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**PROPOSALS TO RETAIN  
REINSURANCE AVAILABILITY  
IN THE CARIBBEAN**

**CONTRACT NO. AFR-1520-C-00-1128-00,  
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**OFDA/PMP SUPPORT PROGRAM**

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Consultant's Report

Proposals to Retain Reinsurance Availability

in the Caribbean

( English speaking states and the Dominican Republic)

F O R

Regional Housing and Urban Development Office (RHUDO) - Jamaica

and

United States Agency for International Development (USAID)

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## EXECUTIVE SUMMARY

### 1.0. Project Scope

The Regional Housing and Urban Development Office for the Caribbean (RHUDDO/CAR) has prepared a proposal called the Caribbean Disaster Mitigation Project (CDMP). RHUDDO/CAR requested that as part of the proposal a study of the availability of reinsurance in the region be conducted. The terms of reference are attached.

The CDMP proposal and related support studies, had raised the concern that the withdrawal of reinsurance protection to the local insurance industries could materially reduce the availability of insurance per se, and also limit insurance claims payments to compensate policyholders after a natural disaster. Furthermore, prospective investors and lending institutions might restrict development activities in the absence of adequate insurance protection.

Discussions were held over ten days with insurers, lending institutions and regulators in Barbados, Jamaica and the Dominican Republic.

### 1.0. Summary of Project Conclusions :

#### 1.1.

So far there have been limited examples of outright withdrawal of reinsurance as well as mid-term contract changes. The dust has yet to settle on the Andrew consequences but the sheer dimensions of recent worldwide catastrophes indicate that the reinsurance industry is taking a bed rock reassessment of the extent of future involvements. Moreover, reinsurers are likely to only tangentially consider the Caribbean market needs when allocating their now scarcer capacity.

#### 1.2.

Reduced reinsurance availability will strain local insurance companies' capability to provide full indemnity catastrophe claims payments to policyholders. Duration of reduced reinsurance availability is not expected to exceed two years assuming worldwide catastrophe severity/frequency levels revert to those historically experienced. However the cost of insurance and reinsurance is expected to rise but the extent cannot be estimated at this point in time.

#### 1.3.

Local insurance industries are perceived as fragile. Historic high dependency on foreign reinsurance has impeded growth of local insurers' capital bases, mature underwriting expertise, disciplines, and astute premium pricing. Improvements in all areas are needed strategies to maximize reinsurance availability in the future.

#### 1.4.

There is a need for insurance companies to improve risk quality of their portfolios. This is the single strongest thrust they can adopt to contain reinsurance costs as well as retain reinsurance capacity. This thrust will improve claims ratios to themselves on their net account results as well as the results of their reinsurers.

### 1.5.

Given the current acute attitudes of reinsurers, insurers need to present harder and precise evidence of the catastrophe peril exposures in their portfolios. Government agencies and lending institutions have a keen interest for hazard mapping for their functional purposes. There would appear to exist therefore a strong argument for starting, without delay, some meaningful mapping effort that is affordable in terms of cost and expertise resources. This would serve as a precursor to a full "scientific" project.

### 1.6.

Effective building construction technologies have been developed and they await further collation and dissemination for the Caribbean. Implementation of sound building technologies in the Caribbean will call for raising awareness, training, enforcement, and more than anything else, incentives. The challenges in terms of leadership, management, time and money are great and beyond the resources, and even the present inclinations, of the area insurance industry.

### 1.7.

It is not clear the extent to which reinsurance availability will impact on the investment climate in the Caribbean. What is clear is that insurance will be harder to obtain and will cost more. Moreover, many of the small and medium sized businesses will be required to take increasing exposure to catastrophe risk and pay higher premiums. They will either drop such insurance or their costs of operation will become more onerous. Under most circumstances those businesses which have privileged access to insurance will pay higher premiums while others with less access will be uninsured or pay substantially higher premiums. It is also clear that lending institutions will not extend credit for investment unless businesses have some meaningful collateral or insurance.

### 1.8 Conclusion

Assessment of likely future reinsurance availability to-day has to be viewed against a back drop of a shaken confidence in technologies enhancing predictability of natural disasters. Climatic, seismic, and volcanic occurrences, in frequency and severity terms, have confounded predictions based on such observations as the El Nino current, Saharan wind and humidity cycles, crust plate movements, and volcano pressures. Of particular concern in an insurance context, is the absence of discernable catastrophe return period patterns. Risk taking for catastrophe perils is perceived as less calculable than hitherto.

Insurance, as economic risk spreading mechanism, is highly capital dependent, particularly for catastrophe peril risk taking. The world can be perceived as becoming more capital hungry and the increased cost of capital will raise the cost of insurance.

The Caribbean is very capital hungry, very prone to catastrophes, and has weak infrastructures. Area countries could well ponder whether the insurance mechanism, with the heavy dependency on foreign reinsurance, should continue to form the principal mechanism to minimize the economic consequences of natural disasters. Insurance is going to be more costly, less available, and thus less reliable.

Active consideration therefore appears merited to promoting, across both public and private sectors, a vision for grass roots, bootstrap, indigenous approaches to minimize risk exposure to natural disaster catastrophes. The technologies exist, their dissemination does not; incentives form the catalyst; returns from outlays for incentives need clear articulation.

## Terms of Reference - Scope of Work

Working in conjunction with RHUDO and the Insurance Association of the Caribbean, the consultants will meet with representatives from the reinsurance companies, local insurance companies, the Insurance College of Jamaica and others including the Dominican Republic, Jamaica and Barbados or Trinidad to :

- a.  
Assess the extent of the gap which exists between reinsurers and local markets in terms of providing reinsurance for the region. Identify key issues which mitigate against a narrowing of this gap. Through discussions prepare a series of proposals with alternatives/compromises which can serve to eliminate or reduce the perceived problems.
- b.  
Assess the current data gathering practice by the IAC and local companies. Determine the relevance and reliability of data collected assessing of the vulnerability of the Caribbean recommend alternatives as necessary. Additionally the consultants will explore other experiences in managing Probable Maximum Loss (PML) in the region, e.g. the Factory Mutual's approach in which premiums are priced based on the company's participation in design, construction and maintenance of a facility, the U.S. National Flood Plain insurance Program or such other experiences geared to reducing the level of risk (PML) in hazard prone areas.
- c.  
Analyze the impact of various withdrawal scenarios, e.g. 20% loss, 50% loss, and 100% loss, on the investment climate from the standpoint of capital investment as well as the impact of the Insurance Industry's own capacity to invest. For example, if insurance companies increase their catastrophe risk exposure, will they have to divert these resources into reserves to meet such claims.
- d.  
Develop indicators for assessing the short, medium and long term impacts of the project on the insurance sector in the region. These may include increase in the number of reinsurance companies operating in the region or movements in premium level of catastrophe coverage etc.
- e.  
Based on the above, the consultants will develop a proposal for establishing a regional insurance data bank, a strategy to deal with reinsurers, a strategy to reduce PML, etc..

