

Parametric Insurance

Helping Close The Protection

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Gap

While the insurance market worldwide is evolving, a few challenges remain. The protection gap is one of them. Especially in developing countries, a higher share of natural catastrophe losses is uninsured. Parametric insurance and the reinsurance of those covers is one possible solution to help close that gap.

Parametric insurance is a shortcut approach to insurance protection, in contrast to traditional insurance, it does not rely on assessments of the actual damage caused by natural catastrophes. Instead, parametric insurance covers are based on predefined triggers and payout mechanisms. Payments for claims are fixed in advance. Under traditional insurance terms, a natural catastrophe would need to damage property with a specific insurance cover. Then a claim needs to be filed, investigated and a settlement needs to be made.

All in all that traditional approach to process claims is time consuming, complex and costly. Parametric insurance is being used in several countries for over a decade now. This in-depth knowledge can be transferred to other areas and regions that are also prone to severe natural disasters. At the same time, developing countries face the same dilemma that especially hurts lower-income groups in the population. Where there is a lack of capacity or appetite from traditional insurance markets, the few available insurance covers are very costly. In that case, parametric concepts are more suitable, especially for risks that are typically underinsured or even uninsured. They can help increase insurability in countries or regions that are not insurable yet.

Yet as a reinsurer, Hannover Re provides a backstop for claims originating from primary insurers

only, so we typically do not interact with clients directly and therefore can only bring parametric covers to consumers together with our clients, the local insurers.

An established and well working arrangement is CCRIF – the Caribbean Catastrophe Risk Insurance Facility. Hannover Re supports this multi-country risk pool that aims to develop a parametric coverage scheme in the Caribbean region and to allow swift claims settlement in those less developed economies after heavy natural disasters like hurricanes or earthquakes. Established after hurricane Ivan in 2004 the CCRIF shows that this kind of insurance entity works for emerging markets as many payments have already been made, for example, after hurricane Maria in 2017. The CCRIF made a payout of over US\$19m for Dominica within 14 days after the event and proved its ability to provide quick liquidity to governments of the Caribbean and Central America.

We see parametric concepts as a growing product that benefits the various parties involved. The key is to be able to design the exact features of parametric covers such as defining the trigger and payout as well as the perils covered. Global reinsurers are well positioned to help develop those products, as these require a lot of underlying data, analytical skills and industry knowledge.

There are still too many regions where insurance protection is not available at all. We see the insurers and reinsurers in a leading position to close this protection gap and help fight the negative impact on especially the poor and vulnerable following major disasters. ●



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