Coral

Mexico launches pioneering scheme to insure its coral reef

Hotels and local government in Cancún will pay premiums, and insurance industry will pay out if the reef is damaged by storms

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Tropical fish swim among the coral in the Caribbean sea, Yucatán, Mexico. Photograph: Seaphotoart/Alamy

A stretch of coral reef off Mexico is the testing ground for a new idea that could protect fragile environments around the world: insurance.

The reef, off the coast of Cancún, is the first to be protected under an insurance scheme by which the premiums will be paid by local hotels and government, and money to pay for the repair of the reef will be released if a storm strikes.

Coral reefs offer a valuable buffer against storm damage from waves but their condition has deteriorated in recent years, the result of human exploitation and destruction of the reefs, as well as climate change, plastic waste and the acidification of the oceans.

Under the Cancún insurance policy, pioneered by the insurance company Swiss Re and the Nature Conservancy, a US environmental charity, local organisations dependent on tourism will pay in to a collective pot likely to amount to between $1m (£770,000) and $7.5m for the insurance premiums on the policy, and a 40 mile (60km) stretch of reef and connected beach will be monitored. If any destructive storms damage the reef system, the insurer will pay out sums likely to be $25m to $70m in any given year.

Any payouts will be used for restoration of the reef, for instance by building artificial structures that can increase the height of the reef in case of storm damage.

Corals from the reef can be removed and rested for a period of weeks or months, to help them regrow, at which point they can be safely reattached to their native habitat to regenerate the growth of the reef system.

The advantages of such restoration go far beyond the hotels that border the seafront. As well as providing a natural brake against destructive storms, coral reefs provide nurseries for fish when they are growing, and form a vital part of the marine ecosystem. Their health or decline is seen as one of the key indicators of the state of the natural environment globally.

The Cancún scheme, which is to be run by Swiss Re and the Nature Conservancy, with backing from the Mexican government, is thought to be one of the first in the world to tie environmental benefits and the "eco-system services" provided by natural environmental features to firm monetary costs and rewards. It could provide a model for similar projects in the future, linking the protection and preservation of the environment to payouts in case of disaster.

Hotels and private companies are signing up to the scheme at present, and the plan is for a fund backed by the government that will cover the premiums. This is scheduled to be activated in September, with further contracts to be signed in November and December, and full coverage will then begin from next January.

"Public-private partnerships are the key," said Mark Tercek, chief executive of the Nature Conservancy, in an interview with the Guardian. He predicted that more governments would see the advantages of such an approach when the Cancún scheme begins formal operation.

"I used to get very frustrated that not enough was happening [to protect the environment]," said Tercek. "We have to push business leaders to go further, to stick their neck out to tackle issues beyond the short term."

Tercek said the Cancún scheme would provide an example for businesses, governments and insurance firms that would be "very scalable around the world".

A future target for similar insurance products could be mangrove swamps, which also protect the shore against storm damage, and are equally under threat, with many destroyed to make way for housing development or farming, and others in peril from climate change.

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