## 2.0 Proposals for Retaining Reinsurers

### Overview :

This report proposes specific measures aimed at improving reinsurers' willingness to provide their capacity to the Caribbean market. These measures, Appropriate Risk Pricing, PML Reduction, Hazard Mapping and Building Technology have some potential to enhance reinsurers' willingness. However, other factors are of more significance to reinsurance availability in the Caribbean :

### 2.0. a. The Worldwide Catastrophe Reinsurance Market

The Caribbean reinsurance market is a tiny fraction of the worldwide market. Recent years' reinsurance experience outside the Caribbean has been very adverse both for natural and other disasters, culminating with hurricane Andrew now reported at over U.S. \$13 billion in insured losses.

Recent catastrophe frequency and severity levels have never been higher. Suspected changes in weather and seismic patterns worry reinsurers that their business is much less of a calculable risk business than hitherto thought. During our visit discussions it became evident that at this juncture it is not practical to forecast reinsurers' ongoing attitudes. So far there have been limited examples of outright withdrawal as well as contract changes in mid-term. The dust has to settle on the Andrew consequences but the sheer dimensions of recent catastrophes indicate that the reinsurance industry is taking a bed rock reassessment of the extent of future involvements. The reinsurance needs of the Caribbean market will form only a tangential piece of this reassessment.

### 2.0. b. Private Insurance as an Appropriate Mechanism for Disaster Compensation.

The dimensions of the increased frequency and severity have brought into question whether private insurance can serve as an appropriate protection mechanism.

In the U.S. the federally sponsored National Flood Insurance Program (NFIP), over a decade ago largely took the place of traditional private reinsurance for flood compensation. The relative certainty of flood damage in given areas made traditional private insurance both unaffordable and to a great extent unavailable. All concerned realized the potential flood risk cost to structures in flood prone areas was too high to merit traditional structures being sited in these areas.

The result was to enforce damagability mitigation via planning, building code, EPA, and other regulations. From an insurance standpoint for example, flood coverage is now only customarily available for approved siting and structure designs at stipulated heights above established high water marks. It could be that as more risks exposures are properly sited and designed, private insurers will return to flood insurance. Not dissimilar concepts and programs have been set up for hurricane exposures in several Gulf states. The last major San Francisco earthquake has prompted serious and active consideration being given to federal government involvement in a reinsurance capacity.

The above points contain lessons for the Caribbean insurance markets' thrust to retain reinsurance capacity. Firstly, private reinsurers need to perceive the risks they take as being calculable risks, particularly as to the frequency and severity exposure dimensions; secondly they have to perceive that the reinsurance risk premiums are high enough to provide a reasonable prospect for profit and the building of reserves. If these two perceptions are not widely held, reinsurers can be expected to withdraw their capacity and/or price for their perceived safety margins as well as impose coverage restrictions to contain their exposures.

The severity of such measures by reinsurers will govern the amount of primary insurance available in the Caribbean markets ; the extent that primary policy insurance is relatively unavailable to meet the demand could prompt entry of governmental roles in the business. This, however, for the Caribbean is viewed as both doubtful and as some time away. The realities of the potential for limited reinsurance availability apparently are not grasped by the insurance regulatory authorities and certainly the regional governments have higher priorities.

#### **2.0.c. Thoroughness, Credibility and Timeliness of Exposure Information**

The above paragraphs argued that reinsurers, like never before, will require to be satisfied that they are dealing with calculable risks. To the extent that the information available to them from their primary insurance company clients is less than accurate, their participation decisions will be adversely affected.

This issue can be viewed in two sections; firstly from a macro standpoint, i.e. that there need to exist recognized and established standards for Probable Maximum Loss (PML) assessment with PML segregation for each major peril, and for Hazard Mapping. These are discussed in subsequent sections of the report.

Secondly it is equally important that reinsurers can confidently accept reported exposure information to be accurate and properly compiled. One gained an impression that while insurance companies readily accepted their high dependency on reinsurance, their primary effort remains a thrust for premium growth (and hence commission revenues), in their highly competitive, perhaps overly saturated, marketplaces.

This apparent dichotomy of business priorities, prompts irritation on the part of companies in having to meet reinsurers' reporting and other requirements if these stifle competitive capability. Reinsurance arrangements are very private matters to each company. While this is understandable, one wonders whether it should extend to the apparent myriad of reporting formats. Common statistical reporting systems would seem preferable and speedier as well as less expensive in operation. Similarly risk underwriting techniques and disciplines are of obvious importance to reinsurers. We heard "war stories" of some large really hazardous risks receiving less than appropriate underwriting (PML etc.) and pricing attention.

#### 2.1.a. Vulnerability Reduction

Vulnerability reduction is generally taken to embrace those measures that can be taken to reduce the consequences of natural catastrophes -principally the economic consequences in the insurance context. These measures can be split into two segments; those aimed to lessen direct physical loss and those aimed at reducing loss consequential to physical loss.

##### 2.1.a(i) Incentives for Vulnerability Reduction

Incentives, either positive or negative, are needed for risk reduction measures to become attractive; incentives are rarely available in an insurance context in the Caribbean where Risk Management technology is in it's infancy. In developed economies, the insurance sector plays a large role in progressing the philosophy of designing workplaces to minimize physical damage and stoppage of work. Insurance companies are proactive in allowing meaningful premium credits preferring the resulting smaller yet more certain profit margins. In the Caribbean, the relative absence of risk management technology is one factor limiting vulnerability reduction; another, perceived as more telling, is the "agency" philosophy held by most insurance companies deriving from their origins as general agencies of foreign, mainly U.K., insurance companies. This philosophy holds premium reduction measures as working against their need to enhance commission income either from their distributor ties or from their reinsurers. For example, our discussion on the rationale for premium reductions for secure residential roofing devices focused on the expense of inspections etc. rather than the benefit of reduced hurricane loss exposure. However, as the availability of reinsurance changes, local companies, especially the more reputable ones, that do assume increased levels of risk, should begin to change their attitudes. For example, one of the major insurers in Jamaica has initiated risk and actuarial studies to begin to address the need for more accurate measures of vulnerability.

