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Property Insurance Challenges in the ECCU

Eastern Caribbean Currency Union

Janne Hukka and Jonas Nauerz

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Property Insurance Challenges in the ECCU

Prepared by Janne Hukka and Jonas Nauerz

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May 2025

ABSTRACT: Property insurance affordability presents a growing challenge for the ECCU. With a high reliance on global reinsurance to manage risks in high-exposure products like property, the recent tightening of global reinsurance market conditions has largely passed through to local premiums and constrained capacity to extend coverage. The rising costs exacerbate the already acute non-and under-insurance challenges in the region. These can worsen the economic and fiscal impacts of natural disasters and, if further exacerbated, raise broader macro-financial stability risks by weakening asset quality and credit conditions. Enhancing the ECCU'S readiness to manage these risks calls for concerted efforts to strengthen insurance data collection, risk analysis, and regional supervision. These would inform the appropriate design and calibration of policies to help close protection gaps, contain future market pressures, and mitigate broader financial system risks.

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Author's E-Mail Address:	JHukka@imf.org; JNauerz@imf.org

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Prepared by Janne Hukka and Jonas Nauerz[1]

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Approved By

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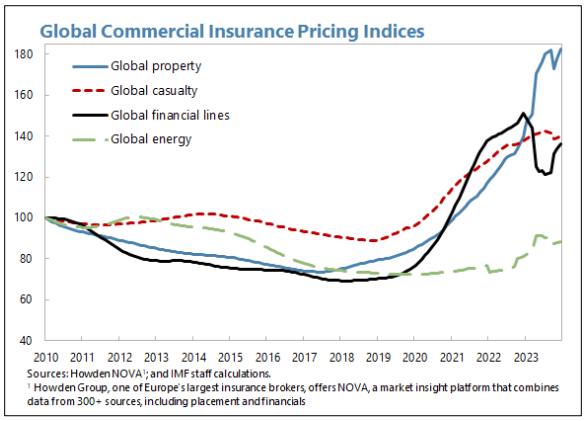
PROPERTY INSURANCE CHALLENGES IN THE ECCU[1]

Property insurance affordability presents a growing challenge for the ECCU. With a high reliance on global reinsurance to manage risks in high-exposure products like property, the recent tightening of global reinsurance market conditions has largely passed through to local premiums and constrained capacity to extend coverage. The rising costs exacerbate the already acute non-and under-insurance challenges in the region. These can worsen the economic and fiscal impacts of natural disasters and, if further exacerbated, raise broader macro-financial stability risks by weakening asset quality and credit conditions. Enhancing the ECCU'S readiness to manage these risks calls for concerted efforts to strengthen insurance data collection, risk analysis, and regional supervision. These would inform the appropriate design and calibration of policies to help close protection gaps, contain future market pressures, and mitigate broader financial system risks.

A. Context: Property Insurance Developments and Risks

1. Global property reinsurance market conditions have significantly tightened in recent years. After a decade of favorable conditions, reinsurance pricing and contractual exclusions saw notable increases in the early 2020s, with a particularly pronounced shift during 2022-23. These increases were driven by record-breaking global losses and an evolving assessment of climate-related catastrophe risks, compounded by higher inflation and asset-side revaluations from changed global monetary conditions. As a result, primary insurance premiums have also surged (e.g., Keys & Mulder, 2024). Recent market conditions in 2025 show early signs of softening following increased global capital supply, driven by higher asset values and growth of catastrophe bonds (Financial Times, 2025). However, future trends remain highly uncertain, and even near-term renewals could be affected by significant losses from recent catastrophe events (Howden Re, 2025).

