


PARAMETRIC COVER
A New Way to
Manage Weather-
Related Risk

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OUR AGENDA

- How can we define Parametric "insurance?"
- What types of risks can it be used to treat?
- How does it integrate with traditional insurance?
- What triggers a payment under Parametric cover?
- In what instances can this be the right answer for the buyer?
- What are some recent examples of Parametric coverage?

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**A REVIEW OF THE PRINCIPLES OF RISK
MANAGEMENT**

	HIGH FREQUENCY	LOW FREQUENCY
HIGH SEVERITY	STOP IT!	Insurance
LOW SEVERITY	Loss Control	Retention

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WHAT IS PARAMETRIC COVER?

- "An agreement under which an entity assuming risk (the "insurer") agrees to pay the indemnitee (the "insured") an agreed amount upon the occurrence of a specified event, such as an earthquake or hurricane of specified intensity. The event, or "parameter," is often indicated by an established and authoritative index for that type of event, such as the Richter scale for earthquake intensity or the Saffir-Simpson scale for hurricanes."

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WHAT IS PARAMETRIC COVER?

- "...type of insurance contract that insures a policyholder against the occurrence of a specific event by paying a set amount based on the magnitude of the event, as opposed to the magnitude of the losses in a traditional indemnity policy."

-National Association of Insurance Commissioners

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SO, WHAT DOES THAT MEAN?

Traditional Insurance

- Final amount of loss not known at time of policy issuance
- Requires a sometimes-lengthy claims adjustment process and the possibility for litigation
- Triggering event is a fortuitous loss to an asset "to which this insurance applies"
- Reimbursement is based on the actual loss sustained

Parametric Insurance

- There is a certainty about how much will be paid, but not if it will be paid
- Loss payout is known
- Very speedy "adjustment" process
- "Triggers" are established in the agreement
 - Must be independently and objectively measurable
 - Must be capable of being modeled

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HOW DOES IT WORK?

PARAMETRIC INSURANCE



INDEMNITY-BASED INSURANCE



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WHAT TYPES
OF RISKS CAN
BE TREATED
WITH
PARAMETRIC
AGREEMENTS?

- Earthquakes of a certain intensity
- Wind events with certain speeds
- Named storms
- Rainfall (and lack of same)
- Crop yields
- Power outages
- Market indices
- PANDEMICS!

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TENNIS, ANYONE?

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OTHER APPLICATIONS

CONSTRUCTION	RETAIL	HEALTHCARE
Lost business or expenses due to weather delays	Lost sales due to a pandemic	Lost income due to decrease in market share

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WILL THIS REPLACE
TRADITIONAL
INSURANCE?

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PURPOSE OF PARAMETRIC INSURANCE

- To complement – not replace – traditional insurance
- Easier for consumers to understand – less “fine print”
- Not limited to large or more sophisticated risks
- It's not for everyone or all exposures, primarily catastrophic risks

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WHAT'S THE DOWNSIDE RISK?

Basis risk – the payout may be less than the actual loss sustained

The “risk” in traditional insurance is deductibles, retentions, sublimits, exclusions, etc.

If the payout is greater than the loss, it could represent a taxable event

It can be costly

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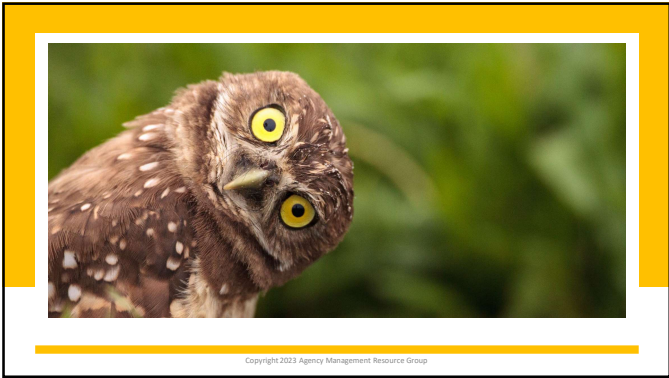
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WHAT'S OUT THERE?

- Jumpstart - \$10,000 for an eligible EQ event in California
- StormPeace – named hurricanes in Florida, 72-hour payout
- FirstTrack – covers “under deductible” expenses for hurricane damage in Hawaii
- CCRIF – Caribbean Catastrophe Risk Insurance Facility
 - Cyclones, earthquakes, excessive rainfall
 - Provides short-term liquidity, pays within 14 days

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