Parametric Temperature Policies – Wet & Dry.

Parametric policies have become more and more popular in recent years with weather being the sector where they have really found their place. Weather derivatives have been traded for a many years and with the inclusion of an insurable interest, through a clear correlation between weather events and financial experience, parametric coverage has now moved firmly into the insurance space.

Insurance against extremes in temperature have traditionally been placed in the contingency market where it is linked to event cancellation or business interruption. There are, however, a multitude of companies whose income can be heavily affected by adverse weather conditions at crucial times of year. Some examples of these are mentioned below:

- Seasonal Tourism – Restaurants, bars and pubs that have higher turnover in summer months can protect themselves against a cooler summer and areas which attract winter sports enthusiast can cover themselves against a warmer temperatures that result in poor snow conditions.

- Sports & Leisure – Frozen ground can be a major contributor to sport cancellations, especially in football and horseracing.

- High Street Retail Sector – Reduced footfall due to inclement weather especially when launching new or seasonal lines

- Agriculture – Agriculture can be heavily affected by adverse weather conditions (for more information, please see the Crop sector on our website).

One of the primary reasons why weather phenomena are well suited to parametric covers is that temperature, along with other perils, has been heavily documented and has a long data history. This allows markets to price deals far more accurately and reduce the basis risk in countries which have an extended weather station network.

A parametric policy differs from a traditional indemnity cover by the inclusion of a data/event-based limit and deductible. For a temperature cover, this would be a strike point which will be triggered either by the measurement of temperature (in Celsius or Fahrenheit) exceeding an agreed level in a period (excessive), or how far below a required reading occurred (reduced) again during the period of the policy. The ability for weather-based deductibles to be set at any level means that these policies can be highly customized to a client's needs or budget requirements. For payout to occur, the client will need to confirm the financial loss that they have suffered due to the specified peril and their insurer will cross check this against the weather data that was collected via the methodology set out in in the policy documentation.

Parametric covers have two distinct benefits for the client:

1. Ground Up Coverage.

Parametric policies contain no financial deductible. If the weather threshold is met, and the client sustains a financial loss, the policy will pay.

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 be made within 21 days of the loss event or expiry of the policy.

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 investigate the historic weather or seismic activity for the region. The specific 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 events.

- Allocated Budget – A rough idea of a budget allow our markets to create a structure which fit the clients finances. Our markets will 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 temperature or financial payout perspective then this is valuable information for our markets to factor in.

- Policy Period – These coverages can be placed on an annual basis or just for a desired period during which the peril will have the most effect on the business covered.

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