

Parametric policies – the future of insurance?

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In a bold new move, Swiss Re and Guy Carpenter are leading on a one-year pilot parametric flood insurance programme for New York City. But what is a parametric policy and does this represent the future of insurance?

What is a parametric policy?

Parametric policies aim to provide for quicker, automated claims payments and to remove claims professionals from the process (or at least significantly reduce their involvement). A parametric policy does this by automatically paying out losses if certain events happen (known as parametric thresholds). Parametric thresholds are usually set by reference to weather or seismological events, such as earthquake readings or flooding above a certain level. In the event of the parametric threshold being met, there is no need for the policyholder to submit a claim or establish a loss; the payment is made automatically.

The general concept of parametric policies has been in discussion for a few years and whilst there are a few examples of parametric policies in place globally, their use has been fairly limited.

How does this particular policy operate?

The New York City flood scheme is designed to provide quick payments to residents in low- income communities in New York City. The scheme is funded by the National Science Foundation and the Department of Homeland Security, and was developed in partnership with the Centre for New York City Neighbourhoods ("CNYCN"), the New York City's Mayor's Office and the Environment Defense Fund. This project is therefore a collaboration between the commercial insurance sector and the public sector to provide a novel community-based solution to an identified risk.

The scheme will use data provided by monitoring from Iceye. Based on this flood data, a determination will be made as to the proportion of a neighbourhood falling within a flooded area. If that reaches or exceeds the parametric threshold, that will in turn automatically trigger a payment to CNYCN to distribute to affected residents.

Commenting on the scheme, Jackie Higgins, Head of Public Sector solutions for North America at Swiss Re Corporate Solutions stated:

"This innovative product allows New York City to optimise its resources and focus on helping low- and moderate-income communities recover more quickly after a severe flooding event"

The future of parametric policies

It is clearly early days for parametric policies, and only time will tell whether their use will become more widespread. Insurers will be watching this innovative pilot with interest.

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