



Nemo Looking Like a Whale of a Storm for the Northeast: How Businesses Can Protect Their Bottom Lines

(Washington, DC – February 8, 2013) - As Winter Storm Nemo barrels up the I-95 corridor, businesses across the Northeastern US will be impacted. Nemo, which is forecasted to be one of the largest winter storms to hit the upper Northeast, could dump up to three feet of snow in the Boston area, will surely cause transportation delays, interrupt retail business traffic and increase snow removal costs for a wide range of corporations as well as state and municipal governments.

While Mother Nature will surely take its toll, not all businesses will suffer negative impacts as many have utilized customized weather protection contracts – insurance, derivatives or futures – to manage this risk more actively. In a tough economy where businesses must more prudently manage their bottom lines and municipalities their budgets, the ability to manage the financial uncertainty associated with volatile snowfall is crucial.

Here's an example of how a snowfall protection product could work. A snow removal company has entered into a fixed price seasonal removal contract with a municipality and is exposed to a particularly snowy year causing its costs to rise in excess of the revenues from the contract, which it estimates will happen when cumulative seasonal snowfall tops 20". The snow removal contractor buys snowfall insurance with a deductible of 20" and a payout rate of \$50,000 per inch in excess of this trigger which corresponds to its estimated cost per inch of clearing snow. If the cumulative seasonal snow falls below 20", there is no payout on the insurance and the contractor's earnings will be as expected. But if cumulative snowfall exceeds 20", its earnings will stay reasonably stable as its increased removal costs will be offset by the snowfall insurance. In the case of a winter with 40" of snow, the insurance would compensate the contractor \$1 million.

"The anticipated weather event hitting the Northeast is a stark reminder to businesses and public sector entities alike that Mother Nature can have a severe impact on their bottom line, be it an increase in costs or lost revenues," said Jens Boening, President of the Weather Risk Management Association. "WRMA firmly believes that more companies should make use of the financial protection available in the weather risk management market, especially in a challenging economic environment."

The Weather Risk Management Association, whose membership represents an international community of weather risk professionals – including major reinsurance companies, end users, data providers and universities – provides industry information on its website at www.wrma.org.