

# Parametric Insurance: A New Way for Growers to Manage Weather Risk

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Picture this: a freak storm sweeps through your farm, bringing winds over 100 km/h that rip the plastic off your polytunnels and flatten half your blueberry crop. Bent poles, torn bushes, and a lot of uncertainty are left behind. You have insurance, but harvest is just weeks away, and cash flow is already stretched thin. Waiting months for a loss assessor and the subsequent claim payment just isn't an option.

Now imagine a different kind of cover, one that pays out automatically when the storm hits, putting cash in your hands when you need it most. That's the idea behind parametric insurance; a smarter, faster way to manage extreme weather risk.

Severe weather and natural disasters are an unfortunate reality in Australia. Since January 2020, storms and floods alone have cost over \$12.3 billion in insurance claims, with one in every 25 Australian adults lodging a claim due to extreme weather (Insurance Council of Australia, 2022). For berry growers, weather events such as floods, hail, heatwaves, or high winds can have devastating impacts. Yet many have found it increasingly difficult or costly to access traditional crop insurance. That's where **parametric insurance** is emerging as a practical, flexible solution designed for modern farming risks.

## Benefits

- **Fast payouts** – get back on your feet quickly after a weather event
- **Customised coverage** – choose the triggers that matter most for your crops
- **Transparent and objective** – based on trusted weather data
- **Flexible protection** – complements existing insurance or risk-management plans

## What is Parametric Insurance?

Parametric insurance pays a predetermined amount when a specific, measurable event occurs, such as rainfall dropping below a threshold, or wind speeds or temperatures exceeding an agreed level. Unlike traditional insurance, it doesn't require an inspection or proof of damage. Instead, payouts are triggered automatically using objective data (for example, Bureau of Meteorology readings) once the agreed parameters are met. This means growers can receive payments within 30 days, helping them recover faster and maintain cash flow after severe weather events.

## How does it differ from traditional crop insurance?

Most growers are familiar with indemnity insurance, often included in "Farm Pack" policies. These policies assess actual damage to determine compensation, a process that can be time-consuming, costly, and subject to exclusions or limits. Parametric insurance takes a different approach. It focuses on the event itself, not the resulting damage. When the trigger happens, for instance, rainfall exceeding 200 mm or a defined number of days over a defined temperature threshold, the payout is made automatically, regardless of the actual crop loss. This transparency and speed are what make parametric insurance particularly valuable for berry growers dealing with short harvest windows and time-critical operations.

## What is 'basis risk'?

One of the main challenges with parametric products is 'basis risk': the possibility that a payout might not perfectly match your actual loss. For example, if heavy rain falls just outside your designated area, the trigger might not activate even though your farm experienced flooding damage. However, this risk can be reduced by using accurate, localised data that better reflects your location and growing conditions. As technology and weather monitoring continue to improve, basis risk is becoming easier to manage.

It's important to work with a broker or insurer experienced in parametric products for agriculture to ensure your triggers and data sources are set correctly for your operation. Parametric insurance isn't designed to replace traditional cover but to fill the gaps, offering a safety net for the unpredictable weather patterns that increasingly challenge Australia's berry industry. As the climate continues to change, this new style of insurance offers growers a faster, fairer, and more flexible way to protect their farms, their crops, and their livelihoods.

## Is parametric insurance right for you?

### Start with your risks

Take a close look at the weather-related events that have hit your business hardest. Consider heavy rainfall, hail, heat spikes, frost, sudden high winds or extended dry periods. Understanding which hazards pose the biggest threat to your crop, infrastructure, or cash flow is the first step in deciding whether parametric insurance could help.

### Check your current cover

Review your existing farm or crop insurance policies. What do they include and what's excluded? Note any coverage gaps, payout delays, or high premiums for weather-related losses. Parametric products are often designed to complement, not replace, traditional insurance.

### Talk to a specialist broker or insurer

Parametric insurance is still relatively new in Australian agriculture, so it's important to speak with a broker or insurer experienced in parametric products. They can help assess your risk profile, identify suitable triggers (e.g., rainfall, wind speed, temperature), and explain what kind of payout structure would make sense for your business.

### Ask about available data

The accuracy of parametric insurance depends on local, reliable weather or satellite data. Ask what data sources would be used for your policy, such as Bureau of Meteorology stations, private on-farm sensors, or satellite-based indices and whether those data points accurately reflect your growing region.

### Understand your triggers and basis risk

Make sure you understand exactly what will trigger a payout and how the payout is calculated. Basis risk (when the data trigger doesn't perfectly match your actual loss) can be reduced by setting well-defined parameters with your insurer.

### Compare options and costs

Request a few example scenarios or quotes to see how a parametric product stacks up against your current insurance. Look at trigger levels, payout amounts, and premium costs. The right structure should match your business size, crop type, and risk tolerance.

### Ask questions and get advice

Before committing, talk to your accountant or financial adviser to ensure the product fits within your overall risk and financial management plan.

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High-quality beneficials

Monitoring service & consulting available

Fewer chemical inputs

Trusted by growers since 1971



### TWO SPOTTED MITE



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