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Article

How CFOs can move at the speed of risk with parametric

Stefan Wunderlich

What role does parametric insurance play in responding to escalating risk?

Traditional insurance is a vital tool for managing complex and escalating risks, offering nuanced financial protection when it's needed most. But in fast-moving risk environment, businesses are looking to get back on their feet – quickly, and need extra help in their immediate hour of need.

Parametric insurance offers speed, liquidity, and simplicity. Importantly, it also provides certainty, with pre-agreed funds when a predefined loss trigger is met. Because payouts are based on measurable parameters rather than damage assessments, no loss adjusting is required. However, this can result in 'basis risk' – where the payout may not fully reflect the actual financial loss incurred.

For many firms, that's a dealbreaker. It shouldn't be.

Why basis risk isn't the villain

If a hurricane hits and your parametric policy pays out **25%** of the limit, but your actual loss is **40%**, you feel the gap.

But here's the bigger risk: waiting 12 months for a traditional business interruption payout while your operations bleed cash.

Parametric insurance isn't about replacing traditional cover. It's about buying time. It's a liquidity tool. A resilience accelerator. And when used alongside conventional policies, it offers a strategic advantage.

Speed is the strategy

In sectors like hospitality, agriculture, and retail - where cash flow is king and financial cushions are thin - waiting for a vital claim payout is a luxury many can't afford.

Parametric payouts arrive in days. No adjusters. No forensic accounting. Just a trigger and a transfer. That speed can mean the difference between reopening or shutting down..

The dilemma: Certainty vs. continuity

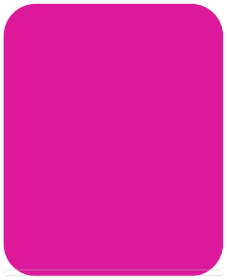
CFOs often ask: *“Will parametric cover my full loss?”*
Better question: *“Will it keep me solvent while I wait for the rest?”*

The answer is yes – if you use it strategically. Combine parametric with traditional cover. Use it to bridge the gap. To protect liquidity. To bounce back faster.

Reframing the narrative

Basis risk isn’t a flaw. It’s a trade-off. And in a world where climate volatility and infrastructure fragility are rising, access to fast compensation payouts, is essential.

For businesses built on cash flow, parametric insurance can unlock vital liquidity at the time of need. Underpinned by traditional insurance, parametric basis risk can be manageable, providing essential financial agility. Bringing a new dimension to resilience.



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