerable increase, but this would result in higher premium.** When the 2010 earthquake struck Haiti, the insurance coverage of the resulting direct economic losses was less than 1% (compared to 81% in New Zealand that was hit by an earthquake of similar magnitude that year). Commercial property insurance losses were estimated to be in the order of US\$150 million, with 80% assumed by reinsurers.

The 2012 tropical storm Isaac caused significant damage but did not trigger payment from CCRIF, nor did tropical storm Sandy later that year, which caused even more damage (especially to agriculture) mostly from rain, which is not yet taken into account in the current CCRIF Tropical Cyclone model.

Haiti's current coverage limit under the CCRIF is US\$35 million for tropical cyclones and US\$20 million for earthquake. By increasing the premium to US\$15 million for tropical cyclones and US\$3.5 million for earthquake, cover could be increased to US\$328 million for tropical cyclones and US\$150 million for earthquake, which could be considered to be more adequate. However, a premium increase is presently not being considered<sup>8</sup>.

**Importantly, public assets are not insured in Haiti.**

## 3. *Ex ante public interventions from government and donors*

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### 3.1 Safety net programs against natural disasters, including credit guarantee schemes and subsidy programs

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**Instead of government provided social security arrangements, safety net programs have been operated by a large number of NGOs; this seems to be changing.** The Institut d'Assurance Sociale d'Haiti was created in 1949 to implement and run a system including old age pensions, health care financing, life assurance and workers' compensation (but not disaster risks). That soon proved too ambitious, so the only forms of social safety net currently in place are workers compensation provided by the Office d'Assurance Accidents du Travail et Maternité, and retirement benefits provided by the Office National d'Assurance. Estimations of beneficiaries range between 90,000 and 300,000, that's less than 3% of the population - in theory all urban workers from the public and private sector are covered, but in practice it applies only in and around Port-au-Prince. Benefits are small (two thirds of beneficiaries receiving no more than US\$12 per month, the maximum seldom exceeding US\$150) and said to occasionally be arbitrary.

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<sup>7</sup> HFA progress report, Priority for action 1 Core indicator 2 : Dedicated and adequate resources are available to implement disaster risk reduction plans and activities at all administrative levels

<sup>8</sup> The cost of risk protection via CCRIF is more than 40% lower than if the risk was retained or insured at market rates.

A rudimentary public healthcare service is also available, financed out of tax revenue and foreign aid. In February 2012 a bill was presented to parliament calling for a social security regime to cover workers in agriculture and fishery. A National Institute for Social Security in Rural Areas would be created. The legislative process will probably take several years.

The most recent government initiative is the 2012 launch of EDE PEP, the largest social assistance program ever attempted in the country. US\$76 million have been allocated for cash transfers to the elderly and disabled, hot meals and subsidies for students and farmers. US\$15 million have already been spent, with a million people said to have benefitted to date. Under EDE PEP's Economic and Social Assistance Fund, action is underway to regularly transfer cash to a first group of 25,000 handicapped and 25,000 elderly Haitians in need. 57,000 have already received cash transfers, as part of a plan to assist 100,000 destitute mothers this year. More than 22,000 students are set to receive subsidies, while 60,000 farming kits will be distributed to farm workers in rural areas. More than 100,000 emergency coupons and nearly half a million hot meals have been distributed through motorized mobile kitchens in the poorer districts of Port-au-Prince and in provincial cities. Within the next 12 months, the government plans to distribute 818,000 solidarity baskets containing items that can help feed a family of five for up to 10 days. 400,000 baskets have already been distributed.

Other evidence of high level attention to social security include the recent nomination of a Board of Social Security Bodies by the president in late August, and the ILO's engagement with them. This proactive strengthening of social safety networks could benefit from well informed use of insurance mechanisms. Beyond insurance in the narrow sense, such mechanisms include parametric dynamic response of social safety nets based on insurance quality data – for example indices that reflect disaster damage -, indexed government budgets, and the use of appropriately supervised insurance logistics to deliver aid quickly, transparently and auditably. This can help to significantly increase the outreach of systematic ex ante protection mechanisms in Haiti.

### [3.2 Public investment in market infrastructure for disaster risk insurance \(data, models, subsidies, delivery channels, education campaigns\)](#)

**There is little investment so far and is mostly donor driven.** In 2011, the government spent US\$1.5 million to complete the seismic micro-zoning of the metropolitan area of Port-au-Prince, and the micro-zoning of the 4 biggest cities in Northern Haiti is in progress as part of the " Earthquake Prevention Plan in the North of Haiti " project implemented by UNDP. Haitian media and community radio are actively involved in the dissemination of alerts and information on the issue of DRM: forty journalists have been trained in disaster risk management in the country, about 15 radio and TV stations are voluntarily involved in diffusing awareness campaign and early alerts. The government has also organized campaigns on hydro-meteorological threats during the hurricane season, and awareness campaigns on hydro-meteorological and seismic risks are being conducted in schools. A public hotline lets the population enquire about issues related to natural hazards.

