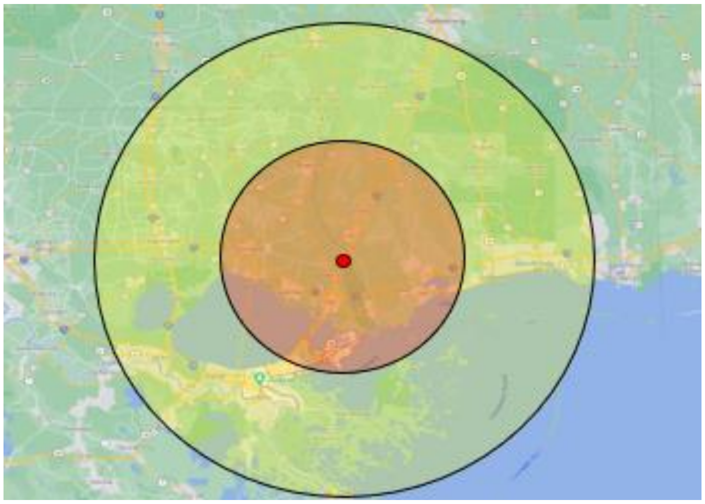
Parametric Hurricane Policies.

Hurricanes, and other large scale wind events, have produced some of the largest natural catastrophes in the recent memory. This has also meant that insurance coverage has become heavily utilised to protect against property damage, business interruption and other losses of revenue. With the sector being so heavily reliant on insurance coverage, and the amount of catastrophic events seemingly increasing due to climatic factors, finding pricing and structures at an affordable level is becoming more difficult. Parametric coverage could well be the answer to these issues.

Parametric policies have been coming into prevalence more and more in recent years with weather being a sector where they have really found their place. Weather derivatives have been traded for a number of years and with the inclusion of an insurable interest, through a clear correlation between weather events and financial experience, Parametrics have now moved into the insurance space. This has allowed client's to alleviate their need to carry additional risk through an increased decutible on their traditional cover.

Parametric policies differ from a traditional indemnity cover due to the inclusion of a weather-based deductible. For a parametric policy, this comes in the form of a 'Cat in a Circle' structure whereby events must exceed criteria for there to be a potential payout on the policy. For example, a factory outside New Orleans, Louisiana may buy a Parametric Hurricane 'Cat in a Circle' cover to protect their $10m deductible. The client is particularly worried about events which range from Category 3 upwards. The following structure may be created (figures are fictitious and are for illustrative purposes only):



Cat.	10-min Wind	<50km	50 – 100km
Cat. 3	118-159km/h	25%	0%
Cat. 4	160-200km/h	50%	25%
Cat. 5	200km/h+	100%	50%

Hurricane Deductible Buy Downs (HDBD) have been bought in the traditional market for a number of years but Parametric covers have two distinct benefits for the client:

1. Ground Up Coverage.

Parametric policies contain no financial deductible. If the weather thesholds are met, and the client sustains a financial loss, the structure will pay accordingly.

2. Immediate Loss Settlement.

The lack of need for loss adjusting, and the payout being largely predicated on publicly available data, mean that payouts can settled within 21 days of loss event/expiry.

These policies have a multitude of uses. We have already seen these products used as a replacement to traditional coverages, as a way of reducing or removing a traditional cover's deductible, or a method to obtain rapid disaster relief with a fast loss settlement.

These policies are very adaptable and the markets we source make each policy unique to the client. In order to achieve this, we start the process by asking some relatively simple questions about the risk and this allows us to source relevant data sources for coverage. These questions/pieces of information are:

- Location of Risk(s) – This is the registered address(es) of the locations and the latitude and longitude coordinates

- Loss History – A comprehensive history of losses relating to the desired peril. This allows cross-correlation to occur with historical hurricane tracks.

- Allocated Budget – A rough idea of a budget allow us to create a structure which fit your finances. We have the ability to work backwards from the budget to make sure any structures are affordable.

- Advice on Structure – If you or your client have some idea as to how they would want the structure to react from a wind intensity or financial payout perspective then this is valuable information for our markets to factor in.

- Policy Period – These coverages can be formed on an annual basis or just for the hurricane season for the client's location.

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