Some vulnerability reduction steps have been taken and often at the initiative of the insured corporations rather than the local insurers. Barbados Light & Power carried out risk management measures and disaster audit measures thereby enabling it to retain the scope of required insurance. Large foreign owned resort concerns are believed to import their corporate policy protection standards. In Jamaica and the DR, a further factor works against proactive vulnerability reduction measures. The ravages of inflation over the years have made insurance something of a luxury cost item even for sizeable businesses. To a material extent, insurance is purchased only to fulfill lending institutions' requirements; going to further expense of reducing vulnerability is not a widely accepted practice particularly as there is no apparent cost/benefit return in the premium cost.

Reinsurers have, perhaps unwittingly, played a role in limiting the prevalence of vulnerability reduction measures. In pricing their protection product across whole portfolios containing multitudes of risks, they do not demonstrate a readiness to spur discriminatory individual risk pricing aimed at rewarding the well protected risks and penalizing the bad. If reinsurance, being the single highest cost component to an insurance company, does not discriminate by risk quality, a primary insurer senses little incentive to see the net retained premium reduce to recognize risk quality distinctions. This attitude may soften in light of current hemispheric industry conference discussions, but to-day a primary insurer may doubt the competitive market has the nerve to adequately penalize bad risks' pricing.

#### **2.1.a. (ii). Vulnerability of the Local Insurance Companies**

Economic vulnerability in a natural disaster scenario needs also to be examined from the standpoint of the local insurance companies' financial strength. Insured losses from prior natural catastrophes in the Caribbean have been paid promptly and fully -- the 1988 Gilbert Jamaica hurricane being the most recent major example.

In the likely foreseeable future, there will be less reinsurance available. Local insurance companies will likely carry higher net aggregate retention limits for catastrophe perils. The issue therefore becomes the need to ensure that the local companies will have the financial capability to again fully meet their policy obligations on a timely basis. Similarly reinsurers' capital and reserve positions have to be weaker than traditional levels. It behooves the local insurance regulatory authorities to strengthen their scrutiny in this regard. The Data Bank section of this report reverts to this issue.

#### **2.1.b. Appropriate Pricing**

There are two elements to the pricing discussion; the price of reinsurance and the price of primary insurance. The reinsurance price is the single largest element of the insurance price as reinsurers are taking by far the largest share of the risks, perhaps averaging over 85 % of catastrophe perils.

### **2.1.b(i) Reinsurance Pricing**

The capability of appropriate reinsurance pricing to improve the availability of reinsurance might, on the surface, appear obvious i.e. there should be a price at which reinsurance would become readily available. This would be the case if there would exist worldwide enough capital to support the demand for catastrophe reinsurance; this is an open question as suggested at the start of this report. Furthermore, the reinsurance price can go up only so far before the affordability of the primary insurance product becomes a real issue. From the standpoint of the Caribbean insurance market, reinsurance pricing will remain on a take it or leave basis as reinsurers, in a seller's market, will seek price levels for both the perceived current risk levels as well as something to claw back claims' costs from recent year worldwide catastrophes.

There will be but limited reinsurance price differentials between reinsuring good primary portfolios and so-so portfolios; poor track record portfolios will have real trouble obtaining reinsurance at affordable rates and/or conditions.

### **2.1.b. (ii). Risk Pricing under Primary Insurance Policies**

Premium pricing at the primary policy level needs to be more discriminatory for two reasons; firstly, as an incentive for vulnerability reduction but as earlier discussed, there is little prospect of significant progress on this aspect.

More important in a practical sense, is the need for insurance companies to improve the risk quality of their portfolios. This is the single strongest thrust they can adopt to contain reinsurance costs as well as retain reinsurance capacity. This thrust will improve claims ratios to themselves on their net retained account and to their reinsurers.

Disciplined underwriting for risk selection, PML assessment and Hazard mapping are key pricing elements. Companies must strive better to match price to risk. For this, pricing approaches need to be more free of informal or formal regulation so as to permit meticulous pricing of risks to individual risk characteristics and the perils insured against. In particular, segregated catastrophe peril pricing is merited. The existing tabulated price approaches will not achieve the needed risk pricing discrimination goals. Above all, however, has to be the market discipline to avoid chasing the premium dollars for cash flow and commission generating purposes.

### **2.1.c.. Reduction of Probable Maximum Loss (PML)**

In an overall sense, reducing PMLs can only be significantly achieved over time as structures are more rationally sited and physically protected against perils insured against. These measures are discussed later in this report.

To some degree however, PML reduction is available by significantly up pricing and granting less than full coverage to structures which have "intolerably" high PMLs. As an example, there exist several coastal resort pier structures carrying high PML values and very weak protection measures. We were told that the industry competes for these sizeable risks on terms and conditions only marginally, if at all, stricter than those for more average risks. Similar examples and attitudes are sure to exist as regards flood and earthquake perils. Rational "penalty" pricing, reconciled to realistic PMLs, needs to become a part of any appropriate pricing strategy.

One suspects PML's need rationalizing rather than reducing per se. Visiting Miami for hurricane and San Francisco for earthquake could provide study material to improve awareness of distinctive structures' resistance and siting qualities thus allowing for more rational PML assessment.

#### 2.1.d. Hazard Mapping

The concept of hazard mapping is to produce reliable mapping to identify and classify gradations of hazard by natural peril - earthquake, hurricane, flood and storm surge. This mapping, serving insurance purposes, would be linked to other mapping for other civic purposes e.g. ecological, waste treatment, transportation etc.. Future development and land use generally would thereby be better planned and controlled.

In our discussions, there was general consensus on the rational for insurance peril mapping with suggestions that outside help and in depth scientific expertise was very necessary and that it would take several years time and a lot of money - which insurance companies are not willing to spend. This is understandable, as even in the U.S., production of hazard maps is undertaken by the Army Corps of Engineers and the U.S. Geological Service thus allowing wide public availability.

Given the currently acute attitudes of reinsurers, insurers need to present harder and precise evidence of the catastrophe peril exposures in their portfolios. Government agencies and lending institutions have a keen interest for hazard mapping for their functional purposes. In some cases this has already started on a limited scale. A shortage of money and human resources has prevented any large scale implementation of what can be considered pilot projects started under previous disaster assistance projects.

There would appear to exist therefore a strong argument for starting without delay, some meaningful mapping effort that is affordable in terms of cost and expertise resources. This would serve as a precursor to a full "scientific" project.

referenced - their wind speeds, origins, tracks and types of damage caused can be collated to discern patterns, e.g. most impact tracks point from 90 to 180 degrees, and hill areas provide some lee shelter from damage at varying observed distances. For earthquake, past history, known faults and subsoil depth and composition is relatively readily available information; from this some valuable, but not optimum, deductions can be made. On flood, interviews with area residents would indicate known high level marks (which could be marked on posts). Return period patterns would not be available from this simplistic approach; but reinsurers have a renewed skepticism to past "scientific" forecasting of return patterns.

