

## *Jim's Perspective...*

### Hurricane Ian and Parametric Insurance

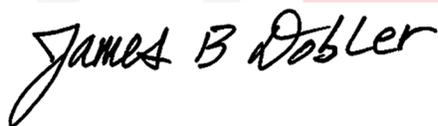
The Tampa Bay Business Journal recently reported that managing general underwriter, Arbol Underwriters Limited (AUL) delivered \$10 million in catastrophe reinsurance benefits to Tampa-based Centauri Insurance (Centauri) within 3 weeks after Hurricane Ian struck Florida. This is an incredibly fast catastrophe reinsurance payout. Centauri is a Florida domestic property and casualty insurance company that writes both personal and commercial property and casualty insurance. AUL is owned by the parent company, or holding company, Arbol Inc (Arbol). Arbol is an InsurTech platform and FinTech company located in New York City that, in part, organizes and leverages climate data, and uses blockchain technology, and AI, to run its pricing platform and to offer parametric insurance products to AUL which then sells these products to insurers who use all of this to manage their climate risk exposures. AUL's ability to quickly disburse insurance benefits is possible because of its use of parametric insurance coverage that can automatically trigger insurance payments when specific predetermined criteria are met, such as the distance of a property from a particular hurricane track and the maximum sustained wind speed of a named storm. Parent company Arbol operates as both a reinsurer and managing general underwriter (through AUL) that assesses risks and determines prices for coverage using an AI underwriting process, according to its founder and CEO Sid Jha. All of the insurance operations are organized under AUL which is licensed as a Managing General Underwriter pursuant to the licensing law of the Bermuda Monetary Authority. In the United States insurance regulatory system, AUL would be licensed as a Managing General Agent. According to AUL CEO Hong Guo (A former managing director with Guy Carpenter), to finance the risk exposures written under property insurance coverages, AUL has partnered with Sig Re Ltd., a Bermuda-based reinsurer to provide the financial monetary surplus capacity for AUL property risk exposures. Sig Re is incorporated in Bermuda and is part of the Susquehanna International Group of Companies (SIG), one of the largest, privately-held, quantitative trading firms in the world. SIG has 2,300 employees throughout the world.

The AUL insurance operation generated \$100 million in gross premiums in the first six months of 2022. According to Sid Jha, by making claims payouts based on objective data (parametrics), and transparent and agreed-upon criteria such as AI, Arbol, AUL and SIG are able to eliminate the subjective assessment of losses that often involve adjusters after a catastrophic storm.

The use of technology in insurance is an ever-expanding process that does not appear to be slowing down anytime soon. Traditionally, an insurer would purchase catastrophe reinsurance to cover a catastrophe storm loss exposure to the insurer. For example, suppose Grand Island is hit with a very damaging hail storm. The property insurer would send out many adjusters to assess damage to roofs and siding. As the extent of damage is agreed to between the insured and adjuster, a claim is submitted to the insurer. Once the damage is repaired and all benefits under the property policy have been paid, the insurer continues to make payments out of its surplus funds for other claims from the storm until it has paid its retained loss exposure under the reinsurance agreement – perhaps \$4 million. Loss costs in excess of the insurer's retention of \$4 million are then submitted to the reinsurer for reimbursement of those loss costs. In the world of

AUL, there are no adjusters, parametric insurance tools and AI identify the catastrophe event and make reinsurance payments to the insurer which in turn is paying claims of its policyholders. There is no need to adjust losses and pay claims up to the insurer's retention before reinsurance is paid to the underlying insurer. It is still all kind of hard for me to comprehend.

Another example of what is happening with parametric insurance, AI and blockchain technology can be seen in insurer Parsyl. This is an insurer that specializes in types of property insurance coverage for essential supply chains. Back in June of 2021 it announced that it settled a marine cargo insurance claim in a record-breaking 7 hours and 40 minutes. The spoilage claim was paid to Niceland Seafood through Parsyl's ColdCover Parametric product, a first-of-its kind insurance product that uses smart sensors and pre-configured spoilage triggers to automatically detect and notify customers of a loss. This quick payment was made after Parsyl sensors detected temperature conditions that were insufficient to properly maintain the fresh shelf life needed during an air shipment of fresh cod. Parsyl has developed a broad range of sensors that can immediately detect harmful temperature exposures based on data triggers that are customized uniquely to each type of perishable commodity. Once a customer confirms a loss to Parsyl, which has already been alerted to possible spoilage by sensors, the claim can be paid immediately, without the need for an investigation or adjuster. Parsyl's cargo insurance apparently also extends to agricultural commodities. Parsyl's insurance products are also part of the Lloyd's of London reinsurance business market. The Parsyl insurance products are backed by Ascot Group, a long-time A-rated insurer doing business throughout the world. Insurance, in one sense, is very local since insurance products affect people in every neighborhood everyday. But it is also a very international financial services product from the perspective of insurance company operations.

A handwritten signature in black ink that reads "James B. Dobler". The signature is written in a cursive style with a large, prominent 'J' and 'D'.

Jim Dobler, CPCU

PIA Legislative Coordinator

Questions or Comments? Please email [jbdobler@outlook.com](mailto:jbdobler@outlook.com)