**Several donor led projects in collaboration with governmental institutions have data collection and risk modeling components;** for example, the World Bank is currently transferring a database of country wide hazards modeling, structural building assessment, risk maps, etc. to the Centre National de l'Information Géo-Spatiale. The Global Index Insurance Facility<sup>9</sup> prepared report on financial strategies for

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<sup>9</sup> The Global Index Insurance Facility (GIIF) is a program aimed at reducing the vulnerability of populations, mainly in the Africa, Caribbean, and Pacific (ACP) region, to external shocks and vulnerabilities caused by weather and catastrophic risks through index insurance. The European Commission is the largest donor (committing 24.5 million EUR). The program is implemented by the International Finance Corporation (IFC) with support from the International Bank for Reconstruction and Development (IBRD).

managing meteorological risks for the Finance Ministry<sup>10</sup>, and is producing a gridded database of synthetic historic weather data intended to be used for index insurance but also for determination for agriculture management (e.g. optimizing planting times) and map zoning, and for environmental management.

Between 2009 and 2011, the World Bank assisted the Ministries of Economy and Agriculture to develop a work plan to improve the financial management of systemic weather and price risks in the agricultural sector. This technical assistance provided the government with risk maps for different weather hazards, a supply chain risk assessment of the coffee sector, and an analysis of rice price transmission and impact of international food price volatility in local markets. Training was provided to the ministries in order to improve the financial management of systemic weather and price risks in the agricultural sector. Haiti's project funding for National Adaptation Programs of Action measures per capita per year was in the second highest (US\$9 to 37) quintile<sup>11</sup>.

#### ***4. Post disaster public interventions from government and donors***

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##### ***Ex post bailouts (e.g. credit) (including respective roles of government and donors)***

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**Haiti depends substantially on donor support, especially after every disaster.** While development food aid continued at an unchanged amount of around US\$50 million after the 2010 earthquake, humanitarian aid increased from US\$142 million in 2009 to US\$1,562 million in 2010 and US\$517 million in 2011<sup>12</sup>. Even before the earthquake, post disaster relief has been provided almost entirely by donors (who treat Haiti differently than other Caribbean states); after that event, the dependency has increased.

The **Haiti Emergency Relief Response Fund** was established in 2008 and was essential in the 2008 hurricane season. Its budget dramatically increased to more than US\$80 million following the 2010 earthquake. It is an un-earmarked pooled funding mechanism for Haiti managed by the United Nations Office for the Coordination of Humanitarian Affairs in Haiti on behalf of the Humanitarian Coordinator. Its aims to provide rapid and flexible funding to in-country actors to address urgent and unforeseen humanitarian needs in Haiti, but is not intended to serve as the primary means of response, rather as additional funding to initiate, accelerate, enhance or complement the overall emergency response. Between 2008 and 2012, it has funded 98 projects with more than US\$80 million.

A significant portion of development assistance to Haiti has taken the form of debt relief, leading to a drop of the public debt burden from 38% of GDP in FY08 to 12% of GDP in FY11. Having already benefitted from HIPC/MDRI-related debt relief, after the earthquake Haiti received additional debt relief from the IMF (US\$268 million), the World Bank (US\$36 million), the IADB (US\$486 million) and Venezuela (US\$395 million amounting to all outstanding debt to PetroCaribe). In addition, the combined level of budget support from the IADB, EU, Spain, France, Norway and the World Bank amounted to US\$87 million in FY11, US\$27 million in FY12, and a projected US\$93 million in FY13.

##### ***Ad hoc social transfers (including respective roles of government and donors)***

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**Ad hoc social transfers are provided by NGOs, seldom by government.** In 2007, most grant aid to Haiti was directed to one of more than 300 officially recognized NGOs. After the earthquake that number increased significantly to the world's highest density of NGOs per capita. Humanitarian agencies, NGOs,

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<sup>10</sup> Stratégie Financière pour la Gestion de Risques Météorologiques en Haïti, 2013

