


Parametric Solutions

Guaranteed, objective and transparent protection



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Parametric insurance solutions can cover previously underinsured and uninsurable risks, allowing for greater protection of assets and revenues.

An innovative, tried and tested solution, parametric insurance complements traditional programmes and helps to fill protection gaps.



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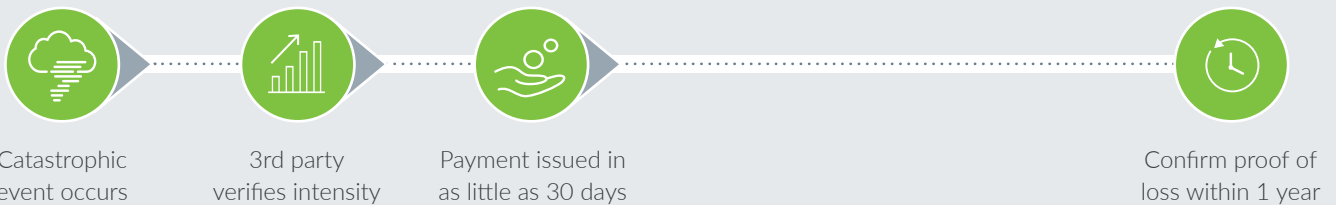
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How parametric insurance works

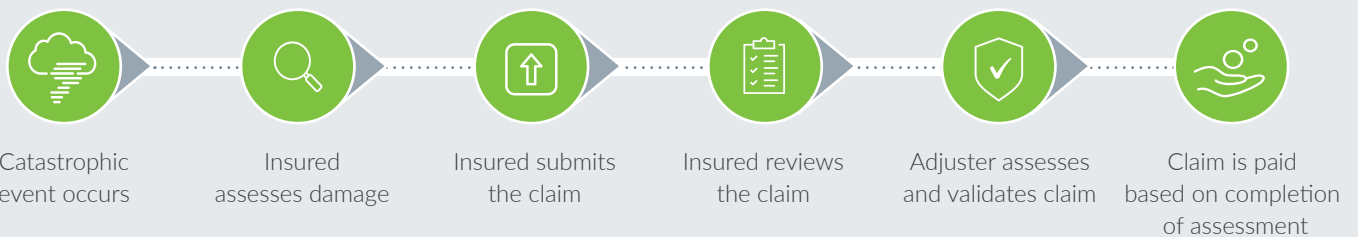
Parametric insurance covers against the probability of an event happening, rather than indemnifying an incurred loss.

Policies are based on pre-defined event parameters relating to a particular exposure, and cover is triggered if these are met or exceeded. A pre-agreed claims payment is then automatically paid. Based on definitive and objective information, such as previous loss events and independently verified data, cover does not require physical loss or damage to an insured asset. This adds certainty and efficiency, with claims settled swiftly.

Parametric insurance



Indemnity-based insurance



Sectors we work with



Hotels
and leisure



Construction firms
and developers



Oil and gas –
upstream, midstream,
and downstream



Renewable energy
– producers and
suppliers



Transport
companies



Real estate



Agricultural and
wine producers



Clients with very high
deductibles or multiple
exclusions on their policy

Solutions available

The parametric market has grown rapidly over the last few years, with large uptake across both the public and private sector. Over the next ten years, it is thought that the parametric market will grow to 10-15% of the global corporate insurance market.

We arrange tailored parametric insurance solutions across multiple sectors using simple, independently verifiable triggers and settlement structures. Whilst weather-based parametric covers are the most common, with an estimated 3 in 4 companies frequently financially impacted by adverse weather, parametric insurance has a wide range of applications:

Natural catastrophes

Windstorm, storm surge, flood, tornado, hail, earthquake, wildfire.

Transport

Water levels on major barge routes, rainfall protection, and more.

Energy

Temperature, solar radiation, wind, power outage protection.

Construction

Weather causing delay in start-up, natural catastrophe exposure carve-out/capacity top-up.

We work with insurers to set thresholds that align with a client's own business continuity plan and risk tolerance.

Benefits of parametric insurance

Below are ways in which parametric solutions can satisfy current client pain points and the benefits over traditional insurance programmes.

Traditional insurance	Parametric solutions
Claims process and payment is complex and long, involving loss adjusters and often resulting in costly legal battles.	Quick and automatic pay-out whenever the index reaches a pre-defined threshold, providing peace of mind and immediate financial relief. Parameters involve objective and independent measurement.
Ambiguous policy wordings lead to coverage uncertainty, particularly for business interruption.	Pre-agreed payment structure based on event parameter or index value, aiding clients with financial planning.
Physical damage or loss required for policy to be triggered.	Payment triggered by event occurrence exceeding parametric threshold, therefore financial loss covered regardless.
Emerging risks not yet covered.	Coverage made to match specific needs, filling insurance gaps to ensure operational continuity.
Increasingly large deductibles and other forms of client retention required.	No deductible. Parametric pay-out can be used to finance a deductible or primary layer on the traditional programme.



Scenario 1

Mitigating rate rises and reducing your insurance budget in challenging economic times

We are entering an incredibly challenging period for insurance buyers. Rates are increasing and an economic crisis is looming - companies have no other choice but to reduce costs, including their Property & Casualty insurance costs.

As brokers, we can help clients lower their premiums, sometimes significantly, by integrating parametric insurance into their programmes.

Parametric insurance has proven to be a very efficient programme optimization tool. Frictional costs are suppressed, for example loss adjustment, on-site audits, etc. But there is also total flexibility to build a tailor-made cover, specifically targeting the perils deemed most critical.