The issue is whether something is better than nothing; if it is, then the issue becomes one of resources for management and execution. One wonders whether the Defense Forces in the respective territories could be most valuable resource for project participation.

#### 2.1.e. **Building Technology**

Recent decades have seen significant advances in building technologies to demonstrably and effectively lessen and even eliminate structural damage from natural disasters.

California earthquake structure technology has resulted in structures such as the Transamerica pyramid San Francisco office tower, perceived as safe enough to obviate the need for earthquake insurance. Chile has hard evidence from actual earthquake experiences, as to the relative performances of different siting and construction techniques. For hurricane, the U.S. National hurricane Center and the Florida Homebuilders' Association have developed effective protection technologies; as has the National Flood Association for minimizing flood damage. On our visit we met Guy Williams in Barbados who is completing simplification of the Caribbean Unified Building Code to make the code more readily useable by both builders and construction inspectors.

Effective building technologies have been developed and they await further collation and dissemination for the Caribbean. Implementation of sound building technologies in the Caribbean will call for raising awareness, training, enforcement and more than anything else, incentives. The challenges in terms of leadership, management, time and money are great and beyond the resources and even the present inclinations of the area insurance industry.

As on the hazard mapping topic, the practical issue again appears as one of deciding whether something is better than nothing. An affirmative decision would call for a multi-skilled project approach to be funded and commissioned to classify elements of available building technologies and related codes into "Complexity Groupings".

The "Complexity Groupings" term is intended to signify the approach by which multi-discipline professionals would on the one hand, rank building technologies and related codes for pay back value in terms of disaster mitigation. On the other hand, they would relate these ranked paybacks to the realistic practicalities of implementation. This matrix type approach should identify the matches between good payback and those measures reckoned to have a good chance of ready and affordable implementation. Thereby some valuable progress could be achieved and serve as a stepping stone towards a more full ultimate implementation.

An example could well be the retro-fitting of roof straps to residences. It is estimated that residence roofs blown away in the 1988 hurricane Gilbert in Jamaica accounted for over half the insured losses.

## 2.2 Data Bank for Caribbean Insurance Industry

The concept for an industry data bank stems from the premise that an insurance industry, wherever located, strives to be seen as ably serving several constituencies beyond an insurance entity's owners, management and staff. The other constituencies include policyholders, distributors, lending institutions, reinsurers, regulators and the communities where the business is transacted. Premiums are paid in advance to meet future claim eventualities; the stewardship of these monies imposes a special civic responsibility in areas prone to natural catastrophes which cause widespread social and economic distress.

If the premise is accepted, then the industry's constituents reasonably deserve a succinct awareness of insurance companies' performance capabilities. In turn, an insurance regulator has the role of anticipatory vigilance of the financial strength and practices of the industry. Insurance companies themselves should proudly promote information mechanisms displaying strengths and sound practices of their industry, without fear of having to divulge legitimate operating trade secrets.

For the desired information to be effectively available, standardized formats and compilation "clearing house" arrangements are required. In the Caribbean, there exists a combination of trade association, e.g. IAC, and insurance regulator involvements for these purposes. The adequacy of the information and the timeliness of compilation varies very widely indeed by territory; so much so that improvements are clearly required to satisfy information needs of the industry constituents. In particular, it appeared that neither balance sheet nor net risk acceptance retention level information is included in existing reporting.

In addition to the existing IAC formats, it is suggested that data bank information cover at least the following key information areas :

Underwriting Liability Criteria

Capital and Free Reserves  
measured against Net Retention levels for :

- Worst track class IV hurricane net PML aggregate accumulations
- Earthquake zone Richter 6.0 shock net PML aggregate accumulations
- Individual (non catastrophe peril) net risk retention.

Quality of Ceded Reinsurance Criteria :

Similar criteria as for net retention aimed to establish the adequacy of the reinsurance program. This should include classification criteria on reinsurers' financial strength.

Fiscal Criteria :

Prior two and current year tabulation of ratios of Capital and Free reserves to :

- Premiums net of reinsurance and all commissions and expenses
- Claims Reserves on net of reinsurance basis.

Asset Quality Criteria :

Display prior two and current year assets at market and statement values by type of instrument :

- cash
- Bonds (inc. maturities)
- Equities
- Loans
- Accounts Receivable - aged and including bad debt provision.
- Other Assets - to be specified

All displays to show intergroup relationships.

The above criteria could be viewed as a minimum starting point. Desirably the insurance company associations should devise the criteria and seek concurrence thereto from their respective insurance regulators. This work could be accelerated by study of the Dominican Republic's association (Camara) format and also the Colombian Insurance Superintendent's criteria recently enacted. The latter incorporates the needed balance sheet and retention level criteria information.

For most "lay-man" constituents of the insurance industry, the above information requires distilling into a succinct classification system to show clear ratings at different performance levels. This could have a simple scale related to the industry norm, thereby companies would be rated as above, at, or below average for the industry. A two or three year delayed start would enable companies to move to their desired rating positionings. Companies finding themselves consistently with below average ratings would have themselves to thank but could not validly claim that the classification system put them there.

Companies and regulators need to concur that there should exist a level at which weak insurance companies are recognized as representing a disservice to the industry and its constituents. Enforcement mechanisms need to be seen as tough enough to deal effectively with poor management practices.

### **2.3 Meeting in Florida with Reinsurers**

The primary value of such a meeting would be information gathering on reinsurers' concerns and attitudes; as such it is important to set the meeting timing for when solid concerns and attitudes have been developed following the turmoil of Andrew. Earlier than new year 1993 seems impractical.

It is understood that Caribbean insurance companies have traditionally held one on one confidential reinsurance negotiations. From our discussions it was sensed that this would continue. Any group meeting with reinsurers therefore would need clearance with insurance companies to discern to what extent, if any, collective bargaining would be authorized.

It could however be useful for all concerned to meet with the purpose of fact finding only as to overall concerns and attitudes. The IAC would seem the appropriate sponsoring organization and members might authorize such a meeting after agreeing a pre-set written agenda and be assured that full minutes would be distributed. The agenda would best be limited to fact finding on concerns and attitudes. The meeting should not involve the U.S. Government since reinsurers could misconstrue the significance of the government's presence.

Area insurers will of course be continuing their individual own meetings with reinsurers. As was suggested in Barbados, the respective company associations should get debriefings on general concerns and attitudes discussed.

