

Climate Parametric Risk Transfer Across Insurance and Capital Markets: A Framework-Guided Thematic Synthesis of Governance, Principles, and Risk Allocation

Reza Hajipour Farsangi^{1,*}, Sirus Sharifi², Vahid Mahmoudi³, Pouria Goodarz³, Baharan Jaber², Sina Borzooei⁴

¹Department of Mathematics and Computer Science, Amirkabir University of Technology, Tehran, Iran ²Department of Banking, Insurance, and Customs, Kharazmi University, Tehran, Iran ³Faculty of Accounting and Finance, University of Tehran, Tehran, Iran ⁴Process Modelling and Digitalization Group, IVL Swedish Environmental Research Institute, Valhallavägen 81, Stockholm, 114 27, Sweden
*Correspondence: rehajipour@aut.ac.ir | Abstract ID: sciforum-176395

Core message: Parametric climate-risk transfer is not merely a faster payout technology. It is a governance architecture that reallocates verification, model uncertainty, basis risk, and accountability across insurance and capital-market regimes.

INTRODUCTION & AIM

Climate change is intensifying physical hazards and challenging the economic boundaries of insurability. Parametric and index-based instruments are increasingly promoted as scalable solutions because they deliver pre-agreed payouts once an observable trigger is reached, avoiding slow ex-post loss adjustment.

Research gap. The existing review literature remains fragmented by instrument family, including agricultural index insurance, sovereign risk pools, reinsurance, catastrophe bonds, insurance-linked securities, and weather derivatives. As a result, it rarely explains how trigger design, basis risk, model uncertainty, and classical insurance principles change when climate risk moves from insurance balance sheets to capital markets.

Aim. This study synthesizes review-level evidence to explain how parametric instruments are designed, governed, and used to allocate climate risk across insurance and capital-market regimes.

Research questions.

- How do trigger design and verification practices differ across regimes?
- How are basis risk and model risk allocated under climate non-stationarity?
- How are classical insurance principles preserved, stretched, or replaced in parametric and securitized structures?

RESULTS & DISCUSSION

Thematic synthesis: six high-level findings.

- Trigger design is governance.**
In parametric contracts, the trigger determines entitlement to payment. Governance therefore shifts from claims adjustment to data integrity, index calibration, calculation rules, and auditability.
- Basis risk is a distributive variable.**
Mismatch between realized losses and index payouts is not simply technical error; it determines who absorbs residual climate losses when the trigger fails to align with lived or fiscal damage.
- Climate non-stationarity increases model dependence.**
Historical calibration becomes less reliable as hazard regimes shift. Model updating, satellite data, ensemble methods, and recalibration rules become central governance issues.
- Insurance principles are relocated.**
Indemnity, proximate cause, insurable interest, certainty, and disclosure remain relevant, but they are implemented through index transparency, model validation, and settlement documentation.
- Regulatory boundaries allocate risk.**
Whether an instrument is treated as insurance, reinsurance, derivative, or security affects disclosure duties, capital or collateral requirements, dispute pathways, and residual accountability.
- Parametric products work best as layers.**
They should complement rather than replace indemnity insurance, public finance, and resilience investment. Layering is essential to manage basis risk and protect vulnerable actors.

Design implication. For climate parametrics to be credible, contracts should make three elements explicit: **what triggers payment, who validates the data/model, and who bears residual basis risk** when payouts do not match actual losses.

CONCLUSIONS

- **Parametric climate-risk transfer** replaces ex-post loss adjustment with ex-ante governance of triggers, data, models, and settlement rules.
- **Basis risk and model risk are distributive, not merely technical:** they determine who bears residual climate losses when payouts diverge from actual or fiscal damage.
- **Classical insurance principles remain relevant,** but they are increasingly implemented through index transparency, independent verification, disclosure, documentation, and regulatory classification.

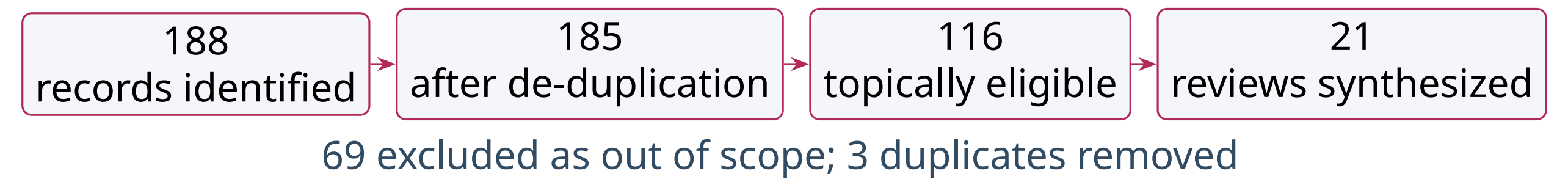
Conclusion in one sentence: Parametric climate-risk transfer is most defensible when it is transparent, layered, independently verifiable, and embedded within broader resilience and public-finance strategies.

