Instant claims for earthquake damage

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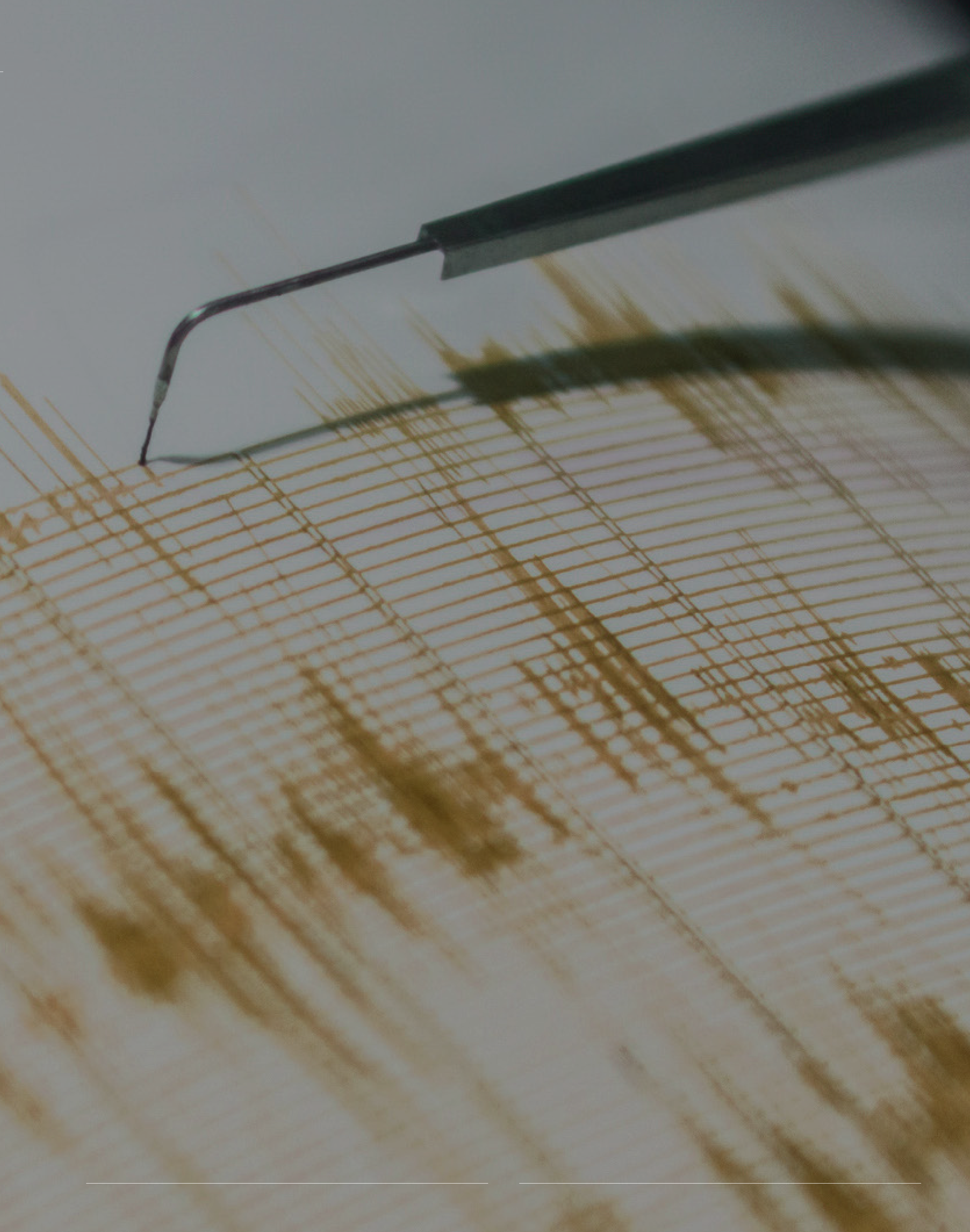
In earthquake-prone California, despite comprehensive advertising by the state to promote earthquake insurance, 87 percent of homeowners don't have insurance because it is considered unaffordable. This, coupled with the fact that 62 percent of Americans have less than $1,000 of savings, means that millions of residents lack the means to recover if a devastating quake were to hit the Golden State.

Lloyd's is addressing this by underwriting parametric insurance in partnership with retail broker Jumpstart, based in Oakland, California, and coverholder AmWINS. Jumpstart offers a new, more affordable and more accessible alternative to traditional earthquake insurance.