Another category of meetings, which would impress reinsurers, would be visits to Miami and the National Hurricane center by a small IAC working party delegation. The objective would be to get first hand information from Andrew on windstorm characteristics and damage impacts on different structures at varying distances from impact points

Finally, if Caribbean insurers are by March 1993 still not clear as to reinsurers' concerns and attitudes, then a meeting should be requested so that the main June 30 reinsurance contract renewal date is not allowed to get too close.

#### 2.4 Impact of Loss of Reinsurance

The impact of the loss of reinsurance is perhaps best estimated by considering the positions of the various constituents of the insurance industry, and then discussing any perceived variances by territory in the Caribbean.

Firstly however, it is useful to discuss the likely duration of insufficient reinsurance, as the duration of insufficiency is a measure of the impact. All things being equal, during the period of insufficiency, reinsurance prices will rise and contract conditions will be restrictive i.e. the classic symptoms of a tight market. The increased pricing will reflect the underwriters' perception of greater risk. Historically, tight markets are not long lasting as new capital is attracted to a sellers' market. This suggests that two annual renewal seasons could be the extent of really tight markets. This period could be prolonged of course, in the event of new intervening catastrophes.

Without the benefit of knowing reinsurers' current attitudes, which probably have yet to jell since Andrew, one can only suggest that Caribbean insurers plan for at least two years of tight market conditions, and do all the housekeeping necessary so as to present the cleanest portfolios possible to reinsurers at next renewal. Several housekeeping suggestions are to be found in this report.

Turning now to the various constituents impacted by insufficient reinsurance availability :

Policyholders : Homeowners could see their policy deductibles for catastrophe perils increase beyond the existing common 2 % of full market value. One estimates that policy moneys would be sufficient to cover repairs to allow occupancy rather than full restitution. A similar situation should pertain for those small businesses which carry insurance i.e. most will have monies to recommence operations albeit on a reduced scale. Larger insured corporations will probably get "favored nation treatment" from insurance companies which will likely allocate limited capacity to their larger clients. Otherwise, larger insured companies will seek to insure abroad where needed capacity will largely remain available although at stiff prices.

Lending Institutions : Outside of Barbados, these institutions were perceived as the prime movers of getting borrowers to insure at all as insurance otherwise is seen as not essential and/or unaffordable by homeowners and smaller businesses. In Jamaica and the Dominican Republic the lending institutions customarily have ownership ties to the insurance companies. One supposes that if insurance becomes relatively unavailable because of insufficient reinsurance, the lending institutions will insist on other forms of collateral security such as additional co-signors; they will be reluctant to do this as they will be giving up insurance related revenues. They will also perhaps reduce loan authorization levels. Large foreign owned projects should not suffer if they have access to foreign drawn letters of credit and other guarantee instruments.

Insurance Distributors : Company agencies will follow the fortunes of the companies and higher premiums for the remaining available insurance will mitigate any loss of policy counts. Brokers, who principally operate in Barbados, will similarly be largely unaffected provided commission rates are not lowered, which is unlikely.

Insurance Companies : will be impacted in several ways. Firstly, those with astute management will be reluctant to increase their own retention levels to substitute for the no longer available reinsurance. Increased net retentions would merit a greater capital infusion and/or dividend limitations; both measures reported as unlikely (with a sole possible exception in Jamaica). Secondly, they will seek to reinsure more among themselves as opposed to the traditional exporting of reinsurance abroad. This will increase their net incomes and put strain on their capital base. Thirdly, in the absence of unusually adverse claims frequency and severity, they will see their profits increase from the higher premiums available, this despite the expected reduction in commission received from reinsurers. Fourth, and perhaps optimistically, they will take the sellers' market opportunity of materially improving the risk quality mix within their portfolios.

All in all, area insurance companies will seek to pass through to policyholders any reinsurer imposed capacity restrictions, price increases, and coverage limitations. Astutely managed companies can expect to come out financially stronger from the tight market conditions; whereas businesses and householders will be more exposed themselves and pay higher premiums.

Insurance Regulators : Regulators will be challenged like never before to scrutinize the solvency of insurance companies during tight market conditions imposed by the scarcity of reinsurance. The previous paragraphs suggested the likely impacts on astutely managed insurance companies. Other more opportunistic insurers might see the sellers' tight market in a different light. Higher premium rates, even with less than adequate reinsurance, could be an attractive bet for an opportunist insurer aiming to grow a capital base from current cash flow operations. Quarterly, rather than annual, reporting would be a protection and regulatory enforcement measures should be reconfirmed and published.

#### 2.4. (i) Territorial Variances

Barbados, Jamaica and the Dominican Republic were visited; a little hearsay information was obtained for Trinidad. Industry statistics could not be relied upon for meaningful inferences to be drawn. These comments are therefore made with strong reservations as to their being sustainable.

It could appear that Barbados might have the highest per capita insurance premium income for property insurance; if this is the case, it would suggest that Barbados would be the most adversely affected island if reinsurance were to become less available. However, the Barbados location (and that of Trinidad), towards the southern sector of the Caribbean, suggests that it is less likely to be impacted based on historic hurricane frequency patterns. Whether reinsurers accept this distinction in exposure is questionable.

The Trinidadian insurance industry was referred to as needing improved regulatory discipline. The island also has very real earthquake exposures and unfortunately, a record of significant riot & civil commotion problems. These factors do not contribute to reinsurers' relative willingness to maintain existing levels of involvement.

The Jamaican insurance companies visited expressed the highest concern as to reinsurer's likely continuance; it was here that we heard of outright withdrawals of a few reinsurers. Competition in the market appeared overly fierce in what is probably an over saturated insurance market. The catastrophe exposures are very real; earthquake exposures in the Kingston area are dimensionally enormous for the market size.

The Dominican Republic market shares many characteristics of the Jamaican market with 70 % of insured exposures said to be located in the Santo Domingo area. Gross property insurance premiums in 1991 were some 0.5 % of Gross Domestic Product.

In the overall, the reduction of reinsurance availability in the Caribbean may be thought to result in less adverse economic consequences than in other areas with more developed economies. Caribbean economies have relatively never relied on property insurance as a significant capital protection mechanism. This perhaps somewhat fatalistic attitude stems from generally very low discretionary purchasing powers of individuals and businesses. The cost of insurance is indeed high with expense ratios averaging at least 40% of premiums. It has been the lending institutions that have largely compelled borrowers to insure to protect loan collaterals.

In dimensional terms, the effects of varying reinsurance withdrawal rates could be reckoned as :

20 % Reduction in available reinsurance :

Negligible ripple effects to the economies - coverage limitations would be passed through to policy holders probably without premium reduction. There is some real prospect of this reduction level occurring in Jamaica.

