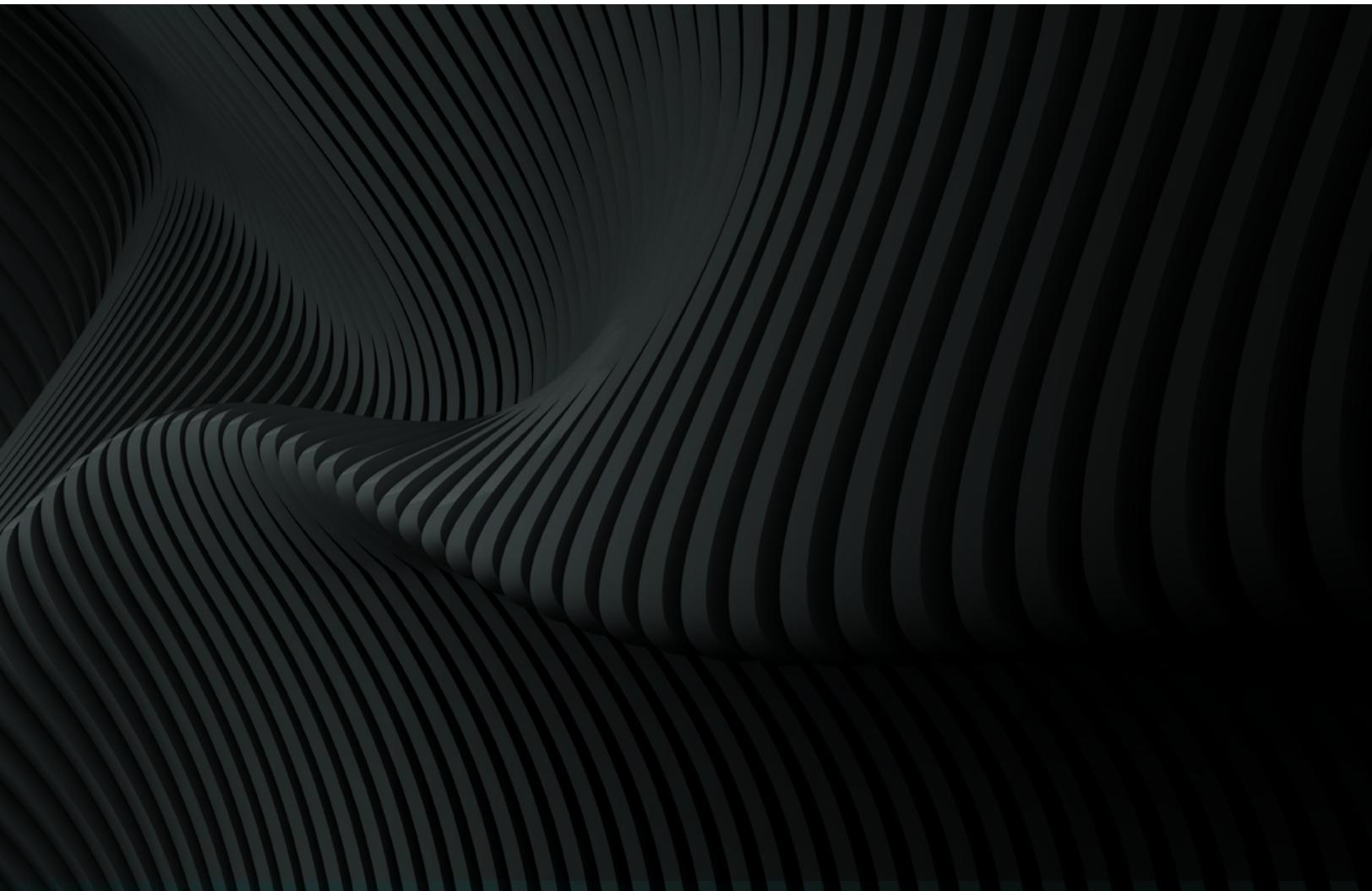


# CAPCO

**PARAMETRIC EXPERIENCE  
FOR TRADITIONAL PRODUCTS**

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# INTRO

What if insurance products knew when a qualified loss occurred and issued payment to you promptly when you need it most, hassle-free?

