



An Introduction to Parametric Insurance

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Introduction / housekeeping

Welcome and thank you!

Webinar format – muted and video off. Interactive features – polls, Q&A

60 minutes including short period of Q&A

Diane Jenkins

- Background in Insurance Broking Sector – technical programme design, M&A due diligence, BI reviews
- Former chair and education secretary of London Business Interruption Association

Nick Thomas & Associates

- Up to the moment solutions addressing the challenges of the modern insurance professional
- Technical insurance, sales, business and soft skills, performance, resilience and wellbeing, leadership and management training
- Specialists in virtual and hybrid solutions for sales, client interaction, management, performance and wellbeing



Objectives

- Be able to outline the features of parametric insurance
- Know when parametric insurance can be used as an alternative or to supplement conventional insurance
- Be aware of the main parametric products currently offered or being developed

What is parametric insurance?

Event driven

- based on pre-agreed parameters/events occurring
- payments based on pre-agreed fixed amount

Cover is triggered if pre-defined event parameters are met or exceeded



What is parametric insurance?

Works best where triggers can be easily measured e.g.

- earthquake - magnitude
- tropical cyclone - wind speed
- flood - depth

Natural catastrophe events often used but also

- market indices
- crop yields
- length of delay
- power outage length



What is parametric insurance?

Traditional insurance

Payment triggered by actual loss of or damage

- for example, a fire causing physical damage to your property resulting in a physical damage and business interruption loss

Parametric insurance

Payment triggered by event occurrence exceeding parametric threshold

- for example, an earthquake of minimum magnitude of 7.0 within a defined area



What is parametric insurance?

Measure of trigger must be

- independently verifiable
- consistent – same used worldwide if possible
- clear

As with any insurance trigger, key criteria for trigger is that

- it is fortuitous
- it can be modelled



How parametric solutions differ

Are parametric contracts still insurance?

- yes – has to be insurable interest
- insured still must suffer a loss
- capacity is provided by insurance companies/Lloyd's
- regulated by FCA
- payments not taxable



How parametric solutions differ

Traditional Policies	Parametric Policies
Payment is triggered by an actual loss	Payment is triggered by an actual event that causes loss
Reimbursement is made after an assessment of actual losses sustained	Payment is made as agreed in the policy
Policy is subject to exclusions and self-insured retentions	Policy is subject to the agreed parameter (which is defined and subject to exclusions)
Claims payments are made only after a review by adjustors and/or insurers	Payment can be made quickly and automatically – often within days of trigger event
The period is usually annual	Annual or multi-year options are available (up to 5 years)
Need insurable interest	Need insurable interest

How parametric solutions differ

Faster claims

- claims can be settled more quickly
- automatic payments possible - no need to submit a claim
- there is no confusion or dispute over the level of payment – set in policy



How parametric solutions differ

Can be much quicker to develop

- easier to model and price event trigger
- low claims management costs
- simpler wordings

Simplicity allows development of microproducts

- large market opportunity

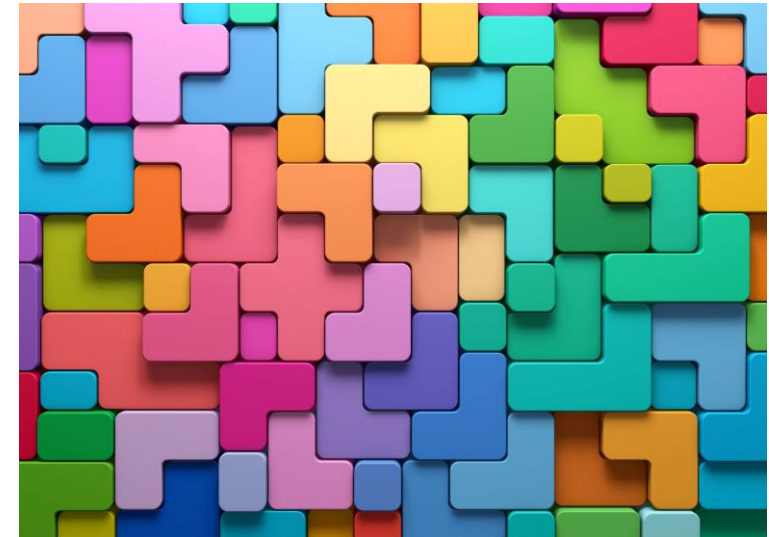


How parametric insurance fits with other products

Parametric products can be used in UK to supplement other covers e.g., to:

- provide flood cover or infill high flood excess
- provide cover for cyber outages at third parties
- cover uninsured weather risks for renewable energy

As well as, not instead of ‘conventional’ insurance



Examples of parametric products

Parametric cover for downtime to IT services

- cloud
- eCommerce (e.g. Shopify and BigCommerce)
- Payment systems (e.g. Stripe and PayPal)
- CRM
- content delivery networks (e.g. Fastly)

Continuously monitor services

Automatic payment



Examples of parametric products

Qomplx - WonderCover

- cyber GDPR breach - breach of personal data requiring ICO notification under GDPR
- cyber service outage - third party (max 5) used by the business having an outage
- terrorism non-damage BI - terrorism event occurring in the same postcode zone

