Tonga’s engagement with PCRIC

Tonga is a founding member of the Pacific Catastrophe Risk Insurance Foundation (PCRF), which owns the Pacific Catastrophe Risk Insurance Company (PCRIC). Tonga has been an active participant in the insurance program offered by PCRIC since the Company’s inception, purchasing coverage against both tropical cyclones and earthquakes (including earthquake-induced tsunami). The policies offered by PCRIC are annual and begin on 1 November each year, ahead of the South Pacific Tropical Cyclone Season.

Purpose of PCRIC’s standard tropical cyclone and earthquake products

PCRIC’s standard insurance products are intended to provide a rapid payout to support emergency response costs for major cyclones or earthquakes that cause significant financial loss. The goal is to provide timely payouts to finance a proportion of immediate relief and recovery costs when major disasters impact key economic centres. PCRIC strives to offer policies for an affordable premium, rather than attempting to cover all disaster losses.

A ‘modelled loss’ approach

PCRIC’s standard tropical cyclone and earthquake products are national level ‘modelled loss’ products, with the trigger for a payout based on the estimated disaster response cost as calculated by an internationally recognized catastrophe model. A modelled loss product differs to a pure parametric product (for example a product based on observed windspeed or earthquake magnitude) in that it takes into account where key assets are located. So, rather than a payout being provided solely on the windspeed of a cyclone or location of the epicentre of an earthquake, PCRIC’s products provide payouts based on the estimated damage to assets from any severity of cyclone or earthquake. This means a weaker cyclone impacting an area with a high level of assets may provide the same payout as a stronger cyclone impacting an area with a lower level of assets.

1 See PCRIC’s Knowledge Product, ‘Understanding the Uniqueness of PCRIC Parametric Risk Pool Insurance Policies’ for more information on the modelled loss approach and how a payout is triggered.
Tonga’s insurance coverage 1 November 2022 – 31 October 2023

Tonga’s premium for the 2022-23 insurance season is US$600,000, comprised of US$500,000 of financing from IDA, and a US$100,000 co-payment, paid directly from the Government of Tonga to PCRIC. Based on Tonga’s policy selections, the coverage for the 2022-23 season is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Tropical Cyclone</th>
<th>Earthquake</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount of premium</strong></td>
<td>US$480,000 (80% of total)</td>
<td>US$120,000 (20% of total)</td>
</tr>
<tr>
<td><strong>Attachment point</strong></td>
<td>1-in-10-year loss</td>
<td>1-in-10-year loss</td>
</tr>
<tr>
<td><strong>Exhaustion point</strong></td>
<td>1-in-30-year loss</td>
<td>1-in-30-year loss</td>
</tr>
<tr>
<td><strong>Minimum payout</strong></td>
<td>US$200,000</td>
<td>US$200,000</td>
</tr>
<tr>
<td><strong>Maximum payout</strong></td>
<td>US$5,677,221</td>
<td>US$1,500,992</td>
</tr>
</tbody>
</table>

**Beneficiary of payouts**

As the policyholder, the Government of Tonga is the recipient of any payout and is free to use the payout as it wishes. The Government may however designate a third-party recipient of any payout, for example a payout could be provided directly to a local insurer to distribute to a pre-determined list of households. PCRIC’s policies are also available to the private sector (e.g. local insurers or community organisations can also purchase PCRIC’s products).

**Tonga’s past payouts**

Tonga have been the recipient of three payouts since the Government’s involvement in the insurance program offered by PCRIC:

- US$1.27m following Tropical Cyclone Ian in 2014
- US$3.5m following Tropical Cyclone Gita in 2018
- US$4.5m following Tropical Cyclone Harold in 2020

These payouts were all received by Tonga within 30 days of each disaster event and were used by the Government to support immediate relief and recovery activities.

**PCRIC can design and develop new products for Tonga**

One of PCRIC’s strengths is the technical capability to develop tailored products for specific needs, and PCRIC could work with Tonga to tailor the standard products to target a specific geography or community. In addition, through Tonga’s role in the PCRIF, the government can seek consideration of the development of further products to address specific objectives. PCRIC is actively investing in the development of new products and looks forward to offering Tonga coverage against both drought and excess rainfall risks in 2023.

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2 The attachment point is the $ value above which modelled emergency response costs must exceed for a payout to be triggered.

3 The exhaustion point is the $ value of modelled emergency response costs at which the maximum payout is reached - the payout is fixed at this maximum value even for larger modelled emergency costs.