

### Parametric Crop Policies – Single/Multi Peril Cover.

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. One of the key industries that could really benefit from parametric weather policies is the agricultural sector.

Traditional crop insurance has been placed in the traditional market for a number of years. Large losses, resulting in hardening rates, have meant that traditional coverage has become more expensive for insurance buyers and there is room for a viable alternative. Parametric insurance offers that viable alternative by looking at various factors which have given rise to losses in recent years. Excessweather has already worked on agricultural examples from numerous countries around the world and assisting clients in those regions to access coverage against adverse weather conditions. Some examples of countries and crop types which we have assisted in structuring are below:

- North America – Various crop types including Sugar Beet, Cereal Crops, Hemp and Medicinal Marijuana
- South America – Soybeans
- Jamaica – Hemp
- Italy – Tomatoes and Grapes
- Australia – Bananas
- New Zealand - Hemp

One of the primary reasons why weather phenomena are well suited to parametric covers is that temperature and rainfall (along with other perils) have been heavily documented and have 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. Excessweather continues to work and connect markets with data providers in order to have multiple channels available for different opportunities. Technological advancements have led to satellite data becoming a key source of information in the weather sector, especially for rural agricultural deals.

Agriculture provides a unique challenge in the parametric space because crops have specific requirements throughout their growing cycle. For example, at the planting stage, a crop may need plenty of rainfall and temperatures high enough to avoid frost. If these criteria are not met then the crop may not germinate and the yield will suffer. However, if the crop gets optimal conditions at the planting stage then it may need much warmer temperatures once it matures and other perils may become a larger concern (wind or hail etc). Excessweather are on hand to assist in structure creation and will liaise with markets to source capacity for client's needs for specific perils at different stages of a crops development.

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(s). 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 peril 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 (growing season) during which any peril may have the most effect on the business covered.

### **Contacting Us**

John Warwick

[john.warwick@excessweather.com](mailto:john.warwick@excessweather.com)

Jamie Warwick

[jamie.warwick@excessweather.com](mailto:jamie.warwick@excessweather.com)

[excessweather.com](http://excessweather.com)

Excessweather No 2 Limited is registered in England & Wales under company 9317390. Registered Office: 8 Churton, Birchanger, Bishop's Stortford, Herts CM23 5FF. Excessweather No 2 Limited is an agent of Cornerstone Insurance Brokers Limited, which company is an Appointed Representative of Independent Broking Solutions Limited. Excessweather is a trading name of Independent Broking Solutions Limited.

Independent Broking Solutions Limited is authorised and regulated by the Financial Conduct Authority, registration number 312026. Broker at Lloyd's number 1179. Registered Office: Unit 2 Kildegaard Business Park, Easthorpe Road, Easthorpe, Colchester, Essex CO5 9HE. Registered in England & Wales No 00616849.