METHOD

Design. A concept-driven umbrella review of review and synthesis publications, guided by PRISMA 2020 and framework-guided thematic synthesis.

Search strategy. A structured Scopus search was conducted in 2026 for English-language publications from 1991–2026 using three concept blocks:

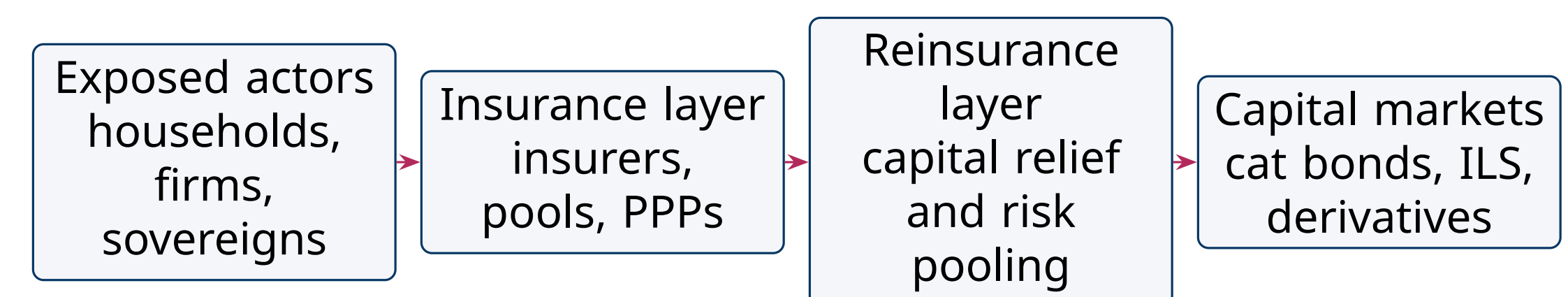
- parametric and index-based risk-transfer instruments;
- climate-related physical hazards;
- insurance, reinsurance, sovereign risk finance, and capital-market settings.



Coding and appraisal.

- Extracted data: instrument family, hazard scope, data/trigger type, governance setting, and reported outcomes.
- Quality appraisal: adapted AMSTAR 2; 8 high-confidence, 9 moderate-confidence, and 4 low-confidence reviews.
- Coding logic: deductive codes from insurance principles and governance theory, plus inductive theme development.

Layered climate-risk transfer architecture.



Interpretation. The same trigger can have different governance meanings across the risk chain: for households it is a promise of rapid liquidity; for insurers it is a product-design and conduct-risk device; for reinsurers it is a portfolio-risk tool; and for investors it is a pricing and settlement primitive.

Principles × regime comparison.

Governance function	Insurance-market parametrics	Capital-market parametrics
Trigger definition	Proxy for loss and entitlement to payout	Pricing and settlement primitive for investors
Basis risk	Legitimacy, trust, demand, and welfare concern	Sponsor-payout divergence and hedging error
Disclosure	Explanation of indices, thresholds, data limits, and residual risk	Prospectus-style disclosure, model assumptions, and investor suitability
Indemnity logic	Relaxed; replaced by correlation between index and actual loss	Not expected; payoff is a contingent financial cash flow: No strict indemnity; payout follows trigger and may diverge from sponsor loss
Model governance	Calibration, affordability, recalibration, and policyholder confidence	Ratings, spreads, collateralization, and model-risk pricing
Regulatory focus	Insurance supervision, conduct rules, consumer protection	Securities/derivatives disclosure and documentation

Main contribution. The paper offers a unifying analytical lens that links trigger design, insurance principles, regulatory perimeter, and risk allocation across insurance and capital markets. This helps explain why parametric instruments are simultaneously technical products, legal boundary objects, and climate-governance mechanisms.

FUTURE WORK / REFERENCES / ACKNOWLEDGMENT

Policy and research implications.

- Develop standardized basis-risk disclosure for policyholders, sponsors, and investors.
- Establish model-governance protocols for index updates, data revision, audit trails, and fallback triggers.
- Clarify the regulatory perimeter between parametric insurance, derivatives, securities, and hybrid instruments.
- Evaluate equity impacts: who ultimately bears non-payment, underpayment, delay, or model error?

Selected references. Barnett & Mahul (2007); Clement et al. (2018); Singh & Agrawal (2019); Zhao, Lee & Yu (2021); Benso et al. (2023); Nguyen et al. (2025); Roper et al. (2025).

Conflict of interest. The authors declare no conflicts of interest.