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## Parametric insurance after 2020

**Many policyholders the world over found that their insurance products did not provide adequate cover during the Covid-19 global pandemic. Innovative parametric insurance products may provide an alternative, or may help to fill the gaps in traditional indemnity insurance.**

Parametric, or index based insurance, provides a policyholder with a pre-specified monetary sum upon the happening of a trigger event. Unlike indemnity cover, it is not based on the actual loss suffered by the policyholder, but only on the occurrence of the trigger event which is objectively determined, such as an earthquake of a particular magnitude. Ultimately, it covers an approximate loss which is agreed upfront.

Parametric cover is usually based on very specific trigger events, and therefore provides fairly narrow cover. Additionally, a policyholder that suffers a loss under circumstances where the trigger event is just shy of the requirement (for example, property damage caused by an earthquake of a lower than required magnitude) will not be covered.

However, narrower cover can translate into lower premiums for policyholders, and without the need to quantify a policyholder's loss, claims can often be paid faster, which is vital to the survival of small businesses in particular. Parametric insurance may therefore be used as a supplementary product which fills the gaps in traditional indemnity cover.

While parametric pandemic cover did exist prior to 2020, it was not commonly used. Common triggers for parametric cover are natural disasters or weather events, but parametric products could be developed to cover all manner of triggers, particularly in a post Covid-19 world, where policyholders are increasingly aware of the nature and quantum of the cover which they require.

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## The Covid-19 impact - insolvent businesses and what happens to third-party claimants?

**The Covid-19 pandemic has had a severe impact on the economy. This has given rise to an increasing number of claimants with claims against insolvent businesses.**

In these circumstances, a third-party claimant would usually notify the company's insolvency practitioner of its claim. The claimant is then required to pursue its recovery as part of the insolvency process alongside other creditors.

### The Third Parties (Rights Against Insurers) Act 2010 (the 2010 Act)<sup>1</sup>

However, where the claim against the insolvent defendant is for a liability which is covered by insurance, the 2010 Act may be applicable. Pursuant to this, a third-party claimant can make a recovery claim directly against the defendant's insurers.

Unlike under its predecessor the 1930 Act,<sup>2</sup> in order to establish the insurer's liability, the third-party is not required to obtain a court judgment or arbitration award against the insolvent defendant. Nor is the third party required to obtain a declaration of liability prior to making its claim against the insurer. Under the 2010 Act, the insurer can be sued (as co-defendant) in the same proceedings issued against the insolvent defendant.

The 2010 Act also permits the third-party claimant to satisfy the policy conditions required of the original insured defendant, for example notifying the claim within the required notification period.

Furthermore, under the 2010 Act, a potential third-party claimant has the right to request information about the insurance contract from the insolvency practitioner, former officers of the company and the insurance broker.

## The impact of the pandemic

The 2010 Act came into force on 1 August 2016 and only applies to claims arising after that date. Since coming into force, the comparatively stable economic climate until the pandemic has meant the 2010 Act has been employed sparingly. However, given current conditions and with litigation funding more widely available, it seems likely that increasing numbers of claimants may seek to pursue their claims against insurers and bring the 2010 Act into prominence.

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#### Footnotes

- 1 [Third Parties \(Rights against Insurers\) Act 2010](#)
- 2 [Third Parties \(Rights against Insurers\) Act 1930 \(repealed\)](#)

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