This paper outlines some of the elements because of which it is considered that Mexico´s current prudential criteria do not lead to an efficient supervision for catastrophic risks, because such criteria do not acknowledge structural differences among companies´ risk portfolios.

Mexican Regulation for Earthquake Insurance (EQI) was substantially modified in the 90´s, based on prior researches performed by the National Autonomous University of Mexico. System for computing Earthquake Sufficient Premiums (risk premiums) and Probable Maximum Loss (PML) was developed between 1996 and 1999. A similar model for hidrometeorological risks (HRI), hurricane and flood was developed between 2004 and 2006 and regulation also very similar to earthquake´s.

Based on these models´ output, Mexican regulator has set prudential criteria for the insurance companies operation.

By the end of 2010, the Mexican Association of Insurance Companies launched an initiative to compute ruin probability for catastrophic risk portfolios aiming to gather information to propose to CNSF the convenience to review these models and prudential criteria used to compute the catastrophic reserves.

A methodology to estimate ruin probability in a time horizon of one year was defined using the loss table output and the parameters generated from the ERN models. Using these data and simulation techniques for each insurance company and each portfolio (separating HRI and EQI), it was evaluated the results in the different risk portfolios based on different earthquakes and events, as well as, the coverage included in their policies and the results of using their reinsurance contracts.

Results show a wide range of ruin probability values in the insurance companies´ portfolios which leads to conclude the need to re assess prudential criteria for supervising.

Additionally, there are some other aspects in the current regulation which generates market inconsistencies and the evidence calls for supervisor to reconsider such aspects.