50 % Reduction in available reinsurance :

Some changes by lending institutions who would seek alternate collateral security such as insisting on more co-signors for loans. Loan commitment levels would reduce but credit market would continue open. It is not practical to estimate the extent of any insurance related credit contraction; the likely scope of additional co-signors cannot be assessed and the credit markets are always subject to their own variables related to availability of money, i.e. factors outside of the insurance context. Large insured corporations would find insurance outside their home territories.

100 % Reduction in available reinsurance :

This reduction level is perceived most unlikely to occur across the whole Caribbean or even across any particular insurance market; at worst it would be of very short duration. Some individual companies could lose all their reinsurance support because of having unattractive portfolios, poor track records and/or underwriting and management practices. Competitors could be expected to readily absorb any gaps so created.

If however reinsurance would be totally withdrawn, the duration thereof would be short - say 12 months - and policy holders would wait for the reappearance of insurance; foreign developers would insure outside the territory accepting the increased cost.

In summary it is difficult to perceive material economic ripple effects consequent upon reduction of reinsurance availability in the area.

## 2.5 Conclusion

To-day's assessment of likely future reinsurance availability needs viewing against a back drop of a shaken confidence in technologies to predict natural disasters. Climatic, seismic, and volcanic occurrences, in frequency and severity terms, have confounded past predictions based on such observations as the El Nino current, Saharan wind and humidity cycles, crust plate movements, and volcano pressures. Of particular concern in an insurance context, is the absence of discernable catastrophe return period patterns. Risk taking for catastrophe perils is now perceived as less calculable than hitherto.

Insurance, as economic risk spreading mechanism, is highly capital dependent, particularly for catastrophe peril risk taking. Following the demise of communism, the world can be perceived as becoming more capital hungry and the universal increased cost of capital will impact insurance at least as much other industries.

The Caribbean is very capital hungry, very prone to catastrophes, and has weak infrastructures. Area countries could well ponder whether the insurance mechanism, with the heavy dependency on foreign reinsurance, should continue to form the principal mechanism to minimize the economic consequences of natural disasters. Insurance is going to be more costly, less available, and less reliable.

Active consideration therefore appears merited to promoting, across both public and private sectors, a vision for grass roots, bootstrap, indigenous approaches to minimize risk exposure to natural disaster catastrophes. The technologies exist, their dissemination does not; incentives form the catalyst; returns from outlays for incentives need clear articulation.

SECTION III - Country Notes - B A R B A D O S

**Socio-Economic :**

Barbados extends 14 x 21 miles covering 166 square miles.

Of the total 250,000 population, some 40 % live in Bridgetown located on the SW coast. Most tourist developments are on the SW and S coasts.

Barbados enjoys a stable government and a low unemployment rate for the area; average wages are relatively high for the area. Future price competitiveness is an issue especially for tourism and agriculture (bananas and sugar).

The local currency has held at U.S. \$ .50 (2:1) for several years but now under pressure.

**Insurance Market**

We held three meetings : with representatives of the Insurance Association of Caribbean (IAC), the Barbados Brokers Association and the Insurance Companies Association.

The IAC, located in Bridgetown, is the insurance company trade association covering English speaking Caribbean states. It has the role of compiling industry statistics; the latest compiled statistics are for 1986; these are incomplete and give no balance sheet data. The IAC needs stronger cohesion to be an effective trade association.

Using broad assumptions, an extrapolation of the limited 1986 statistics suggests a total 1991 property/casualty (net of foreign ceded reinsurance) premium volume of some U.S. \$ 42 million of which the property (fire and catastrophe perils) component could be U.S. \$ 7.8 million. This last figure was said to represent some 20 % of the gross property premiums under policies issued, indicating that some U.S. \$ 31 million would have been the 1991 reinsurance ceded to reinsurers outside the island. These reinsurance premiums principally went to the London market and to lesser degrees, to European and U.S. reinsurers, with a small fraction going to Trinidad reinsurers.

Amounts of foreign ceded reinsurance for classes other than property insurance (automobile and "Other") were reported as proportionately very much less - possibly 20 % of their gross premiums.

There are some 15 companies operating in the market, most of which were reconstituted as local insurance companies following passage of the Insurance Law in the 70s. Prior to this law, the market essentially consisted of branches or general agencies of U.K. based insurance companies. As distinct from Jamaica and D.R. markets, the Barbados insurance companies do not have tight ownership relationships with banks or other financial service companies; as such some half dozen independent insurance broker firms can operate in the market together with the companies' agencies.

An increasingly important company in market share and market influence terms, is the government owned Insurance Corporation of Barbados (ICB) receiving compulsory inwards reinsurance from all other companies ( a 10% share of all business written). This arrangement was presumerably designed to mitigate reinsurance outflow to foreign reinsurers and save hard currency purchases.

#### Competition :

In all our discussions there was a consensus that the market was overly competitive and this is implicitly confirmed by the IAC statistics.

Barbados has not suffered a major natural catastrophe for over 30 years yet the property insurance claims ratios have often exceeded 50 % of premiums; operating and acquisition expenses customarily have been at least 40 %. Thereby little or no retained surpluses have been left to contemplate catastrophe claim requirements.

Property insurance premium rates were said to have declined progressively over the years and only currently are the rates getting a jolt upwards as a result of reinsurers' insistence. Competition has been very much on a unsophisticated blanket price basis without discrimination for individual risk characteristics, such as location or construction, to recognize distinctive catastrophe peril exposures. Premium pricing for commercial risks is almost solely based on broad fire risk construction categories and occupancy. Homeowners' insurance pricing is even more simplistic. It became clear that for small and medium sized risks, the insurance premium pricing mechanisms just do not provide any meaningful cost based incentives for property owners to spend money to mitigate risk to loss.

Really large risks are viewed more collectively by the companies and/or their reinsurers, these risks being generally shared among several companies. Special rate levels are adopted apparently responding to the threat of the risks being placed outside of their local market ( e.g. Barbados Light & Power), rather than responding to the risk characteristics.

Our introducing discussion of the rational for individual risk pricing distinctions based on risk engineering measures and Probable Maximum Loss (PML) estimating approaches ( with major peril segregations ), did not meet with enthusiasm other than from the brokers. The PML estimating technique is apparently employed solely for statistical reporting to reinsurers of overall portfolio catastrophe exposures ( Hurricane, Earthquake, Flood/Storm Surge ).

Whether the evident competition can be considered as responsible is not possible to assess without balance sheet data. On the one hand, there exists a property rating agreement which could be expected to act as a safety net against irresponsible price slashing; also all companies have a high dependency on large foreign insurers who so far have seen fit to stick around. On the other hand, answers were not forthcoming to our enquiries as to the effectiveness of the government insurance supervisor's solvency controls. Furthermore our suggestion that consideration be merited towards establishing a simple classification system for insurance companies received very little enthusiasm.