Here are some examples of how parametric structures enable efficiency gains, as effective cost management becomes more and more vital:

'Carve-out' approach

Take natural catastrophe events out of the traditional programme and get them covered under a parametric policy. Some perils, either because they have been loss-making in the past, or because they happen to be in an area where capacity is scarce, become price-drivers and limit the number of (re) insurers interested in participation. Stripping these perils out to be placed under a parametric policy generates two gains: First, the nat cat perils themselves can be covered more efficiently for a cheaper premium with no deductible. Second, the rest of the programme becomes more attractive allowing the panel to be widened drumming up competition for efficiency gains. Entire assets in wider property portfolios can be carved out in a similar manner.

'First layer' approach

Increase the insured's retention on the traditional programme and place a parametric first layer. Working layers addressed via parametric often give rise to the greatest efficiency gains. Numerous insured locations prone to attritional losses can be neatly addressed by a parametric cover with quick pay-outs and no lengthy loss adjustment process. Excess layers addressed by traditional markets dovetail effectively with parametric working layers and often allow insureds to top up the overall limit purchased.

'Top layer' approach

Less common, however it is possible to cap critical perils and cover using a parametric approach. For some perils, the very top slice of the placement can generate an over proportionate share of the cost and often causes delays in getting the placement completed, since capacity can be scarce and therefore expensive. Placing this top slice in a parametric format facilitates the placement of the rest of the program while accessing fresh capacity sources for the top of the placement.

Utilising alternative parametric products as a complement to traditional insurance can help navigate tough renewals and achieve the best possible results for clients/insureds.

Scenario 2

Facilitating traditional property damage business interruption renewals

Traditional insurers are reducing their exposures to property damage and business interruption due to natural catastrophes and environmental risks.

This is principally due to the hardening cycle and increased risk due to climate change. Regions which have been recently affected by events such as wind, hail, tornado, quake and wildfire are experiencing reduced capacity availability, rate increases and tighter terms (e.g. higher deductibles).

Renewal discussions for property in exposed locations are proving to be more and more challenging, taking much longer than anticipated with less than favourable outcomes in the eyes of the insured.

With the above in mind, simple, tried and tested parametric solutions can facilitate renewals greatly. By carving out weather and nat cat perils using parametric insurance, the traditional placement can progress far more smoothly.

Some specific examples of ways in which we see parametric solutions helping traditional placements include:

California earthquake capacity shortfall

In areas where there is high concentration of natural catastrophe risk, such as California, it can often be a struggle to purchase sufficient sublimits from traditional insurers. We recently bolstered a traditional property damage business interruption (PDBI) placement with a top-up USD10m parametric quake policy to protect a solar wind fund for their Californian locations. Due to risk aggregation, the traditional market would only allow for an aggregate USD12.5m EQ sublimit, which was insufficient.

Hail risk exclusions for loss affected locations

The likes of Texas, Colorado, Nebraska and Minnesota have all seen significant hail events in the last few years, causing billions of dollars' worth of damage. As a result of such losses, some insurers are either excluding hail coverage in certain areas or pricing the exposure disproportionately. We can structure hail parametric solutions for specific locations to solve this problem.

Increased deductibles for storm surge risk – harbours and coastal locations

Due to rising sea levels, a number of insurers have dramatically increased deductibles for affected locations. Storm surge and water level risks are widely addressed by parametric solutions in the US and in many countries around the world. The increased exposure faced by the insured can be effectively covered via a parametric solution.

By complementing traditional programmes with parametric insurance solutions, we are better positioned to anticipate tough renewals on behalf of our clients and insureds.



Scenario 3

Filling coverage: non-physical damage and contingent business interruption

Traditional insurance pays claims on an indemnity basis, defined by the direct loss suffered. For example, receiving compensation for the value of your destroyed factory, industrial plant, hotel, etc.

It is common for insurers to include coverage for business interruption as a result of property damage with property policies. However, insureds are increasingly aware of and concerned about business interruption exposures caused by an indirect loss, such as denial of access or forced closure, which standard policies would not cover.

Non-physical damage and contingent business interruptions are costing companies billions of dollars each year, and given that operations and supply chains are heavily interdependent and therefore more vulnerable, businesses are also more exposed than ever.

Standalone indemnity based non-physical damage and contingent business interruption policies are fairly rare. Parametric insurance can offer an effective alternative.



As depicted, parametric insurance covers first party property damage, business interruption due to first party property damage as well as contingent and first party non-physical damage business interruption. For example:

Scenario

A manufacturing facility located near the Gulf coast. Primary motivation is to mitigate rate rises imposed by insurers due to named windstorm loss history.

Benefits of a parametric solution

- Used to carve out named windstorm exposure from the insured's traditional property programme, thereby reducing premium.
- Reassurance of a fast parametric pay out in the event of loss.
- Insured is now also covered for business interruption suffered without the requirement of actual physical damage being caused to the manufacturing facility. For example, a Cat 1 hurricane may cause business interruption as a result of supply chain disruption, power outages, transportation issues etc, without any damage to the insured location.
- A parametric policy structured to trigger at Cat 1 would cover the financial loss associated with this non-physical damage business interruption, thereby filling a coverage gap in the existing PDBI traditional programme.

There are multiple other applications where weather and natural catastrophe threats can cause financial loss without physical damage such as:

- **Manufacturing** – a contingent business interruption loss due to physical damage of supplier's property
- **Hospitality** – cancelled bookings
- **Leisure/tourism** – closed theme parks or yachting harbours
- **Construction** – site shut down and corresponding delay costs
- **Transportation** – freighters unable to move goods due to high or low water levels
- **Events** – cancellation of open air concerts/sport

There are many advantages from complementing traditional insurance programmes with parametric solutions. As well as cost efficiency and speed of pay out, filling the coverage gap of uninsured non-physical damage business interruption is yet another compelling benefit.

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