



Parametric insurance is a unique form of coverage that provides **protection based on pre-determined, measurable characteristics tied to a covered event.**

Unlike traditional commercial policies where reimbursement is based on the exact cost of damages incurred, parametric insurance pays out according to the intensity of the event itself. This type of policy can be particularly beneficial for businesses located in areas prone to large-scale natural disasters, as it for **faster payouts** and **more flexibility** when it comes to coverage options.

In this article, we'll provide a comprehensive overview of parametric insurance, its key benefits, and additional considerations to keep in mind when selecting a policy.



## HOW PARAMETRIC INSURANCE WORKS

Parametric insurance works differently from traditional commercial policies in that the **reimbursement amount is based on the severity of a covered event rather than the exact cost of damages** sustained. To determine this compensation, the policy must have predetermined triggers that independently verify and measure the intensity of the event.

These triggers can include indicators such as:

- floodwater height
- hurricane wind speed,
- earthquake magnitude
  - For instance, a parametric policy could be set up to pay out a certain amount if the property experiences an earthquake above a specified magnitude on the Richter scale.

In some cases, increasing payouts may also be available as the event intensifies - for example, 75% of the policy limit might be paid out for a magnitude 7.5 earthquake, while 50% of the policy limit may be paid out for a magnitude 5.5 earthquake. This type of coverage is beneficial as it allows policy holders to receive fast payouts after a event without having to wait for an assessment from a loss adjuster.

Additionally, this form of insurance can also be customized to meet the unique needs of the business leader, and offers a greater range of coverage possibilities beyond just physical damages.

## KEY BENEFITS OF PARAMETRIC INSURANCE

Parametric insurance can offer a number of benefits for businesses located in areas prone to natural disasters, including:

- **Faster payout** as opposed to traditional policies, as the reimbursement amount is predetermined based on the severity of the event.
- **Increased flexibility and customization** compared to regular commercial policies, meaning the trigger and set payout structures can be tailored to meet the business leader's specific needs.
- **Ability to spend reimbursement funds on different types of losses** that may not necessarily involve physical damages or outwardly evident loss elements. For example, they could use a portion of their coverage to cover business interruption concerns.

Overall, these key benefits can help ensure a business is adequately protected in the event of a large-scale natural disaster.

## ADDITIONAL CONSIDERATIONS WHEN SELECTING PARAMETRIC INSURANCE & HOW KAPNICK CAN HELP

Despite the unique advantages this type of coverage provides, there are some important aspects to consider before finalizing your policy. Firstly, parametric policies are often accompanied by basis risk, which refers to the possibility that the pre-established reimbursement amounts may not cover the full cost of damages in a covered event. To minimize this concern, it's essential to consult your insurance carrier and a knowledgeable broker, like Kapnick, to make sure you understand your policy's structure and have adequate coverage for your particular exposures.

Additionally, parametric insurance may be more expensive than traditional coverage due to the increased range of protection it offers.

Finally, most policies will require a proof-of-loss before they can issue a payout, which removes the risk of business leaders that weren't affected by an event receiving reimbursement fraudulently. To ensure you are prepared, it is important to have a plan in place for providing evidence of the loss after a covered event.

Despite these considerations, parametric insurance can be an incredibly useful form of coverage for businesses that often experience large-scale natural disasters. By understanding how this type of policy works and what benefits it provides, you can rest assured your business is protected.

**Reach out at [info@kapnick.com](mailto:info@kapnick.com) or 888.263.4656 to learn more about how this innovative form of risk transfer could help your business access funds quickly following an event.**