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# **NCOIL Spring National 2026**

## **Property & Casualty Insurance Committee**

### **Parametric Insurance**

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**Kramer Levin is now HSF Kramer**

# What is parametric coverage?

- A type of recovery that pays out a pre-agreed amount when a pre-defined event occurs using a pre-defined index or parameter.
- Instead of indemnifying for an adjusted loss, parametric insurance covers financial losses on the basis of a pre-agreed and independently reported event parameter.
- Lacks a loss adjustment process, intended to result in faster payouts of claims.

- Swiss Re, *Comprehensive Guide to Parametric Insurance*, available at <https://corporatesolutions.swissre.com/dam/jcr:0cd24f12-ebfb-425a-ab42-0187c241bf4a/2023-01-corso-guide-of-parametric-insurance.pdf>.

# What is parametric coverage?

- Examples
  - \$10 million if a magnitude 7.0 earthquake occurs in a defined geographical area.
  - \$50,000 for every millimeter of cumulative rainfall above a certain threshold in a defined geographical area.
  - Or a sliding scale, with increasing payments correlated to increasing thresholds of severity, e.g., moment magnitude of 7 might pay \$10 million in claims settlement, whereas a moment magnitude of 9 might pay out \$30 million.
  
- Swiss Re, *ibid.*

# Who might use parametric coverage?

- **Digital infrastructure / AI data centers**
  - Extreme weather
  - Power-grid related; outages
- **Travel**
  - Wind speeds
  - Ground shaking at hotels or key attractions like theme parks
  - Number of arriving flights / number of passengers transiting through an airport
- **Retail**
  - Decreased foot traffic in stores
  - Disruptions to supply chains

- Swiss Re, *ibid.*.

- “Collateralized ILS, parametrics playing role in digital infrastructure risks: Goodman, Guy Carpenter”, Artemis.com, March 10, 2026, available at <https://www.artemis.bm/news/collateralized-ils-parametrics-playing-role-in-digital-infrastructure-risks-goodman-guy-carpenter/>

- “Parametric Coverage and Data Centers”, *Best’s Review*, April 2026.

# Who might use parametric coverage?

- **Agriculture**
  - Land greenness
  - Flood expanse
- **Renewable energy**
  - Wind speeds
  - Irradiation (incoming sun)
- **Construction**
  - Accumulation of adverse weather days, defined by extreme temperature
  - Excessive rainfall

- Swiss Re, *ibid.*

# Market highlights

- 2025 Market Size: \$19.4 billion (0.6% of global insurance premiums but expected to grow)
  - U.S. accounts for about \$5.51 billion
- 2026 Market Size: \$22.6 billion
- 2035 Forecast Market Size: \$63.8 billion
- CAGR (2026–2035): 12.2%
- Largest Market: North America
- Fastest Growing Region: Asia Pacific

- Global Market Insights, *Parametric Insurance Market Size & Share (2026-2035)*, available at <https://www.gminsights.com/industry-analysis/parametric-insurance-market>, cited by Society of Actuaries, *The Growth of Parametric Insurance*, January 6, 2026, by Anthony Cappelletti, at <https://www.soa.org/communities/general-insurance/newsletter-articles/2026/january/2026-01-gi-cappelletti2/>

## Use in third-party capital contexts (e.g., ILS)

- Parametric contracts have been used for decades in ILS such as catastrophe or “CAT” bonds.
  - These are bonds purchased by investors that act as available source of recovery for a sponsoring re/insurance company in the event of a covered catastrophic event exceeding certain triggers.
  - Principal on the bonds is reduced by the amount recovered by the sponsor.
- Typically the sponsor is exposed to normal indemnity-type re/insurance risk, but obtains cover via the CAT bond according to an index for the relevant type of peril (e.g., earthquake, hurricane, etc.) in the relevant geographic area.
- The contract between the sponsoring re/insurer & the issuing entity may be a reinsurance agreement *or* an ISDA swap.
- Easier to administer, with quicker settlement, but basis risk (mismatch between expectation & payment).

