

BVG launches weather derivatives

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BVG has launched a new company called [WeatherInDe](#) to market and sell weather derivatives.

The growing need for customised weather derivatives has revolutionised the weather derivative market worldwide. Customers no longer have to adapt to standardised contracts traded on the exchanges, but can instead customise the contracts to suit their needs and risk appetite. WeatherInDe launched the weather derivative contract to address the risks related to rainfall and temperature. The weather derivative contracts are all set up in a similar way to a PUT or a CALL option. The customer can specify these options to their specific needs.

The structure of the derivative is left to the client. The strike values of the option as well as the exit and tick values of the option are decided by the client. The price of the derivative is dependent on these values and through consultation clients will adapt these to suite their specific needs. There are numerous options that can be applied to different sectors. For example, construction and mining companies can start to sell of their weather risk to a weather trader. This has huge implications in the cost structure of tenders and penalties paid due to rain delays. Role players in the game and livestock farming sector can also hedge themselves against drought and fruit producers against extreme temperatures.

Weather derivatives are not an insurance product and as such there is no need for proof of loss. Pay-outs are based on measurement only and it is thus an efficient process and product to use.