

FOR IMMEDIATE RELEASE

First-Ever “Forecast Insurance” Offered for Extreme El Niño in Peru

LEXINGTON, Kentucky (January 29, 2013) — A new insurance product is available for Peruvian businesses and public agencies facing severe El Niño events. The Extreme El Niño Insurance Product, or EENIP, is based on a parametric mechanism and is the world’s first “forecast” insurance coverage; providing payments even before catastrophic flooding in Northern Peru is in full force. Caja Nuestra Gente, the 2011 top-ranked microfinance institution in Latin America, purchased the EENIP in 2011 and 2012, to protect their portfolio of loans from anticipated losses. La Positiva Seguros sold the contract and PartnerRe provided reinsurance.

The EENIP offers tremendous opportunities for natural disaster risk managers as extreme El Niño events are negatively correlated with hurricanes and tropic storms in the Atlantic basin. In the 15 strongest El Niño years from 1900 to 2009 only three hurricanes made landfall in the United States.

EENIP was developed by GlobalAgRisk, a U.S.-based research and development company specializing in financial disaster risk management solutions for lower income countries, with support from a number of donors including USAID, United Nations Development Programme, and Gesellschaft für Internationale Zusammenarbeit (GIZ). GIZ continues an active program in educating stakeholders in Peru regarding the potential value of the EENIP and other climate related insurance products.

EENIP uses third-party measures from the United States National Oceanic and Atmospheric Administration (NOAA) of sea surface temperatures, which signal an impending disaster months in advance, as the basis for payment. This unique index allows for payouts to occur prior to the event—a feature that elevates the role of parametric insurance solutions in risk management and adaptation to an entirely new level.

Recent years have seen a rise in parametric or index insurance products to cover against natural disasters. The index mechanism provides a transparent and objective measure of losses that is attractive to insurers, reinsurers, and buyers. Insurers benefit from avoiding costly loss assessments and monitoring, reinsurers are attracted by the transparency of the product, while policyholders benefit from quick payments. EENIP introduces something new—an early payment that arrives before the full-blown effects of a catastrophic El Niño event. This allows policyholders to take advantage of forecast information and make risk management adjustments to lessen the consequences of the disaster. The Peruvian insurance regulator approved this unique insurance product as a form of contingent insurance for business interruption.

Parametric insurance products that use third-party measures as the basis for payments are also opening new markets for the financial disaster risk management solutions. Scientists are

improving their ability to forecast extreme weather events using climate anomalies called teleconnections. The most powerful teleconnection is the El Niño Southern Oscillation (ENSO) that provides information on the extreme El Niño or La Niña events. Using teleconnections to create a suite of forecast insurance products can significantly improve the ability of reinsurance companies to manage their natural disaster risk, including the use of a portfolio of insurance-linked securities and catastrophe bonds. These developments are designed to accelerate the convergence of capital markets and reinsurance markets and lead to further improvements in the pricing of natural disaster risks globally.

Note to editor:

GlobalAgRisk Inc. is a U.S.-based research and development Company with linkages to the University of Kentucky. The firm focuses on innovations in financial disaster risk management solutions for lower income countries. The research of GlobalAgRisk is solely supported via public funds from charitable foundations and donor development banks. A major motivation for its work is to improve access to markets for the working poor.

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