

Risky Business - Is Parametric Insurance the Answer?

Andrew Nadler, Peak HydroMet Solutions

anadler@peakhydromet.ca

More than 70% of the world's agricultural production is not insured. This results in losses that have the potential to devastate a farm or an entire production area. The low uptake can be attributed to restricted availability of conventional indemnity insurance programs or to available programs that fail to provide adequate protection. Parametric or index insurance is a tool that helps close the protection gap. With parametric insurance, premiums are based on the probability of a certain predefined event occurring. An event refers to a certain measurable trigger that is correlated to loss. For example, below average rainfall during the growing season is associated with decreased forage production. Excessively high temperatures during flowering will negatively affect canola yield. When the defined threshold has been reached or exceeded, payment is triggered. Unlike conventional coverage, there is no lengthy loss adjustment and payout is automatic and sometimes immediate. As parametric insurance becomes more widely available, will it help address the ever-increasing agricultural risk?