Is it too futuristic to be realistic? No, in fact, parametric insurance products do just that.

In growing risk markets, insurance solutions are leap-frogging traditional products with new approaches and solutions to avoid substantial processing costs and keep claims cycles short and efficient. The result? **Parametric insurance** policies that payout specified amounts on notification of a loss.

# HYPOTHESIS

Many traditional insurance companies are exploring ways to partner and integrate insurtech solutions and improve their processes. By understanding the fundamental concepts employed and lessons learned, traditional insurers may avoid a disruptive shift by adopting concepts from parametric insurtechs.

# TRADITIONAL CLAIMS PROCESSING

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Traditional claim settlement typically follows six steps.

- 1. Notification** – You suffer damages and report the incident to your coverage provider
- 2. Investigation** – An insurance representative receives your report and confirms your claim's eligibility against the policy definitions
- 3. Adjudication** – An adjuster verifies the incident, assess damages and arrange for estimates. Claim reserves are set aside for future payout.
- 4. Settlement** – The insurer pays out the reserves to the restoration services, or replacement providers and/or cash settlement offers to policyholders.
- 5. Negotiation** – If the insured is not satisfied with the adjudication results, negotiation effort is required to reach a consensus resulting in potential arbitration or, occasionally, litigation.
- 6. Payout** – Claimant receives the amount agreed to or repairs/replacement the closeout of an open claim case.

Each step could be subject to disruption as they can potentially delay claim processing and create friction with the clients as much as they help manage the process and reduce fraud.

# WHAT IS PARAMETRIC INSURANCE?

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For farmers in the developing world, drought could translate to disaster as farmers suffer economic loss for the whole year (low or no sales due to bad crops or low output). New crop insurance offerings are leveraging simplified parametric based coverage:

## 1. Loss Triggers

High-resolution satellite images or weathervanes monitor for metrics indicating drought conditions when those specific parameters are present; it triggers a payout.

## 2. Payout

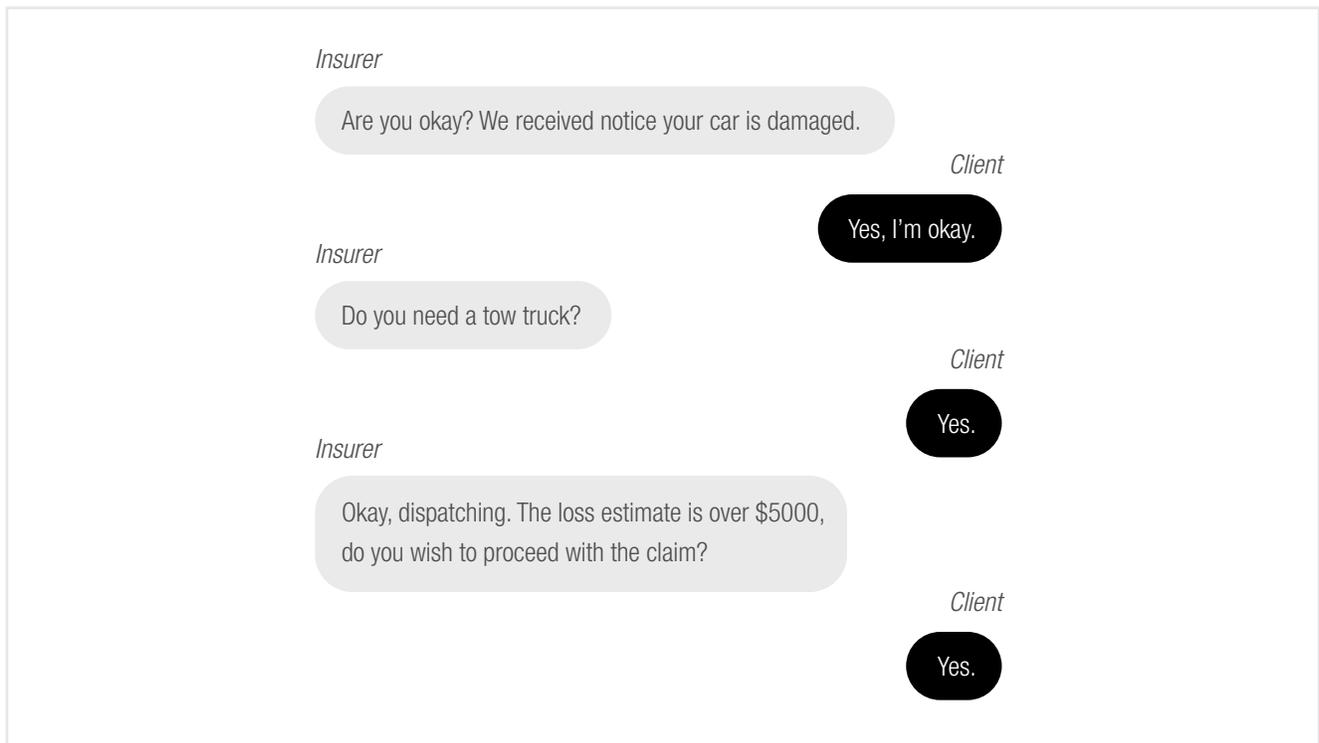
Qualified policyholders are identified, and payment is remitted to pre-configured accounts.

