

Allianz Risk Transfer

Weather Solutions

Allianz 

Allianz Risk Transfer (ART) structures custom weather risk management solutions that lower financial volatility and create value.

Sales were down by 30 percent as a result of the storm. Can we limit the impact of the next one?



Weather Wise


The weather affects most companies' financial performance. But "bad weather" is no longer a sufficient excuse for volatile revenues, higher costs or disappointing earnings. While companies cannot control the weather, they can now control its financial impact.

ART's Weather Solutions are typically based on a weather index, with no physical damage required for a payment to be made. They have the advantages of simplicity, lack of ambiguity and speed of settlement. Using commercially available data from meteorological offices around the world, we have created programs to help clients respond to the impacts of wind, snow and sunshine as well as rainfall and temperature.

Weather can impact a company's financials from the supply or demand side, and from operational exposures. In addition, weather can be used as a promotional, sales-boosting tool. Generally, a lack of snow may benefit transportation companies, retailers and municipalities, but hurt snow removal companies and ski resorts. Similarly, energy and auto supply companies profit from cold winters, whereas construction and insurance companies do not.

Supply	Demand
<ul style="list-style-type: none">• Wind for wind farms• Warmth for plant growth• Water for hydropower generation	<ul style="list-style-type: none">• Cold winter for battery, coat sales• Hot summers increase beverage sales• Rain affects vacation bookings
Operational	Promotional
<ul style="list-style-type: none">• Snow and ice cause cancelled flights• Low rivers impact barge transportation• Cooling of manufacturing plants	<ul style="list-style-type: none">• Regardless of weather sensitivity, product sales may be boosted via rebates linked to any weather peril

In recent years climate change – evidenced by volatile, unusual weather – has had a significant impact on companies in all sectors. Some businesses have clear exposure to certain weather perils; for others, evaluating weather risk may require deeper analysis of a combination of perils. ART's team of experts has experience in developing effective weather solutions for companies across the spectrum.

An aerial photograph of a rural landscape. In the foreground, several white wind turbines are scattered across green fields. A dirt road winds through the fields. In the middle ground, a blue river flows through a valley. The background shows rolling hills and a blue sky with scattered white clouds. A green speech bubble is overlaid on the right side of the image.

Our revenue is as dependent on the wind as the sun and rain. Are we covered?

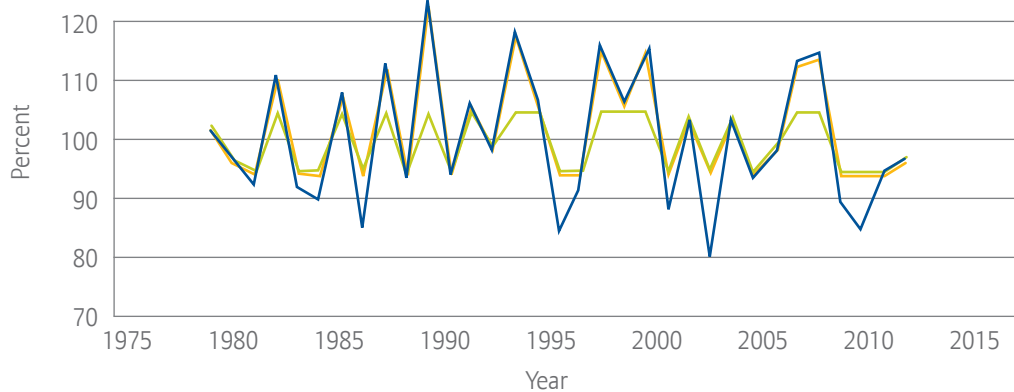
Supply Risk

Lack of wind impairs power production

Lack of wind significantly impairs power generation and, potentially, the ability to fulfill financing commitments. Annual wind power generation can deviate by more than 20 percent from the long-term average. ART's weather solutions can manage short- and long-term risks at a single location or over a portfolio of assets. We cover everything from extreme scenarios for project finance security to utility-scale production, resulting in more stable cash flows from existing and planned operations. ART's demand side weather solutions protect our clients from revenue deterioration and volatility and improve their creditworthiness.

Tailored Strategies

- Uncovered production (blue line). Covers may be structured in different ways to:
- Purely protect the downside, e.g., lack of wind (yellow line)
- Manage volatility while limiting premium outflow (green line)



Demand Risk

Mild winter impacts car battery sales

Sales of many retail products are highly sensitive to the weather. For example, an auto supply company sells more batteries during cold winters than during warm ones. By analyzing the correlations between sales and weather, ART can provide coverage tailored to specific locations and risk periods. If the company has a national footprint, its total sales could be weighted by actual sales data per market, customer traffic or population. The risk period could be November 1st to April 30th, with emphasis on the first part of the season. Daily or average temperatures might trigger payouts. Such weather protection can guard against revenue deterioration and promote better budgeting.