### Reinsurance Position

Reinsurers have recently, but prior to Hurricane Andrew, insisted on policy coverage being restricted to the extent of a 2 % of full value catastrophe claim deductible and also a full average clause under which the amount of a claim payment is reduced to the extent a sum insured is less than full market value. These measures are blanket in nature and materially reduce the exposures of reinsurers and primary companies alike. The reinsurance prices were increased somewhat as were the primary companies' net claim retention levels. All these steps were characterized as awkward but tolerable in light of reinsurers' adverse catastrophe experience elsewhere in the world.

Since Andrew, further steps from reinsurers have ranged from further price increases to outright market withdrawal. The local insurers' trade association formed a committee to recommend strategies to retain affordable reinsurance. We saw their well thought out draft report which points to the need for :

- \* Accurate catastrophe risk exposure assessment.
- \* Accurate experience statistics.
- \* Outside expertise and funding for their study.

They also are considering the relative merits of collective reinsurance purchasing or the formation of a pool. Diplomatic pressure was also mentioned as an approach; it being understood that researched substantiation would be required for any approach. Any collective purchasing approach was seen with some misgivings based on fears that the government owned ICB would take a leading position, companies would have to share "dirty laundry" risks of competitors, and that a pool might have to accept reinsurance reciprocity on catastrophe risks from other parts of the world.

We prompted discussion on local insurers seeing an opportunity window presented by the current and foreseeable high price conditions. These high prices could allow local insurers to raise their retentions, reduce reinsurance (and hard currency) outflow, as well as build retained profits and capital bases. This seemed especially attractive on individual risks (fire etc.), as opposed to catastrophe perils. The lack of interest on this topic served to confirm the impression that insurance company owners have their profit aspirations driven by generating reinsurance commission revenues rather than by insurance risk taking; such a philosophy is a fall back to their original agency status with major U.K. insurance companies. In fact, the higher prices will likely significantly increase the local insurance company profits by the working of the reinsurance sliding commission rates which traditionally are highly geared to the claims ratios. The exception could well be the government owned UCB which would appear well placed to exploit a strategy to deliberately gain market share.

### SECTION III

### Country Notes - J A M A I C A

#### Socio-Economic :

Jamaica is the third largest Caribbean state (after Cuba and Puerto Rico with 4.400 sq. miles. The population is approaching 3 million with over third in the Kingston area.

The Jamaica dollar is at between 25 and 30 to the U.S. Dollar. Inflation is reckoned at between 60 and 70 % p.a.. The economy is struggling to expand in tourism, bauxite mining and winter vegetables. Unemployment is high, as is crime.

The government is stable and challenged to find hard currency to service the external debt of some U.S. \$ 4 billion, the servicing costs equate about 40 % of annual exports.

#### Insurance Market :

Several meetings were held with representatives from the Jamaica Association of General Insurance Companies (JAGIC), the Insurance Superintendent, the Insurance College and two bankers (Citibank & Eagle Group).

Statistics for the Jamaican insurance market were simply not available; the IAC tabulation goes as far as 1986 but even these are labeled "provisional". At the Insurance Superintendent's office we contrived an estimate that the 1991 property insurance gross premiums could have been some J\$ 375 million or U.S. \$ 15 million. The corresponding claims ratio just could not be deduced but there was a suggestion that results had been adverse in several recent years as reinsurance commissions had turned negative. The expense ratio was thought to reach 40 %. Perhaps U.S. \$ 12 million (80%) of the premiums represented reinsurance ceded outside Jamaica. No balance sheet information whatsoever was available.

There are some 20 local insurance companies in the market, many having their origin as general agencies to U.K. insurers prior to passage of the Insurance Law in the early 70s. The only remaining U.S. insurer is the American International Group (AIG) subsidiary, CIGNA having ceased business two years ago. Most local companies are owned by banks and/or financial services conglomerates; collectively these account for the lion's share of the market. Our prompting discussion on the merits of classifying insurers met with little enthusiasm other than expression of the difficulty of displaying an insurance company's realistic financial position detached from that of its financial services conglomerate parent.

Discussions revealed that insurance is not widely purchased voluntarily by Jamaican homeowners or medium or small sized business owners because of affordability exacerbated by the high inflation. Most insurance is purchased to meet requirements of lending institutions to safeguard collaterals. Computer generated premium billings accompany loan repayment statements so a policyholder does not have the same relationship with an insurance company or agent as in the U.S.. The lending institutions were said to arrange insurance only to the extent their collateral interests. It was clear that insurance distribution is very largely in the hands of the financial services sector. This sector has the business philosophy to generate service fee revenues, commission in the case of insurance, rather than profits from insurance risk taking.

#### Competition :

Advisory premium rates for property insurance are promulgated by the JAGIC which has a "breach" committee to review cases of undercutting. Awaiting Competition Act is expected to disallow this arrangement. It might be assumed that competition is only really evident on the sizeable commercial risks; the smaller risks and residential risks are not shopped around because of the distribution held on borrower policyholders by the financial services companies. However the recent actions of reinsurers (see below) suggest that prices for lower sized risks have not been adequate over recent years. The AIG subsidiary might be the strongest competitor for larger commercial risks; it is more tuned to risk engineering concepts and has its own access to huge intergroup U.S. reinsurance facilities.

The 1988 hurricane Gilbert caused damage in excess of U.S.\$ 1 billion in Jamaica. We could not obtain a figure for insured losses but guess the would not have reached U.S. 200 million in view of the low amount of insurance generally purchased. We were told all Gilbert claims had been settled and paid within 90 days; reinsurers imported adjusters and made advance payments. Insurers informed us that 75 % of insured losses were residential chiefly caused by wind forces removing sheet roofing materials. This prompted discussion as to building codes and retro-fitting roof securing straps. While it was readily agreed that such measures would indeed materially reduce hurricane loss exposure, the expense and effective controls therefor were seen as barriers to any such effort being practical on the part of insurers. Similarly there was no interest in allowing premium rate discrimination for risks with protected roofs. One comment referred to the difficulty of programming computerized premium billing system for such a purpose.

One came away with the impression that competition among companies has the driving thrust to acquire business thus supportive of their financial services owners' fee revenue corporate strategy. On insurance pricing, there could well exist the attitude that just as loan money has its price set largely by extraneous forces, so does insurance risk taking - with companies being content that reinsurers set the insurance price provide expense margins are enough for the companies' servicing role profit needs.

