



CAN-128-Insurance for Coral Reefs-Mexico

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The World Federation for Coral Reef Conservation
Vic Ferguson Executive Director
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281.971.7703
512.986.1902

P.O. Box 311117
vic.ferguson@wfcrc.org

Houston, TX 77231
info@wfcrc.org



Parametric insurance policy launched for coral reefs

Gloria Gonzalez

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Coral reefs of the Mesoamerican barrier, Mexican Caribbean/ SHUTTERSTOCK.COM

An effort to promote conservation in coastal areas in Mexico has culminated in a new parametric insurance policy designed to cover hurricane-related damage to coral reefs.

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The Coastal Zone Management Trust will cover a portion of the Mesoamerican Reef along Mexico's Yucatan Peninsula, according to a statement issued by The Nature Conservancy and the State Government of Quintana Roo, Mexico, on Thursday.

The trust fund will collect the funding to maintain the reef and the beach during normal conditions and pay for an insurance policy that will cover the reef against hurricane damage, said Mark Way, Arlington, Virginia-based director for The Nature Conservancy's coastal risk and resilience program.

Reefs are essential for coastal protection, but 80% of live coral cover in the Mexican Caribbean has been lost or degraded due to disease, bleaching events, diminishing herbivores and algae overgrowth since 1980, according to the conservancy.

However, hurricanes cause the most short-term damage to reefs, with between 20% to 60% of live coral cover lost after a Category 4 to 5 hurricane compared with an annual decrease of 2% to 6% in live coral due to other causes, according to the conservancy.

"Hurricanes are known to be the major cause of damage to the structure of the reef," Mr. Way said. "We can show scientifically that those reefs provide very effective front-line defenses against storm surge."

The conservancy worked with reinsurer Swiss Re Ltd. to explore the possibility of insuring a natural asset like the Mesoamerican Reef and determined that a parametric insurance policy — designed to pay out quickly for repairs and restoration in the event of a major hurricane or storm — was the most suitable solution for the conditions on the Mexican Caribbean coast, The Nature Conservancy said in the statement.

The parametric insurance policy was chosen as the solution for its ability to quickly provide the necessary proceeds for restoration activity, said Martyn Parker, chairman of global partnerships at Swiss Re in London. For example, the CRIF SPC — formerly the Caribbean Catastrophe Risk Insurance Facility — paid Dominica \$19.3 million under its tropical cyclone policy within 14 days of the devastation wreaked by Hurricane Maria on Sept. 19.

"That's one of the reasons parametric is attractive," he said. "It gets the money there very quickly, and when it arrives — in that case the government, but in this case the trustees — will be able to defray the money to quickly restore the reef. The reef cannot be left for a month or two before we go back to repair the broken pieces of the reef. The reef is a living organism. Parametric made more sense."

Funds for the trust and subsequent insurance will be collected from the tourism industry and other government sources. Tourism to the Mexican Caribbean generates about \$9 billion a year for the country, according to the statement.

The trustees will determine the geographic scope to be covered by the new policy as well as whether it wants to purchase insurance to cover the damage caused by a Category 4 hurricane, Category 5 storm or both — decisions that will be made ahead of the June 1 start of the hurricane season, Mr. Parker said. Once such a covered event occurs and has been measured and independently verified, the proceeds of the policy will flow within seven days to the trust, which would decide how to spend the funds to repair the reef and damage to the beaches.

Other partners in the initiative include the Cancún and Puerto Morelos Hotel Owners' Association, the National Commission for Natural Protected Areas and Mexican Universities. The commitments by the partners to fund the trust and purchase the insurance is a "real breakthrough," Mr. Parker said.

The potential to scale up this type of parametric insurance solution to cover the risk of hurricane damage to reefs in other areas is "very high," he said.

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“The insurance industry certainly has capacity and interest in this type of risk,” Mr. Parker said. “Will this first example be a catalyst for the demand side? The supply side of the industry is assured. Is the demand side going to be there?”

The conservancy is “extremely optimistic” that this type of solution will scale up, as it is already engaged with organizations interested in replicating it in other parts of Mexico and has contacts in Belize and Honduras working with organizations in those countries, Mr. Way said.

“We’re talking about reefs today, but we can be talking about other forms of nature-based resilience tomorrow that could be looking at the same approach such as mangroves, which are hugely effective in reducing storm surge,” he said.

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