# NY's definition of "insurance contract"

- 1) "Insurance contract' means any agreement or other transaction whereby one party, the 'insurer,' is obligated to confer benefit of pecuniary value upon another party, the 'insured' or 'beneficiary,' dependent upon the happening of a fortuitous event **in which the insured or beneficiary has, or is expected to have at the time of such happening, a material interest** which will be adversely affected by the happening of such event."
- 2) "Fortuitous event' means any occurrence or failure to occur which is, or is assumed by the parties to be, to a substantial extent beyond the control of either party."

## ➤ **Insurable interest and proof of loss**

-NYIL § 1101(a).

# NY's definition of "parametric insurance"

- "Parametric insurance' means insurance against the occurrence of a weather-related event, such as windstorm, flood, snow, wildfire, tornado, cyclone, or earthquake, where the indemnification is based on the proximity and magnitude of the event as measured and reported by a state or federal government agency."

-NYIL § 1113(a)(34), effective January 12, 2025.

# NY's disclosure requirement

- “. . . an insurer that issues a parametric insurance policy shall disclose the following information in the application for the insurance policy and in a prominent writing upon policy issuance and renewal:
  - the policy is not a substitute for property insurance or flood insurance, as relevant, which generally provide more comprehensive coverage in the event of a loss; and
  - a mortgagee or loss payee may not accept a parametric insurance policy.”

-NYIL § 3416(a); effective January 12, 2025.

# Vermont's captive provision on parametric

- “Any captive insurance company that transfers risk by means of a parametric contract shall comply with all applicable State and federal laws and regulations” (2022).
  - ***Text deleted in 2024:*** “As used in this subdivision, ‘parametric contract’ means a contract to make a payment upon the occurrence of one or more specified triggering events without proof of loss or obligation to indemnify. **A parametric contract is not an insurance contract.**”
  - Legislation summary: “It has become apparent that parametric contracts *can be* structured as insurance contracts” (emphasis added).

-8 V.S.A. § 6002(1); Bill H. 659 (2024).

# Tennessee's captive provision on parametric

- “Parametric insurance” means a type of insurance that does not indemnify the pure loss, but ex ante agrees to make a payment upon the occurrence of a triggering event.”
- “Any captive insurance company, except for a risk retention group, may provide parametric policies, **which are considered contracts of insurance** for purposes of this title” (2021).

-Tenn. Code Ann. § 56-13-102, § 56-13-103(a)(10).

# Connecticut's captive provision on parametric

- “Any captive insurance company . . . may accept or transfer risk by means of a parametric contract. . . .”
- “Any captive insurance company that transfers risk by means of a parametric contract shall comply with all applicable state and federal laws and regulations. As used in this section, ‘parametric contract’ means any agreement to make a payment upon the occurrence of one or more specified triggering events without proof of loss or obligation to indemnify” (2023).

-Conn. Gen. Stat. § 38a-91bb(a).

# Swap

- “any agreement, contract, or transaction. . . (ii) **that provides for any purchase, sale, payment, or delivery . . . that is dependent on the occurrence, nonoccurrence, or the extent of the occurrence** of an **event or contingency** associated with a **potential financial, economic, or commercial consequence**; (iii) that provides on an executory basis for the exchange, on a fixed or contingent basis, **of 1 or more payments based on the value or level of 1 or more** interest or other rates, currencies, commodities, securities, instruments of indebtedness, **indices**, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, **and that transfers, as between the parties to the transaction, in whole or in part, the financial risk associated with a future change in any such value or level** without also conveying a current or future direct or indirect ownership interest in an asset . . . or liability that incorporates the financial risk so transferred, including any agreement, contract, or transaction commonly known as— . . . (XVII) a weather swap.”

-7 USC 1a(47)(A).

# Implications for regulation

- Substance over form?
- Functional / pragmatic approach?

# Conclusion

Thank you

Questions?

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