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How a parametric solution can facilitate the claims process for a chemical company

As chemical companies face increased insurance pricing, lower limits, and higher deductibles, there is growing interest in parametric — or index-based — insurance products that are linked to a predefined trigger. Unlike traditional insurance, parametric solutions do not require physical damage to trigger coverage, and the claims and payment process is typically much faster, providing organizations with quick liquidity following a covered event.

Parametric solutions can help chemical companies supplement or enhance their existing insurance portfolio. Primarily, a parametric solution can offer prompt payment for a covered event — significantly quicker than traditional coverage — based on a client's attestation to have experienced losses greater than the payout amount.

In addition, a parametric solution can potentially compensate for certain losses or expenses that might not be covered by traditional insurance. These may include indirect financial losses, deductibles or exclusions, and non-damage business interruption and disbursing claims payments.

	Traditional Insurance	Parametric Coverage
Trigger	Physical damage or loss	Event occurs, above the index threshold
Financial recovery	Actual losses following an extensive assessment	Pre-agreed amount following client's attestation of losses
Basic risk	Exclusions, deductibles, terms and conditions	Calculated loss being less than actual loss
Claims process	Long, typically taking months to years	Quick, with payout typically within days to weeks
How long do policies last	Typically one year	Up to 10 years*
Exclusions	Extensive	Few, if any
Structure and wording	Typically not customizable	Customizable and flexible

**May be limited in some jurisdictions*

Hypothetical example

A major storm in a coastal area caused damages to two chemical plants. In addition, extensive road closures limited accessibility to both plants, complicating attempts to evaluate the damage and commence repairs.

Company A has a traditional insurance policy

Damage assessment starts when roads reopen a few days after the storm passes. Operations remain paused during the assessment period, contributing to greater losses.

The assessment finds that losses sustained by the company are sufficient to trigger the policy. The payout, subject to exclusions, deductibles, and terms and conditions, is received six months after the storm.

Normal operations resume seven months after the weather event.

Company B augmented its traditional policy with a parametric solution

The wind speed registered by a predefined index is above the pre-agreed terms in the company's parametric policy, triggering coverage.

The payout process is initiated and the company receives a payout equal to the pre-calculated policy amount within three weeks.

The company uses the funds to make necessary repairs, allowing it to restart operations two months after the storm. It is able to continue paying employees while the damage was being assessed by the traditional insurance carrier. The assessment finds sufficient losses to trigger the company's traditional property insurance policy and the payout is received six months after the storm.

About Marsh

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