

Weather protection parametric insurance: A sign of things to come?

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With the ever-increasing issue of global warming and associated extreme weather threats comes an increasing demand for weather protection parametric insurance.

After catastrophic extreme weather events such as Hurricane Helene in the US in September 2024, weather protection parametric insurance can be a much-needed lifeline for many industries.

The benefits of weather protection parametric insurance are clear; it provides predefined pay-outs determined by specified trigger events. This means that insurers can provide seamless and quick settlements based on predetermined criteria.

The increase in demand for weather protection parametric insurance is not only a sign of increased consumer concern over catastrophic events, but also potentially an indication of a shifting in consumer demands more generally. One such demand is for insurance to be increasingly decisive in a more complex world. For example, weather protection parametric insurance focuses on measurable triggers rather than damage; this means that such policies are better able to cover events such as disruptions to supply chains and cyber-attacks. Weather protection parametric insurance is also an example of insurance that has the ability to be more accessible to a wider range of consumers, as its predetermined nature allows for a decrease in administrative cost and more certainty of settlement amounts. This highlights a demand for cheaper and at the same time, more certain insurance models.

However, parametric insurance does not come without its risks. Firstly, insurers need to ensure their systems and procedures (and in many cases also their technology) are robust enough to prevent automatic pay-outs where the relevant trigger events have not actually been satisfied. Insurers will also need to ensure that customers' demands, and needs will still be met where the parametric criteria have not been triggered (loss and damage can still occur where the relevant thresholds to trigger automatic payment have not been met). Insurers will also need to consider and address regulatory challenges to ensure their contracts remain contracts of insurance (i.e. that they actually involve the transfer of risk rather than contracts based on external factors that don't automatically result in loss and damage for the 'insured').

What does this mean for insurers?

The rise in the demand for weather protection parametric insurance, and other parametric products may be an indication that insurance buyers are increasingly looking for a more seamless and transparent experience that they can access, understand, and tailor more easily, and which leads to quicker claims resolution. Insurers will no doubt be considering the opportunities presented by parametrics, whilst being mindful of the associated risks.

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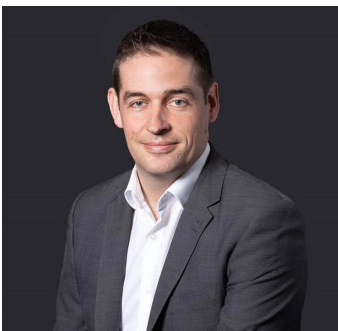


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