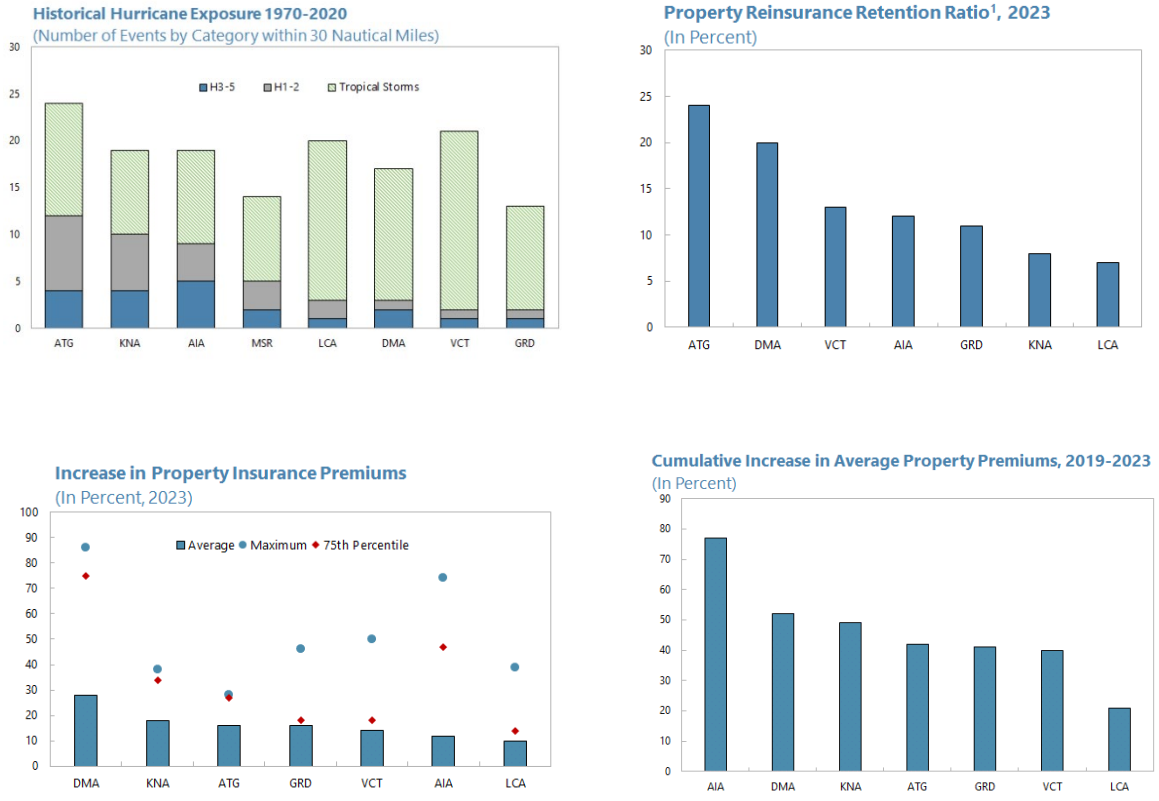


2. Tighter reinsurance market conditions exacerbate affordability challenges to developing small island states in disaster-susceptible regions like the Caribbean. Weather-related disaster risks for the region's primary insurers are highly correlated, and their balance-sheet depth is not sufficient to retain substantial liability risk for high-exposure products like property. Furthermore, the limited scale and maturity of local capital markets largely preclude the development of alternative risk management solutions. Accordingly, primary insurers' capacity to extend coverage relies heavily on availability and terms of reinsurance. In the ECCU, the average 2023 retention ratio—the portion of gross premiums not ceded to reinsurance—for property lines

[1] Prepared by Janne Hukka and Jonas Nauerz.

was just 13 percent. The implied high pass-through of reinsurance market pressures to local premiums (Figure 1) exacerbates existing severe protection gaps (the difference between optimal and actual coverage), as low affordability contributes to widespread non-and underinsurance where coverage is not mandated by the terms of an outstanding mortgage.[2,3]

Figure 1. Hurricane Exposure and Property Insurance



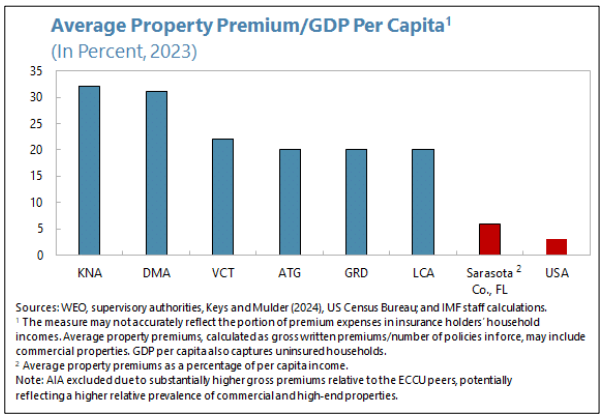
Sources: EM-DAT, NOAA, national supervisory authorities, WEO, Keys and Mulder (2024), US Census Bureau, and IMF staff calculations.

