Developing a sovereign disaster risk financing strategy in the context of disaster risk management: The Mexican Experience

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By mid 2000’s, México had made significant progress to set a Disaster Risk Financing (DRF) strategy:

• A main budgetary vehicle:
  – FONDEN was created in 1996 to financially support the civil protection strategy.
  – It facilitates the management of budgetary resources to attend natural disasters in order to protect public infrastructure.

• Risk transfers mechanisms:
  – Domestic: there were insurance policies that protected some infrastructure
  – International: In 2006, the Mexican Government issued “Cat Mex;”
    • A parametric reinsurance contract (290 md) and a cat-bond (160 md);
    • it covered for 3 years specific zones against earthquake risk.

DRF is an ongoing work…
DRF was taking shape, but required a more global (DRM-oriented) vision.

...requiring continuous update

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Two main elements are required to develop risk–transfers mechanisms and thus a balanced DRF, combining budgetary and risk-transfer resources.

- Hacienda, with the support of UNAM and Agroasemex, built up:
  - An inventory of main assets covered by FONDEN (roads, hospitals, schools and water infrastructure); it also has data on housing for low-income people.
  - A modeling system for earthquake and hurricane risks to determine the degree of vulnerability of the assets in the inventory to those risks.
In October 2009, Mexico issued “Multi Cat Mexico 2009”.
  - Partnership with the WB, Swiss Re and GS.
  - Insured peril: Earthquake and Hurricane
  - Parametric cat bond: USD 290 million
  - 1st cat bond launched through the World Bank’s new MultiCat facility

An XoL insurance was placed to protect FONDEN in risk layers below those covered by Multi Cat.
  - Effective for one year since June 10th.
  - Adjustment procedure uses FONDEN’s damage evaluations.
  - The first losses up to 1,040 md accumulated in the year will be paid by FONDEN.
  - The capacity, 440 md, will be paid by the international reinsurance market.
  - In case of losses in excess of 1,580 md FONDEN will retain the risk.
  - The instrument was renewed for another year in June 2012.
Design of new risk-transfer instruments:
- Insurance to protect turnpikes, roads and bridges against earthquake and hurricane hazards.
- Schemes to protect housing of low-income population against hurricane and earthquake risks.

A second phase of risk analyses to make FONDEN activities more efficient.
- Dynamic information tools to provide the means to address the three phases of a natural disaster.

FONDEN supports local governments to design insurance schemes to protect their public infrastructure.

...go thru lower layers and more
México’s global DRFI strategy

Million dollars

1,040

350

160

15

School

Roads /bridges

Housing for Low income people

Health

Infraestructure

Contingent Credit Lines/ FONDEN

XoL Scheme/ Multi Cat /FONDEN

Traditional Insurance

FONDEN

Parametric Insurance

FONDEN

FONDEN

FONDEN

Deducible

Retention

Deducible

FONDEN

Traditional Insurance

Deducible

FONDEN

Infraestructure

160 Million dollars

350

15

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