<sup>11</sup> WorldRiskReport 2011

<sup>12</sup> <http://stats.oecd.org/Index.aspx?DatasetCode=RAA>

private contractors, and other non-state service providers received 99% of immediate relief funding, with less than 1% going to the Government of Haiti<sup>13</sup>. In Haiti, the risk of undermining state authority by the international community is currently real. Joel Boutroué, Adviser to the Haitian Prime Minister, pointed out at the Conference of the International Council of Voluntary Agencies in Geneva in 2011 that “hardly any real cooperation between the Haitian Government and the international community is evident; instead, there is a climate of mistrust. Rather than closely accompanying the Government’s work and taking common action, the promised government aid is handled through international NGOs or not even disbursed. This creates a vicious circle: the Government does not have the necessary financial resources to implement actions and therefore cannot demonstrate success, which in turn would be the prerequisite for gaining assertiveness and obtaining additional funds.” Therefore, there is currently a real risk that the Haitian Government will be replaced by international NGOs in the implementation and planning processes<sup>14</sup>.

### 5. Potential donor overlap

**Many donors are engaged in a variety of projects related to disaster risk management. But apart from support with CCRIF insurance premium, their activities usually don’t address ex-ante disaster financing with market based mechanisms including insurance.**

Existing DRM Projects	Funding / Partners	Budget (USD), Period
Emergency Reconstruction and Disaster Management Project	World Bank (IDA) UNDP, European Commission	19.4 million 2005-2010
Risk Management Program	European Commission	7.8 million 2006-2009
NDRMS Development Program	UNDP World Bank	4 million 2009-2011
National Early Warning System Program	IADB UNDP World Bank	6 million 2006-2010
Haiti Integrated Growth through Hurricane Emergency Recovery	USAID UNDP, IADB, World Bank	96 million 2009-2011
Emergency Bridge Reconstruction and Vulnerability Reduction Project	World Bank (IDA) IADB, UNDP	20 million 2009-2012
Emergency School Reconstruction Project	World Bank (IDA) Canadian International Development Agency, IADB	5 million 2009-2013
Haiti Transportation and Territorial Development Project	World Bank, European Commission, Agence Française de Développement, IADB, Canadian International Development Agency	16 million 2007-2012
Haiti Catastrophe Risk Insurance Project	World Bank (IDA) Canadian International Development Agency	9.4 million 2006-2010
Hurricane Noel Reconstruction Project	European Commission	3.9 million 2009-2011
Technical Assistance to Support the Creation of the DRR Unit at the Ministry of Planning and External Cooperation (MPCE)	World Bank (GFDRR) Ministry of Planning and External Cooperation	500,000 2009-2010

<sup>13</sup> V. Ramachandran, J. Walz: “Haiti: Where Has All the Money Gone?” CGD Policy Paper 004 May 2012

<sup>14</sup> World Risk Report 2011

Indicative Program for GFDRR Funding	Implementing Agency / International Partners	Budget (USD), Period
Technical Assistance to Strengthen Central Capacity through DRR Unit within the Ministry of Economy and Finance	Ministry of Planning and External Cooperation	400,000 2010-2011
Strengthening Sector Specific DRR Institutional Capacities (Ministries of Agriculture, Public Work, Social Affairs, Education, Environment)	Ministry of Planning and External Cooperation, IADB, UN System	1.3 million 2010-2012
Development of local DRR expertise through pilot DRR activities within priority sectors	Ministry of Planning and External Cooperation, UNDP, European Commission, USAID	1.8 million 2010-2012
Building Risk Assessment and Monitoring Capacity	Ministry of Planning and External Cooperation, UNDP, IADB, USAID, European Commission	1.1 million 2010-2012

Together with Financiere Agricole du Quebec and the Interamerican Institute for Cooperation on Agriculture, Développement International Desjardins has launched the Système de Financement et d'Assurances Agricoles en Haïti which in 2012 produced a feasibility analysis (recommending public private partnerships in agriculture insurance, and area yield index insurance – without, however, establishing technical feasibility).

Supported by the EC and implemented by the World Bank Group, the Global Index Insurance Facility has provided premium subsidies and technical assistance benefitting the property catastrophe microinsurance for about 70 000 women microentrepreneurs served by Fonkoze. It has also provided guidance to the government in respect of the financing strategy for the management of meteorological risks and has prepared capacity building workshops, for example on technical issues related to weather and hydrological data and its applications to agricultural risk management and policy. The project is also producing a gridded database of synthetic historic weather data for both Haiti and the Dominican Republic that will be used for insurance pricing and agriculture risk management.

Another major initiative, linked to this insurance one, is the Political Champions engagement in Haiti. A group of the Champions, led by the UK's Secretary of State for International Development and the UNDP Administrator, visited Haiti in April 2013 and agreed with the Government a joint programme of action. Under, the Government's leadership, considerable progress has been made. Three geographical areas have been agreed, namely Grande Anse, the North and North East, to pilot the disaster resilience work. A joint assessment mission is going to the North and North East in mid-September. Consultations with the Government are continuing to set up a *thematic table* to integrate disaster risk management across sectors, support to national planning and prepare new legislation.

