

# Weather Derivatives



Weather Derivatives are gaining a greater interest as an indispensable risk management instrument in continental Europe also. An assessment by the 'Financial Times' says that 40 to 60% of the world economy are linked with weather related variables.

Weather derivatives are in fact the instrument to be used for hedging volume risks depending on weather. Further liberalisation of markets will increase the understanding and acceptance of weather derivatives.

The need of institutional investors for non-correlated high-yield instruments will further promote securitization of weather derivatives. Risk transfer of weather related risks from industry and service companies to financial markets is therefore considered to be of increasing mutual interest.

Choosing our company as your consultant in weather derivatives is your advantage as our team

- has a long experience in consulting within the weather derivative market,
- has a sound knowledge in evaluating climatological data, and
- does not sell nor trade weather derivatives

## Consultancy activity

### Choice of the appropriate weather indices and measurement locations in order to minimize basis risk

Basis risk – the quantity between weather index, measurement location and the company's weather exposure – is often underestimated. Assessment of basis risk is an absolute core competence of Meteodat.

### Calculation and tracking of weather indices

For writers and hedgers of OTC-Instruments we are calculating and tracking custom tailored weather indices.

### Procurement of meteorological data from official and private weather services and data cleansing

We are procuring e. g. data of the world-wide synoptical network and are doing for you the required data-cleansing. Meteodat's staff has a 10 years experience in data cleansing for a variety of customers as e.g. official services.

### Calculation of the fair price

For hedgers or writers we are calculating the fair price of a given instrument. A challenging task as a variety of factors have to be considered.

### Weather derivatives in risk management

Hedging of volume Risks – The great gap in current risk management! Meteodat is supporting your company in filling this possibly fatal gap.

### Long term Risk Assessment of weather exposures

Current weather patterns in many parts of the world imply that consecutive years of adverse or favourable weather conditions are more likely than alternating conditions from year to year. Meteodat is assessing the weather exposure in this aspect as well.

### Support in evaluation of the best suited financial instrument

Securitization of weather risks is a delicate task. For example the question how the coupon of a weather bond is depending on weather situation. Meteodat's team will help you in a competent way to find the optimal solution.

### Hedging possibilities for the writer of weather derivatives

Weather derivatives are not based on a tradable underlying. That makes hedging of writers of such instruments demanding. Meteodat offers to you a variety of convincing solutions.

## Tools

We are offering appropriate tools for insurance industry, weather desks and hedgers.

Our **HDD/MM-Tracker** is enabling the hedging company to assess on a daily basis the location on the win-loss diagram of its weather derivatives portfolio. Furthermore it is possible to estimate chances to get deeper 'in the money' based on climatology and weather forecasts.

**TEM – Total Exposure Monitor** gives insurance companies and weather desks the possibility to assess their total exposure on a daily basis. Of course single exposures can be displayed as well.