

PANEL DISCUSSION

Parametric Risk Transfer: Current Challenges and Future Developments

29 June – 2 July 2026 | Chania, Greece

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DESCRIPTION



Catastrophic events in recent years have highlighted the critical role of insurance in enhancing risk mitigation strategies. Among other modern insurance mechanisms, parametric insurance offers great promise. This form of risk transfer ties the payout of a policy to physical, measurable characteristics (parameters) of catastrophic events. Obviating the need for a traditional claim adjustment process, this type of insurance tends to pay fast and transparently. Corporations and governments are showing increasing interest in parametric solutions as complements to their traditional coverage. Parametric risk transfer is also extremely versatile, as recovery can be applied to various direct and indirect losses, like Business Interruption or Contingent Business Interruption, risks that are usually complex to understand, model and address via traditional (re)insurance.

Furthermore, the increasing severity and frequency of climate-related natural catastrophes, such as tropical cyclones and wildfires, combined with a continuous growth in exposure, have led (re)insurance companies to limit their coverage, often retreating from high-risk regions. In that sense, parametric risk transfer plays a strategic role to attract more insurance capacity from investors who appreciate the transparency of this mechanism.

This form of insurance is regarded by the industry as a potential aid to bridging the global gap between economic losses and insured losses from natural disasters, which remains high at about 60% according to the Swiss Re's Sigma 1/2025 report. Parametric solutions, which are grounded in modern technologies and capabilities, and in a continuously expanding network of sensors and data, have gained broad market acceptance over the last three decades. However, parametric solutions carry basis risk, the possibility that a financial loss occurs without triggering any payment. Therefore, their proper use requires critical understanding and proper calibration.

In this curated session, we welcome contributions covering the current challenges and opportunities brought by parametric risk transfer, including:

- Expansion in data availability (spatial and temporal) and quality
- Innovation in triggers mechanisms and structures
- Role of artificial intelligence and machine learning in the future of parametric insurance
- Parametric coverage flexibility and customization
- Basis risk: Definition, modelling, quantification, and mitigation
- Parametric insurance marketability
- History and real cases examples and applications
- Impact of parametric insurance in community resilience and on the natural environment
- Extension of parametric insurance to new regions, markets, natural and human-caused perils
- Regulatory issues and limitations

**MANUSCRIPT
SUBMISSION DEADLINE
15 February 2026**

**EXTENDED ABSTRACT
SUBMISSION DEADLINE
31 March 2026**



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