### Reinsurance Position :

Reinsurers responded speedily and adequately to Jamaica's last catastrophe, hurricane Gilbert in 1988. Since then prices and conditions eased until the accumulative effect of more recent worldwide catastrophe ( Hugo, Valdez, U.K. winter storms etc.) prompted reinsurers to stiffen prices and conditions - specifically in Jamaica by :

- \* Imposing a 2 % deductible on catastrophe peril claims.
- \* Insisting on full average clauses under which a claim is payable only in the proportion that the policy sum insured bears to the full market value at time of loss.
- \* Increasing reinsurance rates and/or reducing reinsurance commission levels.

Currently Jamaican companies fear that reinsurers are about to drop a second shoe as a result of hurricane Andrew's effect by :

- \* Insisting on higher retentions by the companies so as to place reinsurers further away from loss.
- \* Insisting on reinsurers participating to the extent of 20 % in each layer of reinsurance - thereby containing reinsurers' share of loss.
- \* Setting reduced per event limits of reinsurance protection above which the insurance companies would be unprotected by reinsurance.

Any further major catastrophe to reinsurers would likely see their material withdrawal from the market. In fact the second shoe set of measures can be construed as a constructive partial withdrawal. A catastrophe to occur in Jamaica would prompt massive withdrawal; this is a not unreal prospect given the hurricane and earth quake exposures.

The first set of measures have simply been passed through to the policyholders in the shape of reducing coverage available under their policies. The second set of measures should, on the face of it, more directly affect the local companies rather than policy holders. The limitations of reinsurance protection fall under the reinsurance contracts rather than the policies. These measures would very significantly increase local companies' exposure to catastrophe claims in particular and hence call for material strengthening of their existing capital base. They would find themselves in the "real" insurance business rather than their historic primary role of commission generation and very limited risk taking involvement.

From the discussions, one came away with the view that local insurers will assiduously avoid taking on for themselves any further risk taking liability. They will aim to achieve this by placing further stringent coverage limitations in the policies; in other words the policyholders will bear the consequences of the reinsurers' measures by having yet further reduced protection under their policies. The large risk commercial policyholders will seek to find fuller coverage by insuring outside Jamaica. The effect on lending institutions, which in large part are owners of the insurance companies, might well not be significant. On the one hand, they will have less reliance on insurance to protect loan collateral, and on the other hand they will seek as collateral "indestructible" land that does not need insurance..

Citibank, not having any local insurance company ownership tie-in, stressed their insistence on having fully insured collateral; however they estimated that only a limited part of their loan portfolio had local collateral with the remainder being subject to multi-national letters of credit and other mechanisms. Citibank has developed their own list of acceptable local insurance companies. They also mentioned one local (unnamed) insurance group as having plans to commence a Caribbean multi-territory insurance operation on a full risk taking basis.

The Insurance Superintendent was most circumspect in our meeting and did offer views on the concerns facing the market.

### SECTION III - Country Notes - DOMINICAN REPUBLIC

#### Socio-Economic :

The Dominican Republic, occupying 18,700 sq. miles of Hispaniola island has a population of some 6 million with 70 % below the poverty level. 70% of insured exposures are in the Santo Domingo vicinity.

The U.S.\$ is worth RD\$ 12.50 ; this rate has held for over a year with inflation at 4 % down from over 90 % two years ago. Imports have been liberalized and there is renewed pressure on the exchange rate. Tourism mining and export agriculture are the main foreign exchange earners.

The unemployment rate is high, as is under employment. The country is stable; perhaps a forced stability with the president said to have power over 45 % of the budget. Both President Belaguer as well as his chief opponent, past president Bosch are in their eighties. Government institutions and the civil service are largely staffed by political appointees. State education entities are less than adequate giving rise to 25 % of children being educated privately.

#### Insurance Market

Meetings were held with the two leading insurers and two banks.

Insurance market operating result statistics were the clearest received on the project although balance sheet information is limited. For 1991, the local market property insurance gross premiums were some U.S. \$ 36 million of which 85 % was ceded to foreign reinsurers. Although the claims ratio was a satisfactory 38 % the expense ratio appeared as over 90 % producing an operating loss of some U.S. \$ 2.3 million only marginally worse than the loss of the previous year. Investment income, not broken down by class of insurance, in the overall approximated 5 % of premiums. As most companies are owned by or affiliated with banks or financial service conglomerates one could conjecture that the high insurance expenses could benefit the parent organizations.

There are some 40 companies listed in the property insurance business; of these the leading two hold a third of the market. The government owned company, San Rafael holds just over 6 %. The top 10 companies take 75 % of the market.

Like in Jamaica, insurance is not widely purchased voluntarily but rather to meet lending institution requirements to safeguard loan collateral. Distribution of insurance is essentially controlled by the lending institutions and there is little shopping around.

An important exception as a lending institution, is the government owned Banco de la Reserva which enjoys nearly 30 % of the credit business. The Bank's president explained that his bank, operating entirely independent of the government owned insurer San Rafael, does not require loan collateral to be insured unless the collateral is merchandise stocks. Otherwise he relies on "indestructible" land which does not need insuring. He also viewed the insurance market as over saturated with several weak companies and with an unnecessarily expensive product cost

A new insurance law, having been under consideration for the last seven years, is expected in 1993 and might contain stricter solvency margin provisions.

**Competition :**

Property rates are established with superintendency approval based on fire construction and occupancy classifications plus flat rates for hurricane and earthquake perils. Discounts are available by size of risk. Normal policy deductibles are 2.5 % of the claim or .5 % of sum insured whichever is the greater. Premium pricing is on a blanket basis as in Jamaica, with the RD companies sharing a lack of interest to do otherwise fearing that good risks will get lower premiums but worse risks will avoid needed additional.

Companies' per risk retentions are limited to 10 % of surplus and there is some degree of risk sharing among companies so as to contain reinsurance outside the RD; however 85 % of property premiums were shown as reinsured outside in 1991.

The last important catastrophe was hurricane David in 1979 which companies and reinsurers weathered without difficulty. Since then rates had been progressively reducing. It has only been the reinsurers' recent measures, prompted by major catastrophes outside the Caribbean, that reversed the trend. The outlook for higher insurance prices will not hearten those interviewed to materially increase their risk taking levels; they like their Jamaican counterparts seek to remain in their financial services role rather than become fully fledged insurers.

**Reinsurance Position :**

The two major leading insurance company executives interviewed showed little of the acute concern seen in Jamaica. They talked of their reinsurance renewal being in mid year 1993 and did not expect stiff mid term action by insurers beyond the tolerable price increases so far imposed. They expect by mid 1993, reinsurers will have decided their positions after the Andrew dust has settled. One of the companies interviewed had owned a Florida insurance company which ceased business two months before Andrew, the decision being primarily based on the their assessment of the Florida catastrophe potential.

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