[1] The reinsurance retention rate, calculated as Net Written Premium/Gross Written. Premium is the share of premiums an insurer does not cede to a reinsurer.

[2] Swiss Re (2024) estimates that 75 percent of economic global losses from natural catastrophes are uninsured, and the estimated insurance protection gap in emerging markets is 85 percent. In many cases, including in the ECCU, quantifying this gap is difficult due to a lack of detailed data on retail real estate valuations and, thus, potential loss exposure.

[3] In 2023, ECCU's property insurance penetration (gross premium income relative to GDP) was 2.3 percent, similar to non-OECD economies but lower than in the US and OECD countries, despite a greater vulnerability to disasters. The International Association of Insurance Supervisors identifies several factors contributing to underinsurance: low awareness and understanding of risks and insurance products, lack of affordability, and a general belief that governments will provide support (IAIS, 2023b).

3. A more sustained rise in property insurance premiums can have several adverse macro-financial stability implications. A weaker debt service capacity of existing borrowers would raise lender credit risks. Higher costs of new credit can suppress housing market activity and investment, contributing to greater uncertainty over collateral values. Such risks would be amplified should the reinsurance pressures cause some primary insurers to stop underwriting new policies or to withdraw from property product lines (BIS, 2023). Although there is no indication of imminent widespread reinsurer exits from the ECCU market, the region faces an "affordability gap" compared to higher-income regions with similar risk profiles like the coastal US, suggesting a comparably weaker capacity to absorb correlated pressures on future reinsurance costs. Should the affordability constraints become binding in the longer term, reinsurance capital may increasingly be redirected to markets where returns can more flexibly adjust to evolving risks.



B. Policy Implications

4. Managing property insurance risks would benefit from a regionally coordinated approach. The first step is to enhance risk monitoring and regional insurance market supervision to support the assessment of the ECCU market's reinsurance capacity, early identification of pressures and their transmission to local insurance conditions, and the associated financial stability risks. This would also inform the design of policies to enhance the private sector's disaster resilience and close protection gaps, which would not only help contain future insurance cost pressures but also alleviate the fiscal and social costs of natural disasters. It would also build readiness to consider the potential need for, and the appropriate design of more direct mechanisms to support availability of affordable property insurance.

5. Risk monitoring can be enhanced through more systematic monitoring frameworks for regional property risk exposures, protection gaps, and reinsurance capacity.[4] Effective assessment of protection gaps would benefit from a real estate cadaster (a public record of ownership) mapping out property values to disaster risk exposures. This cadaster should incorporate historical and, with the development of technical capacity, forward-looking model data, differentiated by geography and risk type (IAIS, 2023a). Additionally, a regionally standardized supervisory collection of pricing data for primary insurance products—including average property premiums and rates (the price per unit of exposure) by risk category—would allow for more

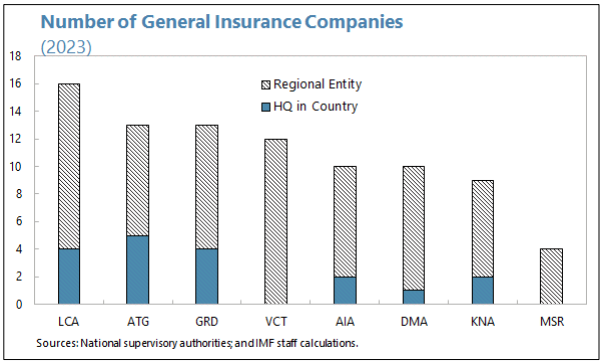
[4] The ECCU is undergoing a shift toward more granular IFRS17-based supervisory reporting, and national supervisors also collect information on reinsurance treaties. A more risk-tailored approach to data collection can nonetheless help fill remaining gaps and ease capacity constraints to data processing and analysis. Over time, standardized periodic dissemination of aggregated data on regional primary and reinsurance market conditions could also support insurance uptake by limiting information asymmetries and the development of currently lacking independent market benchmarks for the industry.

accurate and regionally harmonized monitoring of local market conditions. Assessments of regional reinsurance capacity and risks can be strengthened by more systematic tracking of the number of reinsurance providers by product line, their provided capital capacity, and the prevalence of proportional versus non-proportional contracts (see Selected Issues Paper "Property Insurance Challenges in the ECCU" Table 1 for definitions). For example, monitoring treaty reinsurance limits and quota shares would support the evaluation of the amount and type of risk primary insurers retain. Tracking the average price of catastrophe excess of loss cover set by reinsurers would also give important insights into the drivers of pricing pressures.