## ***6. State of domestic non-life insurance market***

**Haiti's insurance sector is functional but weak, and it serves a small subset of the population only. A rather high tax of 16.5% of insurance premium is one obstacle for more widespread insurance scale.**

### **Legal and regulatory environment**

Although a 1981 law gives the Finance Ministry the authority to supervise the insurance sector, in practice the insurance sector is largely unregulated and unsupervised. The Ministry has limited capacity and human resources to supervise the sector, with only 3 staff working on insurance. The 1981 update of the 1956 law does not contain key provisions such as rights and obligations of the parties in an



insurance contract, conditions for license withdrawal, solvency requirements, and winding down provisions; and supervisory provisions are limited. There is no supervisory authority dedicated specifically to insurance matters, and in practice the industry is largely self-regulating.

A proper regulation and supervision of the insurance sector has been a request of the Haitian private sector, as the absence of regulation and supervision is an impediment to the functioning of credit markets and to the development of insurance services in Haiti.

A World Bank project supported by the FIRST Initiative has assisted in the drafting of supervision guidelines and specific regulations and is currently supporting its implementation while providing capacity building to key staff. There has been some resistance by major insurance companies in respect of compliance with reporting requirements, which have delayed progress. As the damage of the 2010 earthquake included the destruction of numerous government departments and their records, new insurance laws don't top the list of legislative priorities, and the corresponding legislation is pending in parliament.

There is no clarity about the financial soundness of private insurance companies after the earthquake (minimum paid up capital for an insurance company is US\$31,000, solvency margins are not officially prescribed, and there is no information about the maintenance of catastrophe and equalization reserves).

### Property risk insurance

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The US\$25 million non-life (mostly motor) premium estimated for 2011 constitute 67% of the total premium (Haiti has one of the smallest insurance markets worldwide). It is estimated that the four leading non-life insurers accounted for over 85% of premium before the 2010 earthquake, but no updates are available. Insurers are thought to have purchased catastrophe reinsurance cover on the basis of a 10% PML. Most companies' losses likely exceeded this percentage and exhausted their covers, and some insurers stopped renewing property business. There are no statistics on reserves, profitability, assets, claims or expense ratios.

Most bank loans in Haiti require insurance prior to being granted. This is particularly the case for mortgage loans, which require both property and casualty insurance on the house, and life insurance on the borrower. Housing finance is a key area for the reconstruction, but cannot develop without insurance. The 2010 earthquake has increased the demand for insurance products, but at the same time, premiums have tripled (mostly under the cost of reinsurance), limiting the affordability of such products. A proper regulation and supervision of the insurance sector would enhance transparency, attract new investments and increase competition in the sector, facilitating affordability and the provision of new services.

Around half of all non-life business is placed directly over-the-counter with insurance companies. Other less important distribution channels include agents, brokers and banks. Typical homeowners' policies cover no more than fire and special perils, liability and sometimes burglary. Normally a 20% coinsurance clause is attached to the policy in addition to the standard catastrophe deductibles.

In the face of a rather underdeveloped property insurance and micro-insurance market, **Haiti has one of the world's most innovative catastrophe micro-insurance ventures**, distributed through the microfinance institution Fonkoze, insured by the Alternative Insurance Company, and reinsured by the Micro-insurance Catastrophe Risk Organisation and Swiss Re. They offered a pioneering combination of index insurance and basis risk transfer aimed at providing the respective strengths of these two approaches while mitigating their disadvantages: while the parametric trigger reduced the cost and increased claims settlement expediency, the basis risk cover operated like an indemnity-based insurance.

It provided loan forgiveness and US\$125 in indemnity payment for borrowers found to be substantially affected by catastrophic wind, rain or earthquake events, covering around 60,000 women. While this project has attracted considerable attention and support (e.g. for premium subsidies) from many donors including EC funded GIFF, DFID, and SDC, the underwriting result has not been as expected, caused on the one hand by the recent high frequency of disasters in Haiti, on the other hand by the complicated alignment of interest primarily of the Fonkoze staff empowered to assess claims. The product and the business model (which have been extensively documented) are being refined as the stakeholders consider replication in Central America.