Weather events are easily identifiable (cyclone, hail, drought, etc.), and crop insurance targets those at the highest risk exposure for economic loss and provides immediate relief when conditions are present, preventing further, potentially humanitarian, disasters. Medical Internet of Things (IoT) devices could similarly identify conditions such as heart attacks. Products with IoT features could self-report warranty claims, and other data points continue to become available with advances in autonomous vehicles, smart devices, social media and other predictive data tools.

# ART OF THE POSSIBLE

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- Imagine the airline cancels your flight; you receive a notification and an option to collect cancellation insurance or reschedule. You can receive compensation automatically without having to call the airline.
- Imagine during a wildfire; your insurance payout automatically triggers once you receive an evacuation order. This immediate payout covers out-of-pocket living expenses. This amount is paid to you regardless of losses, and the insurer can perform the remaining detailed claim assessment later.
- Imagine after a car accident, when the vehicle's black box notifies the insurer of the damage, the manufacturer automatically attaches a repair estimate. A notification on your phone from your insurer initiates the claim:



The insurer would settle medical or liability coverage separately, but the physical damage is instantly covered.

# OPPORTUNITIES FOR THE INSURANCE INDUSTRY

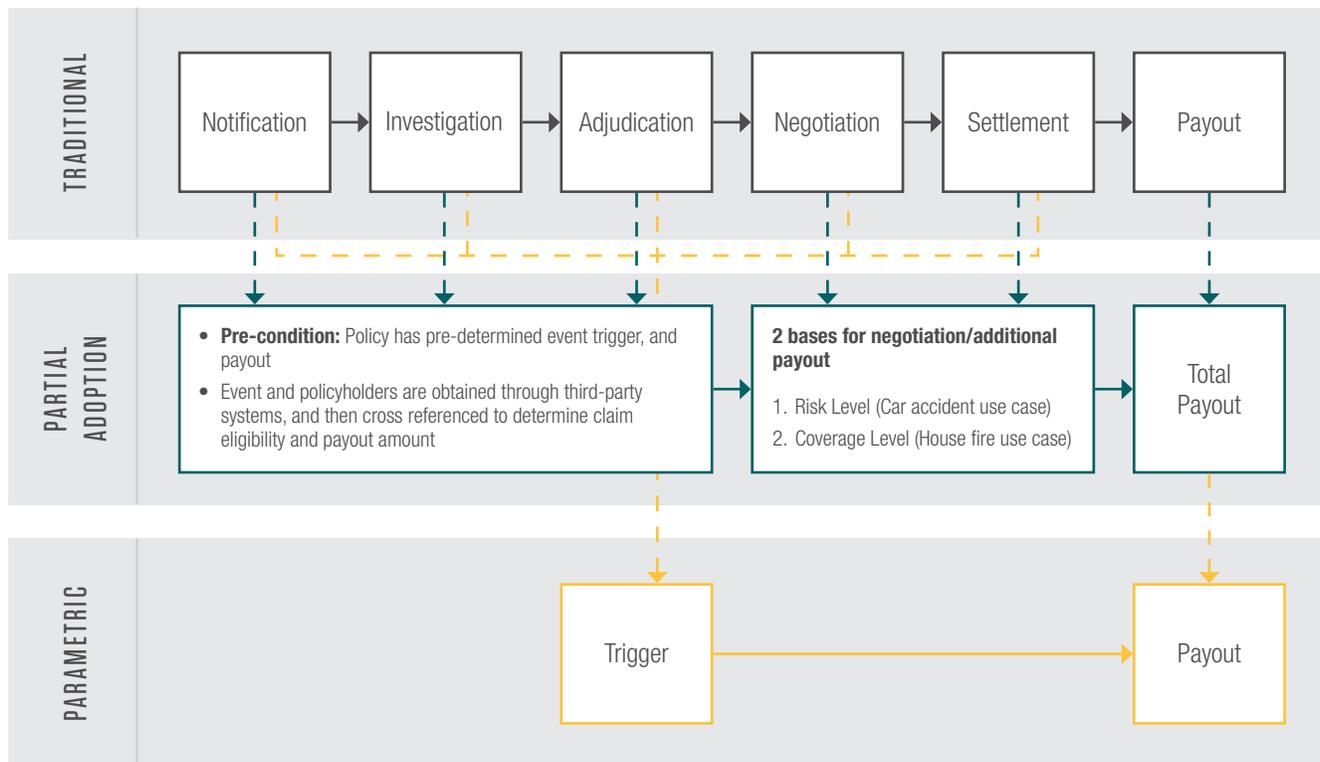
Parametric insurance products have payouts pre-determined at the time of purchase. Its described as “a trade-off between the increased speed that cash is made available to customers and the irrefutable nature of the amount paid out.” (Littlejohns, 2019). Does the shift to parametric insurance have to be all or nothing?

Our use cases demonstrate how insurance can be fully parametric at the policy level (cancellation, crop policies), at the coverage level (additional living expenses), or the risk level (vehicle repairs). Policyholders do not need to self-fund, potentially causing other losses such as credit and interest charges, until reimbursement.

