

October 24, 2018

Mexican Insurers Expected to Withstand Hurricane Willa Damage

**Mexico hit
by Category
3 hurricane;
insurers on
solid footing**

Hurricane Willa, which had reached Category 5, made landfall on October 23, 2018 on Mexico's Pacific Coast as a strong Category 3 storm, with winds of approximately 120 miles per hour. Overall, Mexico's insurance industry is well capitalized to absorb the financial impact of this type of event. The eye of the storm came ashore near Isla del Bosque, in the Mexican state of Sinaloa. The storm quickly moved inland and decreased in intensity, but ultimately may redevelop as a Nor'Easter in the United States. Hurricane Patricia in 2015 was the last hurricane to make landfall in Mexico at Category 3.

Storm damage is now being assessed. Hurricane Willa was expected to affect mainly Mexico's Pacific coast, especially the states of Jalisco, Nayarit, and Sinaloa. Heavy rainfall, flash floods, and landslides were among the main risks anticipated from this storm. A.M. Best expects that for most primary insurers, the biggest impacts from Willa will be wind and downed tree damage to roofs and cars, as well as business interruption losses from prolonged power outages and deterioration of hotel infrastructure in resort areas. Damage from coastal flooding and inland flash flooding is likely. A.M. Best estimates that the total insurance in force for hydro meteorological risks for the states of Jalisco, Nayarit, and Sinaloa, excluding federal infrastructure, amounts to USD 176 billion at year-end 2017. A.M. Best also estimates that local participants will retain around 12% of the hydro meteorological premiums in the affected area and that around 8% of hydro meteorological sum insured in the country is located within the affected states.

A.M. Best notes that the Mexico regulators, Secretaria de Hacienda y Crédito Público (SHCP) and Comisión Nacional de Seguros y Fianzas (CNSF), have rules in place to help mitigate the risks to insurers, including required capital for hurricane risk that is equal to probable maximum loss calculations. The regulators also take into account the geographical and structural characteristics for each company's risk portfolio through use of the hydro meteorological risk model from the Engineering Institute of Universidad Nacional Autónoma de Mexico (UNAM). Furthermore, Mexico-based insurers are required to hold a catastrophic reserve for hurricane and other hydro meteorological risks. In addition, according to CNSF, 87.3% of the exposure in the country is ceded to highly rated reinsurers through excess of loss contracts. A.M. Best does not expect this storm to have a significant impact on the balance sheets of national reinsurance companies as catastrophic reserves are sufficient to cover their PMLs.

News reports also have indicated that the hurricane could trigger MultiCat Mexico catastrophe bond Class C notes for USD 110 million; it is unlikely, however, given that the barometric pressure has risen to 942 mb. To trigger it, pressure would have had to drop below 925 mb.

A.M. Best will continue to monitor the financial impact of this hurricane on rated entities and will provide updates on ratings as required.

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