### Agriculture insurance

At present, there is no agriculture insurance in Haiti. The projects of the EC funded Global Index Insurance Facility and Développement international Desjardins have not yet resulted in insurance cover, while other agriculture development projects like the IDB/USAID/Technoserve/CocaCola HOPE initiative do not contemplate insurance. The only company that has expressed manifest interest in this line of business so far is the Alternative Insurance Company which in 2012 organized an insurance summit that included a session on agriculture insurance.

### Reinsurance

There is no reinsurance market within Haiti. All reinsurance is placed overseas, mainly in the London and European markets, largely with reinsurers which have long-standing relationships with the local market. There are no statistics to illustrate the amount of reinsurance ceded, but in view of local insurers' low capitalization, it can be expected to be substantial.

The (local and regional) impact of large catastrophic weather, political and social hazard losses, has seen reinsurance costs increase and conditions become more restrictive since 2001. Market practitioners reported substantial increases in proportional treaty costs in the 2004 and 2005 renewals for property business which resulted in direct fire and allied lines rates going up by between 20% and 30%. Reinsurance rates remained stable until the renewal subsequent to the 2010 earthquake when the cost of catastrophe excess of loss reinsurance increased markedly.

Reinsurance in Haiti has also been challenged by political events. Although initially reinsurers rejected claims related to the 2004 turmoil surrounding the ousting of President Aristide despite pressure from the insurance industry because of civil war and rebellion exclusion clauses, they decided to pay 7 million USD ex-gratia claims rather than facing the uncertain outcome of legal disputes.

### Demand for insurance

**Demand has not been quantified but can be expected to be very low.** It is estimated that only between 3% and 5% of the population have a disposable income that is sufficient for them to be considered as potential insurance clients.

As in other non-English speaking countries, there has not been research on the potential for and obstacles to micro-insurance in Haiti, and no information on the possible demand for insurance among wider populations is known. Experience from micro-insurance research and implementation in comparable countries would indicate that demand for insurance is very low among most of the population, driven primarily by a lack of understanding of what insurance is and can do. Given the particularly weak regulation and supervision, the population's trust in the insurance industry may well be even lower than in most other low income countries, further discouraging use of its services.

The Alternative Insurance Company is the only insurer actively serving lower income populations, offering various life insurance products (with support from the ILO) in addition to the property index insurance partnered with Fonkoze. In September 2012 three international funds (including the Clinton Bush Haiti Fund) each invested US\$1 million in AIC to help it provide more insurance to low income households.

### ***7. Opportunities to be financed under this initiative***

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- **Assist the Government's in strengthening the national integrated DRFI Strategy.** This strategy will build on and incorporate the current CCRIF cover, the "National Disaster Risk Management System". It would support the development of the catastrophe insurance market and well as the development of a comprehensive sovereign DRFI plan. Given the low level of institutional capacity, significant levels of capacity building would need to be conducted to make this strategy meaningful and effective. If successfully implemented, the sovereign DRFI plan would give the Government immediate access to funding and transparent and effective budget execution processes post shock events.
- **Explore market-mediated insurance mechanisms linked with social security programs.** Insurance quality data and loss indices could be used to enhance social security programs against natural disasters managed by the government and NGOs.
- **Establish a Technical Support Unit, in partnership with public and private stakeholders,** to develop domestic market infrastructure and crowd in commercial insurance to make disaster and social protection effective, efficient and sustainable. This entity can be conceived modularly, so as to first address catastrophe insurance and secondly microinsurance or agriculture insurance etc. By housing all the expertise under one mission and lead, it can transcend boundaries between rural protection, social safety nets, inclusive and sovereign insurance, and implement solutions across sectors and ministries. With appropriate governance, it will attract the private sector to make public private solutions more likely in risk transfer. This entity could make available transparent and tamper-proof disaster loss indices market-based risk transfer transactions such as property catastrophe insurance based on CCRIF parameters.

### **List of Acronyms**

AAL	Average Annual Loss
AIC	Alternative Insurance Company
CCRIF	Caribbean Catastrophe Risk Insurance Facility
DFA	Dynamic financial analysis
DFID	Department for International Development (UK)
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
EC	European Commission
FIRST	Financial Sector Reform and Strengthening
GAR	Global Assessment Report on DRR
GFDRR	Global Facility for Disaster Reduction and Recovery
GIIF	Global Index Insurance Facility
HFA	Hyogo Framework for Action
HIPC	Heavily Indebted Poor Countries
IADB	Inter-American Development Bank
ILO	International Labour Organization
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
MPCE	Ministry of Planning and External Cooperation
NDRMS	National Disaster Risk Management System
PML	Probable maximum loss
SDC	Swiss Agency for Development and Cooperation
SNGRD	National Disaster Risk Management System
UNDP	United Nations Development Program
USAID	United States Agency for International Development