

World Bank Catastrophe Bond Renews \$150 million Hurricane Coverage for Jamaica

In April 2024, the World Bank issued a catastrophe (cat) bond that provides the Government of Jamaica with \$150 million financial protection for four hurricane seasons. The cat bond renews the cover that expired in 2023.

Background

Jamaica is the world's third most exposed country to natural disasters. Its location on the Atlantic Hurricane Belt and its low-lying coastal zones, which are home to over 80% of the population, make it especially vulnerable to hurricanes.¹ Hurricane Dean made landfall on Jamaica in 2007 and caused estimated economic losses of \$329 million.²

Jamaica has a well-developed disaster risk financing strategy. It manages its exposure to hurricanes and earthquakes through a combination of budgetary resources, pre-arranged credits, insurance from the Caribbean Risk Insurance Facility and a cat bond issued by the World Bank. The cat bond provides additional financial protection for extreme hurricane events.

In March 2021, the World Bank issued a donor funded cat bond that provided Jamaica with \$185 million of financial protection for three hurricane seasons. Donors recognized Jamaica's strong fiscal management including preparing for the economic impact of disasters.

Financial and Project Objectives

Jamaica aimed to extend the cat bond coverage for four hurricane seasons to

maintain the resilience of Jamaica's public finances. Moreover, Jamaica sought to optimize the trigger structure to focus payouts on severe hurricane events.



*Residents of the coastal Bullbay neighborhood in Jamaica look over remains of their property, wiped out by Hurricane Dean.
Photo Credit: Wilmington Starnews; August 21st 2007.*

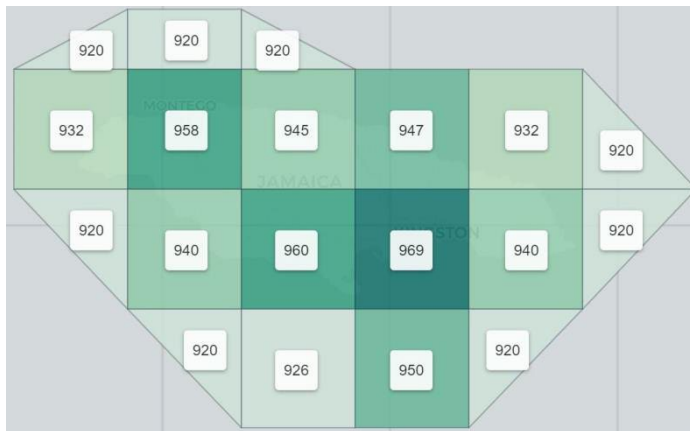
Financial Solution

The World Bank issued a \$150 million cat bond and simultaneously entered into a risk transfer agreement with the Government of Jamaica. Jamaica pays a premium for the coverage reflecting the terms the World Bank achieved on the cat bond.

The World Bank will provide payouts to Jamaica based on the path and intensity of named storms that cross the boxes covering the island. Each box is associated with a threshold for the central pressure of named storms intersecting the box. Stronger storms have lower central pressures, and the maximum pressures for a minimum payout is illustrated below. The size of a payout is determined by additional parameters.

¹https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ppar_jamaicahurricanedean.pdf
2/27/2025

²https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ppar_jamaicahurricanedean.pdf



Outcome

Jamaica demonstrated its commitment to prudent management of its disaster risk by self-financing the 2024 cat bond. The World Bank placed the \$150 million bond with fifteen investors globally.

Fitch Ratings issued a report highlighting how the cat bond “strengthens the country’s risk-mitigation strategy by providing a fiscal cushion in the event of a named storm”.³ Ratings agencies consider potential shocks to countries, including from natural disasters, for their sovereign risk ratings.

Transaction Summary

Peril	Jamaica Named Storm
Coverage Amount	\$150 million
Risk Period	3.67 years
Trigger Type	Parametric CAT-in-a-grid, based on central pressure
Payout Structure	Stepwise linear sliding scale with payout rates of 30%, 70%, 100% of principal
Risk Statistics	Expected loss: 1.61% p.a.; attachment probability: 2.46% p.a., Exhaustion Probability: 0.84% p.a.
Risk Margin	7.00% p.a.

³ <https://www.fitchratings.com/research/sovereigns/new-catastrophe-bond-supports-jamaicas-fiscal-risk-mitigation-01-05-2024>

Cat bond investor characteristics

Geographical base		Investor Type	
Europe	40%	ILS Fund	66%
North America	43%	Asset Managers	33%
Bermuda	14%	Insurer / Reinsurer	1%
Asia	3%		

The World Bank successfully applied for a transaction cost grant from the Hong Kong Insurance Authority (HKIA) for the benefit of the Government of Jamaica and listed the bond in Hong Kong.

World Bank’s Role

The World Bank issued the bond, managed the structuring, documentation, marketing, and execution of this transaction, leveraging its experience and reputation, large investor base, and bond issuance infrastructure including its capital-at-risk notes program.

The World Bank procured external service providers for the transaction, including Aon Securities and Swiss Re Capital Markets as lead managers and AIR Worldwide as risk modeler and calculation agent.