

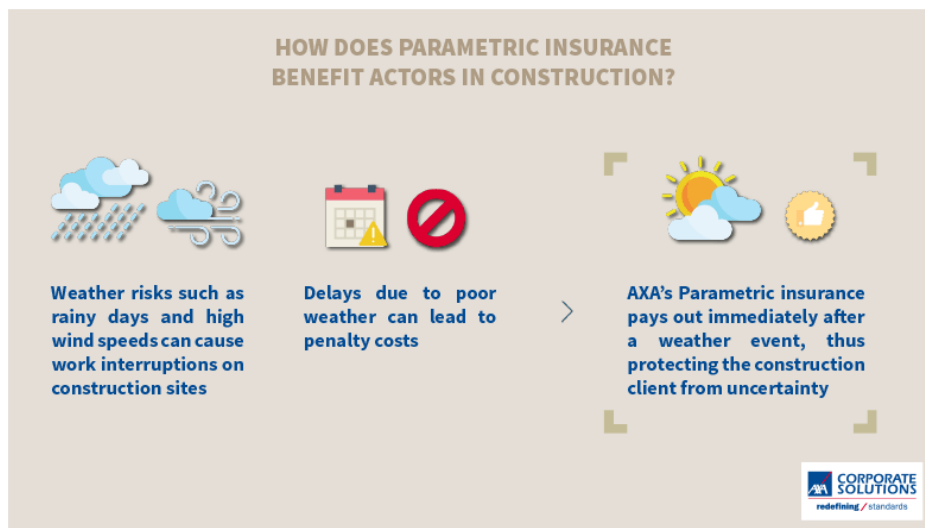


How does parametric insurance benefit actors in construction?

Construction companies face various risks linked to the weather, from revenue risk, to excess costs, to business interruption risks. Many of these risks cannot be covered with traditional insurance schemes. AXA's tailor-made parametric insurance solutions leverage highly sophisticated and granular data to cover all types of unique risks faced by construction companies.

How does it work?

Firstly, let us look at one example for a construction company facing contractual penalty risk. Say this company must build during a 2-month period from May to July. The developer imposes contractual penalties for delays due to all causes. However, the construction company cannot operate during rainy days, making it unpredictable whether they should budget in contractual penalties. As a solution, AXA can build a parametric insurance product to cover all or part of these penalties in case of delays due to weather risks. To illustrate, out of the 60 working days, if the number of "rainy" days exceeds 15, the company will receive a daily compensation agreed-upon in advance, say 20,000 €. The same type of scheme could be developed to cover other weather risks such as excess heat, cold, and wind, i.e. windy days preventing construction companies from operating.



Another example is a cement producer that faces excess cost risk in case of abnormally cold weather at the construction site. If temperatures are cold at the site, below 4°C-5°C, it is significantly costlier to pour cement as the company must use a machine to heat that cement during the pouring process. If the weather is exceptionally cold, which has been the case during the past few winters in North America, for example, cement pouring is impossible. To cover this risk, AXA uses a temperature index, though a weather station near the construction site, for example, or through NASA data from satellite images. The client, broker and insurer agree upon a trigger, say minimum daily temperature below -1°C, and agree on a payment amount. Once that trigger has been hit, the client receives a payment.

By using sophisticated data of high granularity, from different sources such as weather stations or satellite imagery, AXA can accurately measure weather patterns at specific construction sites. This reduces basis risk and allows us to provide accurate and optimized protection to our end customer, covering the various risks construction companies may face.

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