

Earthquakes, Hurricanes, Hailstorms and other Catastrophic Damage – Parametric Insurance to the Rescue

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Parametric Insurance

Every year our country experiences catastrophic weather threats in a variety of forms. This could come from hurricanes, wildfires, hailstorms, earthquakes, and blizzards. Many of these events can cause damage that reaches into billions of dollars. There are a lot of insurance companies that protect against these catastrophic claims, however, most have high deductibles and there are a lot of exclusions. A product has arisen in the marketplace to fill the coverage gaps excluded by traditional insurance and help to pay for losses beneath the deductible. This is parametric Insurance.

How does Parametric Insurance differ from our current Insurance?

Parametric insurance is an index-based insurance product that has been around for decades in the reinsurance space. Its goal is to provide immediate funds to the policy holder when a specific event has occurred within a measurable data set. Parametric insurance covers a specific peril (earthquake, hail, hurricane) which has a trigger (peak ground acceleration/earthquake intensity, hail stone size, sustained wind speed) and has a trusted 3rd party data source (USGS, Corelogic, RMS etc.). Some programs may also have on-site monitors for local activity as a backup to the main data providers. The policy will have certain thresholds which activate the limit of indemnity purchased and when those thresholds are met the policy limit is available for payment.

Limits and Scope of Coverage

The limit of the policy is essentially a blanket limit for the insured that can be recouped *to indemnify against any economic loss incurred as a result of the event*. This can include items traditionally covered under insurance but underneath the deductible. It can also include any items not covered under the insurance policy but are still economic losses to the insured. This could include things like claims management fees from property managers, cosmetic damage to your structure, damage to outdoor property, engineering and safety certification costs, equity protection, the list is endless...

Unique Claim Resolution

One of the most attractive qualities about parametric is its *ability to pay rapidly and without adjustment*. Typically the insured just sends in a signed statement of loss with their economic claims identified and *their check is issued within weeks after verifying that the policy trigger was met*. The other really great part is that it pays out regardless of your traditional property carrier's claim determination. *Your property carrier could deny a claim and a parametric policy would still pay. You could even buy only a parametric policy without traditional insurance cover.*

Minimizes the Stress of Traditional Property Insurance Adjustment

During a catastrophic event, insureds may find the claims process to be very stressful. They are joined in with thousands of other policy holders seeking payment and many times the process can drag out as adjuster resources are not infinite. Sometimes the value an insured receives from the carrier may not be what they were expecting or they may find an exclusion of coverage they didn't fully understand before. In these scenarios, having the benefit of a parametric policy in place can be a godsend and a much-needed relief to start the rebuilding process. Over the next decade you will see more and more implementation of this type of coverage and it is worth exploring as an option at your renewal.