



March 17, 2022

Aon Testimony before California Senate Insurance Committee Informational Hearing: Wildfire Resilience: Innovation in Mitigation

Good afternoon, Madam Chair and Members.

Thank you for the opportunity to testify today and thank you to our fellow presenters, we will keep our comments short.

My name is Katie Sabo, I lead our state and local practice group for Aon's Public Sector Partnership and joining me is my colleague Mitchell Rosenberg, managing director with Aon Securities.

For over 40 years, Aon has supported risk management strategies for public entities, including more than half of the US states, over a hundred large municipal governments and dozens of the largest transportation and public utility authorities.

In the few minutes we have today, Mitchell and I will briefly discuss parametric products and highlight how they are being used, especially here in California for wildfire by the Los Angeles Department of Water and Power (LADWP).

When thinking about insurance coverage there are two main ways to structure how insurance recoveries are received by a policy holder. The first and most widely known are indemnity products, which provide insurance coverage when an actual dollar loss occurs, often due to physical damage. This is typically how a homeowners or car insurance policy is drafted where if an event occurs, a claim is filed, the insurer confirms that the deductible was met, a claims adjudication process is completed – then the insured receives payment.

The second is parametric based. Parametric products do not require a deductible and recoveries are not tied to physical damage. Instead, a pre-set amount of insurance is paid out when a pre-agreed event occurs. This event can be a wildfire burning a certain number of acres; rainfall or storm surge over a certain level, as was the case for the NY Metropolitan Transportation Authority; a certain barometric pressure of a hurricane, as is the case for Government of Jamaica; or an earthquake of a certain magnitude as was the case for Blackstone, here in California.

There are two clear benefits of parametric insurance – the first is how quickly insurance recoveries are paid out, often in days or weeks compared to indemnity products.

The second is that parametric coverage is often used to fill insured, under-insured and un-insured protection gaps, especially those that indemnity products cannot, such as recoveries for financial or budgetary losses when there is no actual physical damage such as business or service interruption.

Although the upside of parametric products are broader coverage and immediacy of its payout, a potential concern is structuring a solution to avoid any “miss factors” where the insured experiences a catastrophic event that does not meet the pre-agreed parameters of the coverage.

It is important to note that working with a qualified partner who has experience not only structuring parametric products but who also has access to multiple markets is critical to reduce the “miss factors,” create competition in pricing and drive transparency.



When used correctly, parametric coverage is used to complement, not replace, self-insurance and indemnity coverage, as another “tool-in-the-toolbox.”

While there are a few different examples to share including the World Bank, the New York Metropolitan Transportation Authority, and the Government of Jamaica. We thought it may be helpful to highlight the Los Angeles Department of Water and Power (LADWP) who is currently covered by a parametric product for wildfire.

- Last year, Aon created the **first wildfire parametric catastrophe bond**, with \$50 million of insurance protection for LADWP
- Our objective was to use risk transfer strategies to enhance LADWP's disaster risk management strategy to close the protection gap
- The cat bond provides LADWP with coverage on a parametric trigger basis, tied to a wildfire burning in a specific location
- This was the **first catastrophe bond globally to benefit a municipal utility anywhere in the world.**
- The product was awarded both **the Trading Risk's Non-Life Transaction of the Year** and **Insurance Insider's (Re)Insurance Transaction of the Year in 2021.**

In closing, we look forward to continued discussions on how best to think about parametric products to combat insured, under-insured and un-insured protection gaps to protect against known and emerging risks such as climate change and natural disasters.

Please do not hesitate to reach out if we can answer any questions.

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