Snow is our business. But we're also vulnerable to travel disruption. Is there a solution that works?

Operational Risk

An array of weather issues causes travel disruptions

The aviation sector is vulnerable to weather perils. Airport and airline operations rely heavily on correct schedules and punctuality, particularly during rush hour and holiday periods. Hub operations are especially vulnerable. Seventy percent of flight delays, amounting to anywhere between 10,000 and 40,000 hours per month, are caused by inclement weather. Wind, rain, ice and variable visibility are responsible for approximately 350 to 500 weather-related accidents annually, representing 25 percent of all accidents.

Every airline with a strong hub has experienced the financial effects of weather risk – but equity analysts have challenged traditional explanations for delays and cancellations. ART designs effective covers around non-flight hours that deal with a number of weather perils, including wind, fog and rain as well as impaired visibility or extreme temperatures. High-quality historical weather data is available at airports, minimizing basis risk. Additionally, the Federal Aviation Administration (FAA) analyzes and reports flight delays and cancellations, allowing for effective index building.

Promotions

Use weather to boost product sales

Weather promotions can be a powerful marketing tool to drive sales of anything from snowmobiles to sandwiches. ART has designed creative weather covers to help clients in many industries finance and structure such marketing campaigns.

A car company may entice potential buyers of convertibles with a “sunshine guarantee,” protecting the consumer against a lack of sunny days to enjoy having the roof down. For example, between June 1st and September 30th, a customer may receive €100 as compensation for every rainy day after a defined threshold. Payouts would be triggered using data from a local weather station in the state where the car is registered. The cost of the cover might be subsidized in full or in part by the car company, or the cover might be offered to the customer as an option.

Traditional Risk Management

- Traditional risk management instruments include: insurance, options, futures and other swaps

+ Weather Risk Management

- Volatile weather means variable costs and revenues
- Weather is described using industry-appropriate indices
- Ability to hedge against adverse weather effects using these tools allows for efficient cash flow management

= Value Creation

- Hedged cash flows improve a company's risk-adjusted returns
- Extreme event hedging helps to secure against potentially extreme financial effects
- Volatility hedging helps to improve cash flow stability over time



ART helps to protect you against adverse weather impacts

ART offers an array of weather risk management products. Our fully integrated weather team is here to listen to your needs and design a tailored solution that:

- Effectively complements your traditional risk management to enhance value
- Improves cash flow stability and allows for more accurate budget management
- Boosts returns and helps equity valuations
- Provides revenue security, resulting in improved financial planning
- Improves financing and creditworthiness that lowers the cost of capital
- Provides downside protection to preserve capital and ensure liquidity

Our creditworthiness is increasingly at risk due to weather. How do we secure the future?



ART is here to help you protect your business against weather risk, and to help you identify weather opportunities. Our team of weather risk specialists would like to work with you to develop a tailored solution.

Contact Us

AMSTERDAM

Allianz Risk Transfer N.V.
Keizersgracht 482, 1017 EG Amsterdam
The Netherlands
Phone +31 20 520 3823, Fax +31 20 520 3833

BERMUDA

Allianz Risk Transfer (Bermuda) Ltd.
Allianz Risk Transfer AG (Bermuda Branch)
Overbay, 106 Pitts Bay Road, Pembroke HM 08
Bermuda
Phone +1 441 295 4722, Fax +1 441 295 2867

LONDON

Allianz Risk Transfer*
Allianz Global Corporate & Specialty SE (UK) Branch
Allianz Risk Transfer (UK) Limited
Allianz House
60 Gracechurch Street, London EC3V 0HR
United Kingdom
Phone +44 20 3451 3000, Fax +44 20 7283 8125

* Trading division of Allianz Global Corporate & Specialty SE (UK) Branch

NEW YORK

Allianz Risk Transfer, Inc.
1330 Avenue of the Americas, 19th Floor
New York, NY 10019
United States of America
Phone +1 646 840 5000, Fax +1 212 754 2330

ZURICH

Allianz Risk Transfer AG
Lavaterstrasse 67, 8002 Zurich
Switzerland
Phone +41 44 285 1818, Fax +41 44 285 1822

www.art.allianz.com

Allianz Risk Transfer AG
Lavaterstrasse 67
8002 Zurich
Switzerland

Phone +41 44 285 1818
Fax +41 44 285 1822

www.art.allianz.com

Allianz 

