

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

Manuel Lobato Osorio



GFDRR
Global Facility for Disaster Reduction and Recovery



Cooperative Governance
Traditional Affairs



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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.

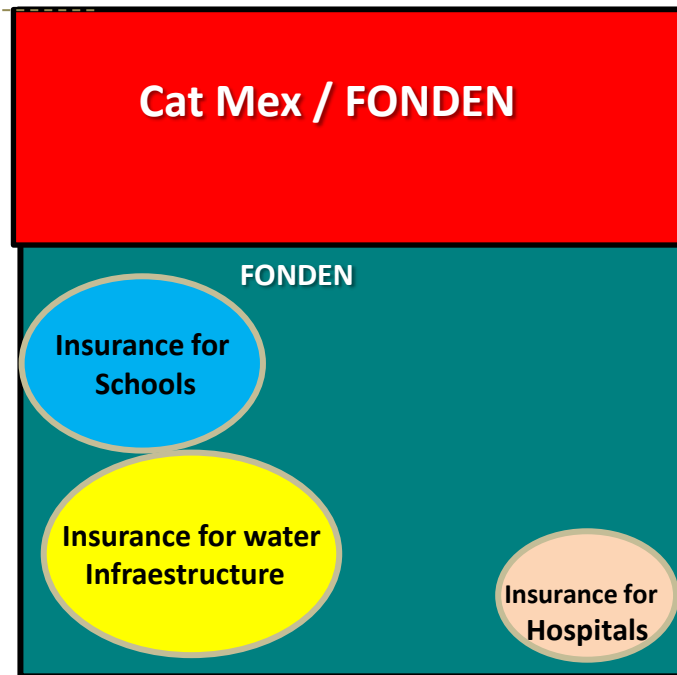
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DRF was taking shape, but required a more global (DRM-oriented) vision.

Risk Layers

Upper layers of Risk

Lower Layers of Risk



Illustration

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.

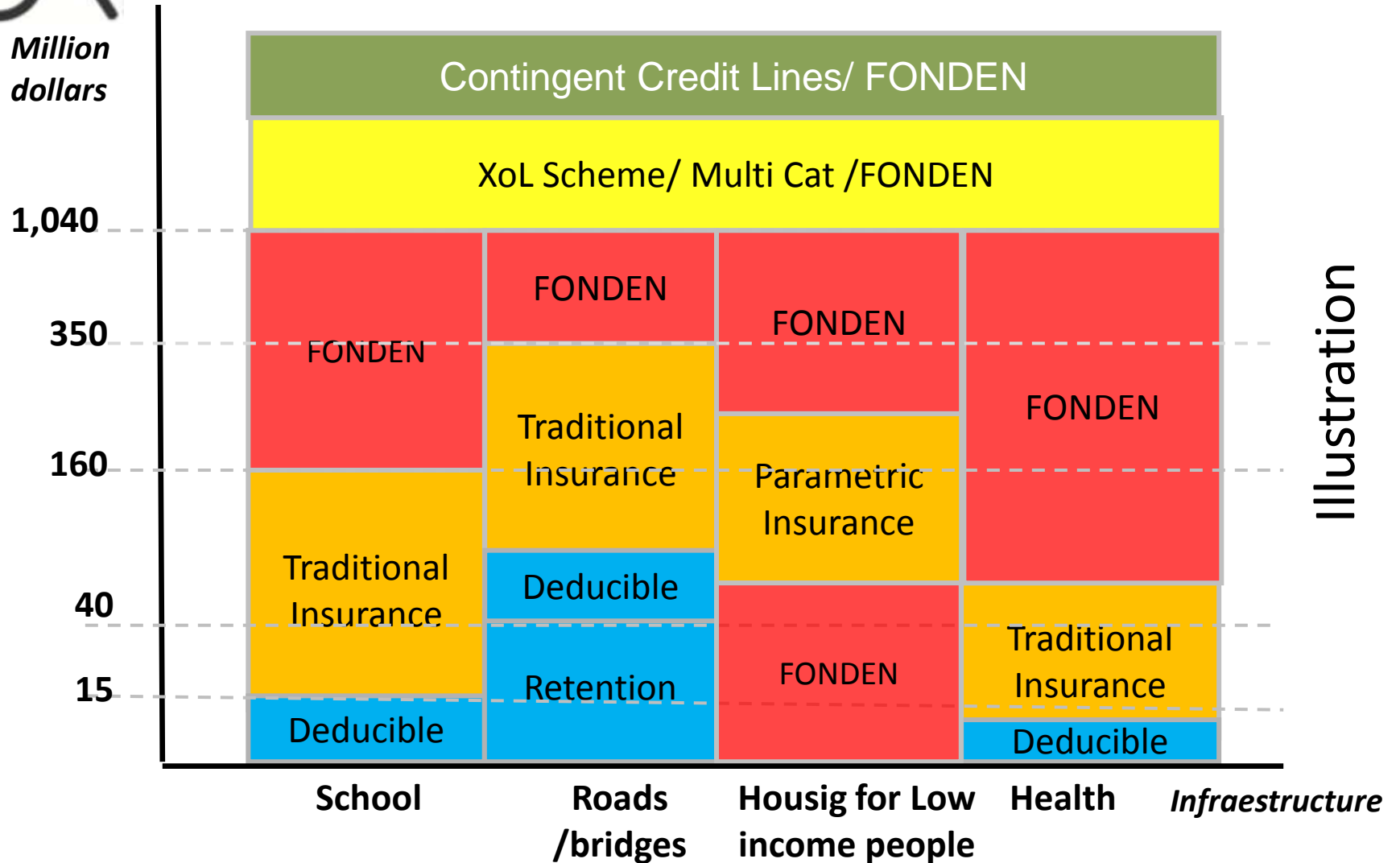
update began at top risk layers...

- 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.

México's global DRFI strategy

Million dollars



Illustration