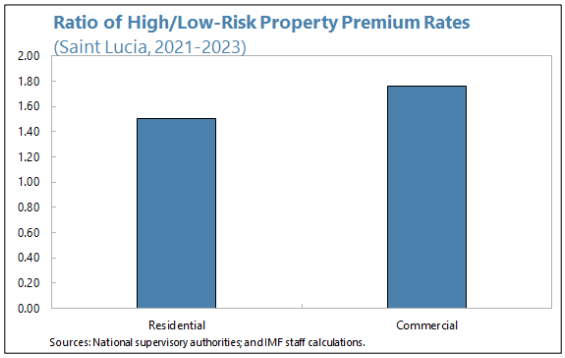
Table 1. ECCU: Common Types of Reinsurance Contracts

Reinsurance Product	Explanation
Reinsurance	The practice where one insurance company (the ceding insurer) transfers a portion of its risk to another insurer (the reinsurer).
1. Treaty Reinsurance	The reinsurer accepts a specified portion of all risks in a category for a set period. Terms are pre-agreed, covering all policies in scope.
a. Proportional Treaty	The ceding insurer and reinsurer share premiums and claims in a fixed proportion.
i. Quota Share	The ceding company transfers a fixed percentage of all its risks to the reinsurer.
ii. Surplus Share	The reinsurer takes on the surplus risk beyond a certain retention limit.
b. Non-Proportional Treaty	The reinsurer covers losses exceeding a certain amount, while the ceding insurer retains losses up to a threshold.
i. Excess of Loss	The reinsurer covers losses above a specified amount, with the ceding insurer retaining the amount below the threshold.
ii. Stop-Loss	The reinsurer covers losses that exceed a certain percentage of the ceding insurer's total premiums.
2. Facultative Reinsurance	The ceding insurer offers specific individual risks to the reinsurer on a case-by-case basis.
3. Catastrophe Reinsurance	Provides coverage for losses from large, unforeseen events like natural disasters. Often structured as excess-of-loss reinsurance.
4. Parametric Insurance	Offers payouts based on predefined triggers (e.g., wind speed, rainfall), bypassing traditional claims assessment.
5. Catastrophe Bonds	Bonds issued to investors, with payouts triggered by pre-specified catastrophic events.

6. The ECCU insurance market would be better served by a more regional supervisory approach. In contrast to credit institutions, most general insurance companies active in the ECCU operate across jurisdictions. This calls for consolidated cross-border supervision of their disaster and reinsurance risk management, which can be resource-intensive and exacerbate capacity constraints under the currently fragmented regulatory and supervisory framework. The planned establishment of common regional regulatory standards under the Eastern Caribbean Financial Standards Board (ECFSB) will support more effective supervision, but ultimately, this would be best facilitated by a more centralized oversight structure. In the meantime, close supervisory collaboration and a regional approach to enhanced data collection and information exchange can aid in monitoring evolving reinsurance market conditions, timely identification of risks, and development of contingency responses.



7. Encouraging private resilience investment to mitigate disaster risks can help contain reinsurance pressures and support insurance uptake. Property (re)insurers increasingly discriminate their pricing based on location, elevation level, and structural resilience. In St. Lucia, for instance, average premiums for high-risk properties are 50 percent or more above those classified as low risk. Regulatory risk mitigation efforts (strengthening and enforcing regional building codes and land use standards) and financial incentives (such as carefully targeted subsidies or tax credits for retrofitting resilience investment) can thus alleviate both the insurance gaps and costs (see, e.g., IMF (2024) and WBG (2022)).[5] Derisking investment and insurance uptake can also be supported by collaborative efforts with the insurance industry to enhance public disaster risk awareness and financial literacy, including over insurance policy terms.



