



# press release

## PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY

June 13, 2023

### Government of Puerto Rico acquires parametric insurance in compliance with FEMA requirements

*Policy meets FEMA requirements for project coverage and will provide additional capacity to respond on emergencies*

(SAN JUAN, PR) - The Government of Puerto Rico, through the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), acquired a parametric insurance policy that satisfies a financial assistance eligibility requirement under the Federal Emergency Management Agency's (FEMA) Public Assistance Program in the event of a future disaster, AAFAF Executive Director Omar J. Marrero said.

The acquisition of the parametric insurance, valued at \$32 million, also represents a step toward achieving a greater degree of resilience in the face of the possibility of atmospheric events such as hurricanes Irma and María in 2017, Marrero emphasized. "In addition to complying with FEMA requirements, this policy provides us with additional capacity to effectively respond to a catastrophic event and will help expedite recovery and mitigation efforts," he added.

Parametric insurance is a relatively new approach in the market that protects policyholders against specific events by paying a fixed amount based on the magnitude of the event when parameters established under the policy are met. This is different from a traditional indemnity policy whose payout is based on the magnitude of losses.

By being triggered based on the magnitude of an event, the Government of Puerto Rico now has coverage that is no longer limited to actual property losses,

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allowing it to cover a greater portion of its economic loss and reduce the "protection gap" between the amount required by FEMA under the "Obtain and Maintain" (O&M) requirement and what is covered by traditional insurance products already purchased by the government.

Second, by using the pre-established parameters system, funds will reach Puerto Rico faster, sometimes in a matter of days or weeks, compared to the months or years it might take under a traditional indemnity contract.

This newly created hybrid plan will create a pragmatic and actionable plan to begin closing the O&M protection gap. Under the O&M requirement, subrecipients (meaning municipalities, agencies, public corporations, and private nonprofit entities under the Public Assistance Program) must obtain and maintain insurance that is at least equal to the amount of eligible damage for the specified peril on the premises receiving assistance. Should the subrecipient fail to comply with this requirement, FEMA may deny or un-allocate Federal assistance in the current disaster and deny future assistance for the facility. This applies to any permanent property receiving more than \$5,000 in FEMA assistance, Marrero explained.

Insurance Commissioner Alexander Adams Vega explained that if the required level of insurance coverage cannot be obtained or maintained, program subrecipients may request a Certification from the Insurance Commissioner. Although the Insurance Commissioner's Office cannot eliminate the federal insurance requirements for projects established by FEMA, it can evaluate and certify the reasonable amount of insurance needed to protect against future losses.

With this new parametric insurance program, the government is gaining additional coverage capacity that will be added to traditional insurance programs demonstrating its effort to meet FEMA insurance requirements, the commissioner said. "This parametric coverage will provide supplemental protection against catastrophic hurricane or earthquake events, which represents an increase in the levels of protection of the government agencies' insurance program for future events," he added.



Meanwhile, Manuel A. Laboy Rivera, director of the Central Office for Recovery, Reconstruction and Resilience (COR3), explained that thousands of reconstruction projects of certain agencies with obligations under FEMA's Public Assistance Program could supplement their coverage with parametric insurance by demonstrating that they are unable to acquire damage coverage. "COR3 maintains a collaborative agreement with the Office of the Insurance Commissioner to, among other matters, exchange information to facilitate the identification of agencies that could apply for such insurance. Through this initiative we comply with Governor Pedro Pierluisi's public policy of establishing initiatives to facilitate the development of permanent works by addressing a situation as fundamental as the insurance issue," he said.

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