



Parametric Insurance: Offering More Protection in a Challenged Market

With current market conditions leading to more challenging placements, more insureds are turning to parametric insurance to supplement their traditional coverages. This year alone, we've seen a 500% increase in submission volume. This growth is expected to continue as the structures become more sophisticated, insured awareness increases and exposures increase in complexity and outgrow their traditional coverages. In fact, Allied Market Research predicts the parametric market, valued at \$11.7 billion in 2021, will reach \$29.3 billion by 2031, almost tripling in value.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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Advantages of Parametric Insurance

Parametric insurance aims to resolve two of the greatest challenges insureds experience with their coverage: speed of recovery and freedom to deploy their recovered capital as they see fit. These solutions are based on pre-defined event triggers, such as windspeed, ground shaking or river height. They offer a level of clarity and certainty that is unmatched in the traditional market.

If an event occurs and meets or exceeds the trigger, the solution pays according to the intensity and agreed payout function. While trigger events will depend on the policy, insureds follow a simplified “proof of loss” process to certify actual financial impacts allowing for payouts in under three weeks in most cases.

The three main benefits to this non-traditional set-up are:



Rapid payout. Insurers use near real-time and publicly available data so claims can be paid quickly, often in a matter of weeks. This affords cash flow and liquidity, which may enable a business to recover faster from an event.



Flexibility. The policy indemnifies the insured against the circumstances around an event, rather than an underlying portfolio of actual losses incurred. The insured can then use the proceeds however they see fit, provided it covers any direct or indirect financial loss associated with that triggering event.



Transparency. Everything is predefined in the parametric insurance contract so there’s no ambiguity over when, how and how much the contract is going to pay out.

This balance sheet/income statement protection has the added benefit of having the functionality of property insurance as well. You can learn more about the history of parametrics and the benefits of these solutions [here](#).

Helping Your Clients Get Started

Insureds use parametrics for a variety of reasons. Ultimately, it is a tool that organizations can add to their risk management arsenal to:



Complement traditional insurance

- Deductible buy-downs
- Cover uninsurable or underinsured risks
- Replace lost traditional capacity



Cover uninsured expenses

- Losses not covered by exclusion or underinsured by sublimit
- Unscheduled assets and infrastructure



Offset post-loss premium budget volatility

- Premiums that have increased following a loss

Since these structures are bespoke and non-traditional, brokers must guide their clients through the market and help them compare options. To ensure proper structuring, organizations will need to provide:



Schedule of values to show where things are located and how much they're worth.



Loss history to help with benchmarking trigger design against the performance of the account and those historical events.



Specific goals and what they want to achieve.

- Why does the insured want/need a parametric?
- What is the insured's objective?
- What problem is the insured trying to solve?

Markets are already realizing the advantages parametric insurance can offer. Utilization of this type of coverage will continue to expand and we expect changes not only in the amount of capacity that is available in the space, but in terms of the sophistication of the markets and the structures they can offer.

Amwins Knows Alternative Risk

At Amwins we have deep structuring experience and unmatched market knowledge. With this expertise, we have a best-in-class grasp of the market, its appetite and its capabilities. We can tell you whether a standardized structure will work for your client or if a custom design is needed.

We know parametric insurance is not simply property insurance. It's balance sheet protection, a hedge against a defined uncertainty. Contact [Alex Kaplan](#) directly to learn more.

About the Author

Alex Kaplan, EVP of Alternative Risk