8. More direct public policy interventions to improve property insurance affordability and uptake would necessitate a careful evaluation of the regional and national risk-bearing capacity. As high-exposure assets like property warrant significant scale for effective risk pooling and management, any broad-based scheme in small ECCU economies would likely require a regional scope and private sector participation. It would thus require the development of robust union-wide monitoring of exposure risks and protection gaps, ensuring the adequacy of the regional supervisory framework, and considering the public sector's risk absorption capacity given

[5] The 2024 GRADE for GRD and VCT argues that introducing resilient structural improvements to buildings could result in potential savings of more than US$ six for every US$ one spent for highly vulnerable asset classes.

existing fiscal fragilities in several ECCU members. International experience with public-private insurance programs (PPIPs) also highlights the need for careful calibration of program objectives and design features (G7, 2024). This includes prioritizing broad insurance coverage and adequately risk-based premiums to support the scheme's financial sustainability and containment of contingent liability risks. A cost-effective program structure, well-calibrated public-private risk-sharing arrangements and the incorporation of effective risk prevention and reduction incentives can help ease the inherent tension between these objectives (Surminski, 2017). Finally, the PPIP design should aim to minimize disruption to existing private insurance markets, ensure a competitive playing field, and the prompt handling of policyholders' claims (which could be facilitated by parametric insurance components where cost-effective).

Box 1. Selected International PPIP Examples and Lessons Learned

Configuring the role of government and types of coverage depends on the desired aim of the program. A program could involve (1) public reinsurance for assumed risks, (2) a co-insurance arrangement among private insurers combined with a government backstop with risk transfer or liquidity support, or (3) a targeted, publicly provided, direct insurance for specific hazards distributed by private insurers to eligible policyholders. Additionally, achieving broad coverage for targeted hazards may require compulsory purchase or default options.

Experience with existing PPIPs underscores policy trade-offs and the importance of establishing proper incentives for risk prevention.[1] For example, while subsidies could help support affordability of coverage and thus enhance insurance uptake, they strain public finances. On the other hand, fully risk-based premium-setting can effectively incentivize policyholder investments in risk reduction, but likely presents affordability challenges. Therefore, programs could include premium discounts conditional on risk-prevention measures and/or targeted funding for policyholder risk reduction, supported by public sector investments in risk adaptation.

	Flood Re (UK)	National Flood Insurance Program (US)	Catastrophe Risk Insurance Pool (Türkiye)	Earthquake Insurance System (Japan)
Objective	Provide broad coverage for households in flood-prone areas	Make flood insurance available to anyone in participating communities	Help homeowners and businesses recover from earthquakes.	Provide broad coverage for all property owners, including buildings and contents.
Scope	Limited to pre-2009 homes in risk areas, excluding commercial properties	Nationwide availability with some exclusions	National, targeting residential earthquake insurance	National, integration with residential fire insurance.
Government Role	Primarily a public reinsurer and backstop	Public direct insurer and government guarantee	Primarily a public reinsurer and backstop	Primarily a public reinsurer and backstop
Private Market Utilization	Private insurers sell flood insurance policies and transfer flood risk	Government program offering coverage (through private providers) in high-risk areas.	Private insurers handle policy sales, and the government manages catastrophic risk pool.	Private insurers sell policies, with the government acting as a reinsurer.
Promote Adaptation Measures	Discounted premiums for homes that take measures to reduce flood exposure	Risk-based pricing and implementation of risk mitigation measures (floodplain mapping).	Focus on insurance, but also promotes earthquake risk awareness and resilience	Discounted premiums for homes that take measures to enhance resilience.
Compulsion	Voluntary participation by homeowners	Mandatory for high-risk properties with federal loans; voluntary for others.	Insurance mandatory for homeowners in high-risk earthquake zones	Voluntary participation, earthquake insurance is attached to fire insurance.
Premium Setting	Premiums are based on a capped, intermediate method (by council tax band) rather than full risk-based pricing	Premiums were set below flood insurance costs, shifting to risk-based approach in 2023.	Intermediate method, premiums based on risk but also adjusted to ensure affordability for low-income households	Intermediate pricing, with discounts for seismic resilience and risk-based adjustments.
Timeline	Designed to operate until 2039	Ongoing program	Ongoing program	Ongoing program

1/ Surminski (2017) emphasizes that insurance must be supported and integrated into a solid flood risk management approach, which is critical for countries with insurance but even more so for developing countries. Furthermore, to alleviate concerns that flood insurance de-incentivizes resilience by creating a false sense of security, Flood Re should send signals that would help to prepare homeowners for a risk-reflective approach to insurance.

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