Fast and effective

Parametric policies differ from traditional insurance by paying out a pre-agreed level of compensation when a clearly defined parameter is exceeded. The triggering process relies on independent data from third-party indices and metrics that measure objective parameters such as excessively high temperatures, commodity prices falling below a predetermined value or an earthquake of a certain magnitude. There are several benefits for customers: the buying process is fully automated, claims payments are automatic and since there is no need for a loss adjuster's assessment, funds can be released in a matter of days.

Innovative opportunity

Jumpstart's chief executive officer, Kate Stillwell, recognised some years ago that many people in California did not have savings or insurance to cover earthquake damage and so designed a parametric insurance product to fill the gap.

"Every natural disaster causes surprises," Stillwell says. "They mess up life for everyone, and not just for those who experience physical damage. Disruption costs money for everyone. The problem is only a tiny fraction of disaster costs flow back into an affected community, partly because the low buy-rates of insurance mean claims payments are small in aggregate, but also because people don't have the savings to fund recovery."

Reliable cover

Triggered by US Geological Survey data earthquake measurements, Jumpstart's policy does not pay for all the damage to customers' property caused by an earthquake but pays $10,000 to each policyholder quickly to cover their immediate costs post disaster. After an earthquake occurs, Jumpstart sends a text message to every policyholder in the affected area asking them if they have incurred costs. If the answer is yes, Jumpstart pays the money directly into customers' bank accounts within a few days.

"Jumpstart helps individuals begin adapting to the 'new normal' post disaster," says Stillwell. "The payment is meant to be enough money to tip the balance in favour of people staying to rebuild, rather than leaving to get on with their lives elsewhere. When individuals stay, the whole community recovers more quickly."

Made to measure

According to one Jumpstart customer, the parametric policy is a much simpler way to insure his property. "If the ground shakes more than a certain amount, I get money in my account within a few days," he says. "There are no claims forms to fill out and no loss adjustor interviews. You just get the money, meaning you can start your recovery immediately."

Tamara Solomon, a JumpStart investor, believes one of the key advantages of parametric insurance is that it cuts through the red tape to the benefit of customers. "Insurance is tough to deal with at the best of times," she says. "In a disaster situation, it's even worse and can take years to sort out a claim."

In California, where the threat of earthquakes is omnipresent and where so many people are uninsured or have few financial resources, parametric insurance offers an alternative, effective way to protect property, livelihoods and communities.

Buying protection for volatile milk prices

Stable, a Lloyd's managing general agent (coverholder), is improving access to insurance in the agri-food sector though its parametric risk transfer solutions for farms and food buyers of every size.

Sarah's Dairy Farm in Cumbria, UK has 200 cows. Like any family-run business she borrows money to invest in the future, which while it helps her keep ahead of the competition, puts added pressure on her to make her loan repayments. Her major challenge is the volatility of milk prices, which over the past decade has ranged from 20.4p/litre to 34.5p/litre. This makes it hard to know what the farm's income will be from month to month and, therefore, whether she can keep up the loan repayments.

Market volatility is a major risk for all producers and buyers of agricultural products. Prices can fluctuate by as much as 20% or 30% a year, making it difficult for farmers to manage their businesses and plan their finances, and for commodities investors to gauge investment decisions.

Larger farms mitigate this risk using several strategies including trading options and futures, but these products are out of reach for most small-scale farmers such as Sarah.

The need for new products

With the average size of most farms in the EU being 16 hectares and producers requiring somewhere in the region of 2,000 hectares of land for traditional financial tools to be cost-effective, the cost and complexity mean traditional financial products are not an option for most small-scale and family farms. Currently, only 1.5 percent of farms in the EU are 2,000-hectares or more.

Benefits for customers

Parametric insurance policies offer a lifeline for smaller operators. They differ from traditional policies by paying out compensation when a clearly defined parameter is exceeded. The triggering process relies on independent data from third-party indices and metrics that measure objective parameters such as excessively high temperatures, commodity prices falling below a predetermined value or an earthquake of a certain magnitude. There are several benefits for customers: the buying process is fully automated, claims payments are automatic and, since there is no need for a loss adjuster's assessment, funds can be released quickly.

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Tailored to farmers' needs

Stable's UK platform uses third-party, independently verified index prices from the UK Government Department for Environment, Food and Rural Affairs and the Agricultural and Horticultural Development Board to calculate the premiums and claims payable. Parametric insurance indemnifies the policyholder based on an index-based commodity price rather than the individual loss incurred by a business.

For Sarah's Dairy Farm in Cumbria, it was imperative to make a decent profit after borrowing to invest in the farm. However, the volatility of market milk prices meant that Sarah wanted a safety net to protect her investment and ensure she could pay back the loan. Sarah chose Stable's parametric insurance product, which covered her for a fall in milk prices below a certain level. It was just as well she did - during the 11 months covered by Stable's insurance, prices were particularly volatile.