Aimed at companies up to 12m turnover

Limits from £5,000 to £100,000



Examples of parametric products

FloodFlash – flood insurance

- insured selects a depth of flooding and cover amount
- internet-connected sensor measures flood depths at the insured property
- available in locations where other insurers have refused to offer flood cover
- when flood depths reach the pre-agreed amount, payment made



Examples of parametric products

Blink - travel disruption e.g., for travel firms to offer clients

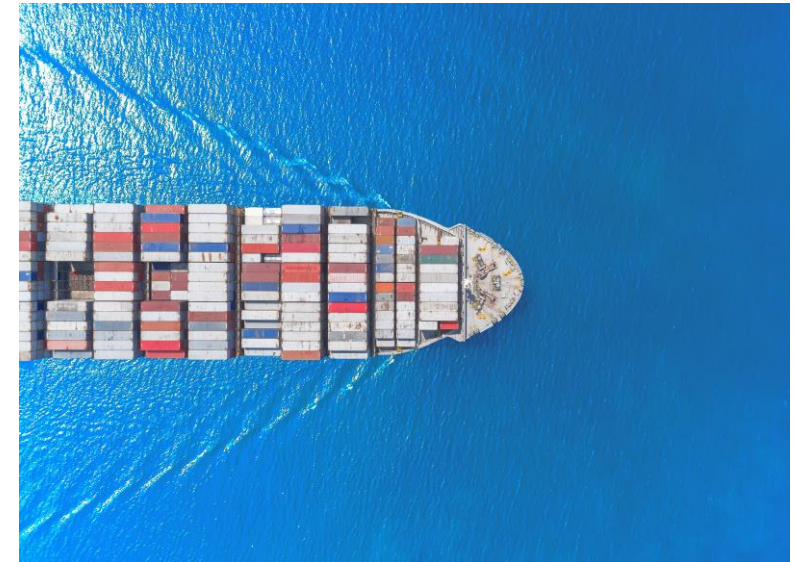
- traveller registers their flight details
- Blink monitors the trip in real-time
- flight is disrupted - traveller is automatically offered service options e.g.
 - airport lounge access
 - hotel room
 - cash payment



Examples of parametric products

Parsyl – perishable goods in transit –
ColdCover

- tracks temperature conditions of perishable goods (e.g. vaccines)
- inform insured of catastrophic temperature breaches
- no paperwork
- payment within 72 hours
- no deductibles
- can be used to infill cargo policy deductible



Examples of parametric products

AXA Climate e.g., Hail

- select pay out limits and hail size options
- AXA installs an Understory weather station to monitor the insured area
- whenever a storm hits, the weather stations detect and analyse the storm
- if the storm produces hail stones large enough to trigger policy, payment made



Benefits of parametric options for brokers

Able to offer clients innovative solutions

- for cover not otherwise available (e.g. flood)
- may be additional income stream for clients and brokers (e.g. travel disruption)
- provides options to clients

Potential to save costs for clients despite hard market

New business tool

Defence tool – discuss with client before competitors do!



Overcoming client objections

Educate clients

Emphasise advantages of quick pay outs

Demonstrate how fills gap with 'traditional' covers

- expensive, slow to settle and may have a large deductible
- not available at all - Parametric insurance offers an alternative that is preferable to having no cover



Future parametric products???

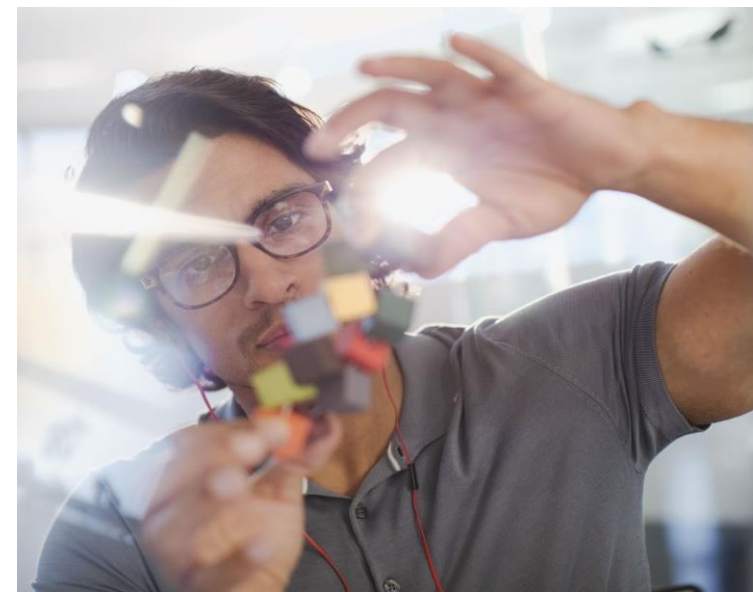
Pandemic – Sompo product available in Asia

Breakdown of products (alternative to warranty cover)

Legal expenses

Reduction in footfall for retailers

NB Scheme opportunities for brokers



Thank you! Questions?

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