Leveraging these concepts offer insurers opportunities to:

1. improve their claims experience
2. improve claim closing cycles and reserving efficiency
3. reduce claim overheads
4. lower operating expenses

## TRADITIONAL INSURANCE PRODUCTS SHIFT TO PARAMETRIC MODEL



New key capabilities, crucial for successful execution, need to be considered for parametric products:

1. How can we **define triggers** that are fortuitous in nature and quantifiable, so a given event, with the right conditions, automatically triggers the claims process?
2. How can we predictively model the risk to **determine the payout** rather than adjusting for loss based on an actual event?
3. How do we identify **trusted independent data sources** and protect against fraud?

## CLOSING REMARKS

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In the early days of insurance, when a community member suffered a loss, local representation resolved the claim quickly; with modern data tools, national and global insurers can act locally.

Parametric insurance is a driving vision of simplified claims handling, disrupting traditional processes and improving client experiences. The approaches align with the fundamental purpose of insurance: protecting against financial loss. Insurance processes that evolved to determine the cause and damage post-loss and result

in clients paying initial losses out-of-pocket can be reassessed with new data points and integration capabilities. While generating better user experiences, carriers will derive cost-savings through reduced manual intervention, automated claim cycle, and system regulated compliance.

Parametric solutions, whether at policy, coverage, or risk item levels, are a win-win opportunity for insurers and policyholders in a game that is too often a zero-sum trade-off.

## REFERENCES

[Littlejohns, P. \(2019, December 27\). What is parametric insurance? The most objective way of looking at risk. NS Insurance.](#)

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## ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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