AUSTRALASIA UNDERWRITING

Parametric Insurance

Why is parametric cover a hot topic in insurance circles?

Parametric insurance is not new, insurers, reinsurers and big corporates have been buying it for well over 20 years, but it's only in recent times that it is becoming viewed as a viable option for general insurance buyers.

When insurance coverage is relatively cheap, and insurers are hungry for market share, there is very little need for creative solutions like parametric covers. Insurers are able to offer broad coverages and are eager to underwrite business at times almost regardless of the exposed perils.

After 3 years of serious flood losses in Australia coupled with large natural catastrophe losses in the US and Europe, insurers and reinsurers are looking at the key exposures in their portfolios much more closely. Many insurers are refusing to provide cover for flood and cyclone exposed properties, alternatively, they are drastically reducing the level of coverage they are prepared to offer clients.

Where cover has been completely withdrawn by mainstream insurers, parametric covers may be the only coverage option available.

What are parametric covers?

In simple terms it's a coverage that is tailored to the needs of the individual client, to protect against an occurrence they feel they have a significant exposure too. This can be a standard natural peril such as flood, cyclone, or earthquake, but it can also extend to a wide range of exposures from high and low temperatures, or not enough rainfall. Pretty much any measurable exposure can be covered under a parametric policy.

Potential parametric sales

Anyone who owns a property that has a significant natural perils exposure, whether this be flood, wind, earthquake, heat or cold, we can provide a parametric solution. There are also other areas where parametric covers can help. When business have to refinance, they may be charged higher rates if they cannot provide insurance cover, especially in flood and cyclone prone areas. A parametric solution can breach the cover gap. It can even add value to the premises as perspective purchasers know they can get insurance and therefore finance.

Target occupations

- Marinas
- Financial institutions – Credit unions and small lenders
- Caravan Parks
- Tourism sector, Resorts and Hotels,
- Island Risks
- Golf courses
- Airports
- Infrastructure risks
- Logistics and supply companies

How does the policy work?

If a client has an identified risk exposure that they either cannot find insurance for, or the available amount is not sufficient, then a parametric cover can be created for that risk.

If for example, flood is the key exposure, then we can work with a client to establish how much cover they need, and at what level of water inundation they sustain significant damage. As an example, a warehouse that has all of its stock stored on racks may not have much potential downside if the water onsite is less than say 20cm, but if it goes above 30cm then they could suffer significant damage. In that case, the response would be to create a policy that responds only when the water exceeds the critical level that would flood the insureds site.

The data for this is a mixture of measurements from the depth gauges of rivers and creeks in the local area, as well as the historical data an insured may have for their site. If the client's historical data shows that after a large flood event, they had an inundation above their impactful level, this would be measured against the corresponding depth record at the closest available river gauge. You would then be able to establish that for example a river depth measurement of 8 metres means the site would exceed its risk tolerance of 30cm, so a policy would be crafted to cover the site when either the local water authority or the Bureau of Meteorology (BOM) says that the closest gauge exceeded the policy trigger.

All parametric policy triggers are declared by a pre agreed independent third party, such as the BOM. If they declare the river level peaked above 8 metres, our theoretical policy would be triggered, and insurers will pay.

The advantage of the policy, beyond only paying for the cover you really need, is that there are no claims adjusting delays. If the third party establishes that the conditions are met for the policy to be triggered, insurers are advised and the payment is quickly made, often within a week.

It is a similar system for cyclone perils, if you have a property in a cyclone exposed area, you may not be able to get any cover at all, but with a parametric policy, you can tailor cover to suit the sites unique characteristics.

It may be that the site is well built and sturdy, so is only likely to be damaged by the strongest of storms hitting the immediate area. In this case, the insured may choose to only purchase a policy covering against the impact of a category three or stronger cyclone, coming within 50km of the premises. Alternatively, you could have a property of much lighter construction, that could be impacted by a less powerful storm. In this case, a policy could be created that pays out a smaller percentage of the limit to lower powered storms, such as a 20% payout for a Cat 1 storm within 50km, 50% for a Cat 2 and 100% for a Cat 3 and above.

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The differences between parametric and standard policies

The standard property coverages are known as all risks policies, and whilst they do have some exclusions from their coverage, they do respond to most natural peril events. A parametric policy only responds to the event you selected to insure against.

A traditional policy requires proof of loss at your location, and often needs to be visited by a loss adjuster to substantiate the amount of the loss, and what level of claim the insurer will pay.

The parametric policy does not require proof of loss, only proof that the trigger event has occurred, and this is provided by the relevant pre agreed third party. You don't even have to have incurred a loss at the site for the policy to pay out, just that the event you insured against has happened. There is no need for an adjuster to visit the site, the insurer will note that the policy has been triggered and the payout will be arranged.

Uninsurable risks and parametric solutions

We are often told by business owners that the risks they are really concerned about are not insurable. If the risk can be measured by an independent third party and there is some fortuity in the likelihood (an insurance way of saying that an event isn't absolutely certain to happen) then a policy can be crafted. We have been involved with heat related policy purchases, from both sides of the event, we have dealt with placements for ice cream manufacturers who are insuring against there being a cooler than normal summer, which impacts sales, or a dairy herd owner who gets less milk yields when there is an extended period of hot weather. Both of these events can be insured as neither is certain to happen. These exposures cannot be covered by a traditional all risks type policy, but they can parametrically.

Contact our underwriters today on **1300 988 643**
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