

Weather-linked business problem

Low rainfall can result in drought restrictions which typically reduce revenue for an Australian water services provider. During these events the municipality's customers use significantly less water which translates to less sales.

The financial risk is compounded by the municipality's cost structure. Like many water service providers globally, the cost of maintaining its infrastructure and services are fixed and generally do not change based upon customer behavior. Its revenues, however, are variable and can change considerably based upon behavior.

Over the years the municipality explored ways to smooth its variable revenue. Cash reserving and customer rate schemes generally did not provide the desired level of stability. The municipality ultimately decided not to retain weather-driven revenue risk any longer.

Risk transfer solution

The optimal solution for the municipality to manage its unpredictable water sales was to transfer its revenue risk to Nephila Climate.

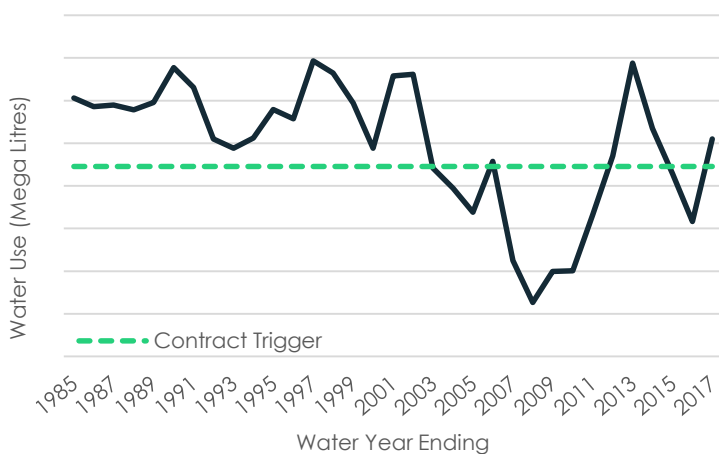
The municipality sought a product that covered them for multiple years. This captures the gradual evolution of water conditions and water use over time. In addition, the water utility desired the product to pay them based upon its actual water use. Water use is a metric that is tracked by and familiar to the municipality

Summary of financial product

Geography	Australia
Sector	Water services
Term / Start Year	3 years / 2018
Financial risk	Low water use
Transaction size	54,000,000 AUD

The cost of the product was budgeted as an annual cost. The cost was allocated to geographies and customers that contribute most to revenue variability.

Historical evolution of the water use index



Contract payment mechanism

When the water use index falls below the trigger of the financial contract, the municipality receives payment from Nephila Climate.

As context, the chart to the left shows how water use has varied since the mid 1980s. During the low-use period of 2007-2011, the municipality would have received a total payment of 48 million AUD

For more information, contact: team@nephilacclimate.com

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Company information

Nephila Climate (NCx) is a specialty division of Nephila Capital Ltd., the oldest and current largest investment manager specializing in (re)insurance risk with \$11.3 billion in AUM. Nephila has spent nearly two decades exploring and investing in non-correlated risks in the weather space. It successfully traded some of the earliest weather-risk instruments—including the Kelvin Ltd weather bond issued in 1999—and launched its flagship weather investment vehicle in 2005. Since then, Nephila has steadily expanded its expertise in offering risk transfer products to corporates, governments, and their stakeholders in order to enhance enterprise value and climate resilience.

Risk transfer applications

Nephila Climate's risk transfer products are applied within various sectors of the global economy. Financial payment from the products partially offsets unfavorable financial outcomes caused by weather and climate risks. Our counterparties use our financial products to increase predictability of earnings; augment enterprise risk management programs; enhance the financial standing of their business partners and supply chains; stabilize investments in or enable procurement of weather-sensitive commodities like water and renewable energy; back marketing promotions to customers; and other applications.

Climate resilience

Physical climate risks - caused by drought, extreme rainfall, heat waves, the polar vortex and extreme snow storms - have become critical drivers of financial performance for corporates and governments.

Renewable energy

The fuel resource for renewable energy is weather, and weather is intermittent by nature.

Agriculture

The fuel of farming is heavily dependent on weather and climate.

Energy markets

Weather products and commodity-linked weather products (quantos) are widely used in the energy markets as risk management tools.

Contact

Bermuda

Victoria Place, 3rd Floor West
31 Victoria Street
Hamilton, HM10
Bermuda
+1 (441) 296 3626

London

53 New Broad Street
London EC2M 1JJ
UK
+44 (0) 20 3808 3120

Nashville

3811 Bedford Avenue, Suite 101
Nashville, TN 37215
USA
+1 (615) 823 8488

San Francisco

The White Barn
801 Larkspur Landing Circle
Larkspur, CA 94939
USA
+1 (415) 799 4099

For more information, contact:
team@nephilacclimate.com

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Swiss representative:

Mont-Fort Funds AG, 63 Chemin Plan-Pra, 1936 Verbier, Switzerland

Swiss paying agent:

Banque Cantonale de Geneve, 17, quai de l'île, 1204 Geneva, Switzerland

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