Closing the gap
Comprehensive disaster risk management in Mexico

Mexico has been hit by no less than seven major catastrophes since 1985. In 2005 Hurricane Wilma caused total economic damages of over USD 22 billion – more than USD 8 billion of which were uninsured. Small wonder that the federal government has been an innovator in disaster risk management.

FONDEN ‘excess of loss’ reinsurance structure
Established: 2011
Insured perils: Declared natural disaster (eg flood, hurricane, earthquake)
Instrument: Indemnity insurance (USD 250 m)
Covered goods: Federal, state and municipal infrastructure; housing of low income population
Risk takers: Swiss Re and a consortium of reinsurers

MultiCat – Catastrophe risk cover
Established: 2009
Insured perils: Earthquake, hurricane
Instrument: Parametric catastrophe bond (USD 315 m)
Triggers: Quake magnitude/barometric pressure

Swiss Re’s role: Swiss Re acts as co-lead manager and joint bookrunner
The Mexican government’s drive to introduce effective disaster risk management began in 1986 in the aftermath of the earthquake of September 1985. What policymakers envisioned was the creation of a national disaster relief fund. Ten years later that vision came to life as the Fund for Natural Disasters (FONDEN), which receives dedicated support every year from the federal budget.

Over time FONDEN has evolved to become a world-class model for disaster risk management. Its reconstruction activities are governed by a policy to ‘build back better’, meaning that new public infrastructure is more resilient than what’s being replaced, reducing vulnerability to disasters over the long run.

**Forward-looking prevention**

FONDEN has also surpassed its original mandate by focusing increasingly on prevention in addition to reconstruction. With that in mind, FONDEN funds identification, assessment of hazards, vulnerabilities and risk quantification as well as ex ante disaster risk reduction and mitigation activities. It also provides funds to increase the risk awareness and resilience of local communities to cope with disasters.

FONDEN is mindful of its federal role, making sure that state and local authorities are empowered and incentivised to take responsibility for their own recovery and preparedness. Examples of this are the Mexican states of Oaxaca, Colima and Hidalgo. Having analysed the vulnerability of their public sector infrastructure to natural hazards, these states decided to take advantage of a FONDEN-sponsored risk management programme (EGIR) that helps states develop sound risk management strategies, leading to the creation in 2016 of the first FONDEN States Pool where Swiss Re is the main risk taker. Other Mexican states are also looking to develop an EGIR to assist them in the structuring of their insurance coverage.

FONDEN’s risk management strategy also utilises a number of sophisticated risk transfer instruments to make best use of its resources and provide various government agencies an umbrella of protection. A USD 250 million indemnity-based insurance policy covers the whole FONDEN portfolio in excess of FONDEN own budgetary funds.

For costly but remote risks (the so-called ‘fat tail’ events of catastrophic earthquake or hurricane), FONDEN has issued three-year ‘MultiCat’ risk-linked securities. The 2012 – 2015 MultiCat transferred USD 315 million of earthquake and hurricane risks to capital markets, offering earthquake cover over three seismic zones of the Mexican territory, with magnitude and depth measures for each. The hurricane cover pays out if a storm passes through a pre-defined coastal zone (Pacific or Atlantic) and the pressure at the centre of the storm is at or below a set level. In 2015, for example, Hurricane Patricia hit the Pacific coast of Mexico triggering a payout of USD 50 million.

**About Swiss Re**

The Swiss Re Group is a leading wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer.

Dealing direct and working through brokers, our global client base consists of insurance companies, mid-to-large-sized corporations and public sector clients.

From standard products to tailor-made coverage across all lines of business, we deploy our capital strength, expertise and innovation power to enable the risk-taking upon which enterprise and progress in society depend.

**Our expert**

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