Coming from a farming background, Stable's chief executive, Richard Counsell, understood the limitations of existing insurance policies on offer to farmers and spotted a gap in the market. "Stable is redefining how businesses around the world manage the risk of volatile incomes," he says. "Our parametric insurance expertise enables us to reduce our operational costs, so we can keep premiums attractive to our clients. The added advantage of a fast, clear and automated claims process is really appealing to our global clients."

Faster claims payments

The parametric volatility insurance policy can be purchased entirely online, which can result in cheaper premiums and faster claims processing. Businesses can get a free quote in minutes by selecting the value they want to protect, the length of the protection and the price they want to pay. Because the system uses an index price to trigger payments, claims are paid automatically, keeping costs low, eliminating paperwork for farmers and making the whole process more accessible.

Parth Patel, chief risk officer for Lloyd's managing agent Ascot Underwriting, which underwrites Stable's parametric insurance policies, said: "The Stable platform combines automated claims payment processes with real-time analytics and live exposure management. The partnership between Ascot and Stable enables us to provide our customers with insurance protection that better matches their needs."

For Sarah, it means she can go to sleep at night, not worrying what the milk price might be in the morning.

Protecting farmers from extreme weather

“The Chablis growing area is highly exposed to frost, which is one of my main concerns in my vineyards,” says owner Louis Moreau from the eponymous domaine.

In 2017, farmers and producers across Europe experienced unexpected and severe weather conditions, with below average rainfall and abnormally high and low temperatures that ruined many harvests.

Spring frost affected almost every vineyard in France, with only two-thirds of Burgundy’s usual crop being picked as a result. Overall, France’s wine production fell by almost a fifth compared to the previous five-year average. Only 15% of vineyards in France are insured against these risks and traditional insurance is not well adapted to the needs of wine growers, with expensive premiums and excessively high deductibles.

Made-to-measure policies

"The Chablis growing area is highly exposed to frost, which is one of my main concerns in my vineyards," says owner Louis Moreau from the eponymous domaine. "At the time, traditional insurance policies were too expensive and not offering the cover I needed."

Back in 2017 he came across Meteo Protect, a Lloyd's managing general agent (coverholder) that offered parametric insurance policies that insured policyholders for the seasonal short-term impacts of extreme weather events. "The policy was simple, easy to understand and well adapted to the risk exposure I faced," Moreau recalls. Temperatures in the Burgundy region dropped below zero during an unprecedented 10 days in April, which meant Moreau received a claims payment to offset his shortfall in production. "The 2017 climate proved the accuracy of the cover," he says.

Benefits for customers

Parametric policies differ from traditional insurance by paying out compensation when a clearly defined parameter is exceeded. The triggering process relies on independent data from third-party indices and metrics that measure objective parameters such as excessively high temperatures, commodity prices falling below a predetermined value or an earthquake of a certain magnitude. There are several benefits for customers: the buying process is fully automated online, claims payments are automatic and since there is no need for a loss adjuster's assessment, funds can be released quickly.

Helping Spanish olive farmers

Spain also experienced record temperatures on several occasions throughout May and June 2017. The country's largest professional agricultural association, the Agricultural Association of Young Farmers (Asaja Jaén), couldn't find adequate drought insurance coverage to meet the needs of its olive growers. Through the Lloyd's market, its broker contacted Meteo Protect, which provided tailored parametric insurance to protect 22,000 olive farmers from the financial consequences of extreme temperatures on their crops during the spring flowering period.

Its policy stipulated that temperatures had to exceed 36 degrees Celsius for more than two days between 30 April and 15 June. The compensation was fixed at Euros 1,000 per hectare, so when temperatures soared to above 40C, those with the cover in place received their claims payments a month later.

Asaja Jaén's olive growers were able to avoid the life-changing consequences of losing a significant part of their harvest and they received the compensation quickly, not at the end of the harvest as with traditional policies.

Supporting small-scale producers

Gabriel Gross, the chief executive officer of Meteo Protect, is pleased with the positive impact parametric insurance is having on smaller producers' businesses. "When we built our real-time pricing underwriting platform for parametric insurance and our climate-change analysis algorithms we were far from understanding that this was the key to providing adaptation and resilience to this amazing world of sustainable agricultural production," he says. "We are very proud to achieve this with the support of Lloyd's."

Luis Carlos Valero, manager, Asaja Jaén, said: "Drought is unfortunately a major issue for our regions. Thanks to Meteo Protect's platform we have co-designed policies allowing our members to purchase parametric insurance against specific perils whenever they need it, based on their crop yields. Our farmers appreciated the fast and efficient claims pay-outs, which helped them react quickly to adverse weather conditions. Flexible insurance is the best protection."