



Speedwell Weather Risk-Placement and Consultancy Services

Speedwell Weather Derivatives (SWD) was established in the earliest days of the European weather derivative market in 1999. SWD now provides software, historical weather data, forecasts, consultancy and risk-placement services to the weather derivative and energy markets worldwide.

In our capacity as an independent consultancy we are able to assist companies in quantifying their weather exposure and then to structure and ultimately place such risk with the weather derivative risk-taking community. SWD are regulated by the financial regulator in the United Kingdom, the Financial Services Authority.

SWD has completed a number of assignments involving analysing, structuring and placing weather risk in a range of sectors including energy, renewables, construction, agriculture, retail, tourism and hospitality. The three stages of a standard consultancy process are outlined below.

Identifying and quantifying weather risk

The process of buying weather protection must begin by understanding how weather affects revenue. Many companies have a qualitative understanding of how their business is affected by the weather. This often needs to be translated into a quantitative understanding using historical data or the client's own assessment of the impact of adverse weather on future operations. In many industries it is frequently found that certain few "critical" days are vital to the success of the business and that a brief period of extreme weather can be responsible for a big impact on earnings.

SWD is able to produce a detailed analysis that provides your company with the information it needs to better understand its exposure. In its analysis and structuring SWD uses the Speedwell Weather System (SWS) which is an advanced weather derivative pricing software package used by many weather market trading professionals. This substantially enhances our ability to deliver a rapid and thorough weather risk analysis and to translate this into a workable weather hedge.

Designing protection

An investigation of your weather risk enables SWD to propose a hedge that is suited to your needs. There are a range of structures that are available to the hedger featuring different weather triggers (e.g. rainfall and/or temperature) and different payout profiles. These structures can be very highly tailored to help control weather risk. SWD understand how to balance the needs of necessary complexity with a pragmatic hedge which is palatable to the risk-taking community and which will elicit a competitive price.

It is our job to ensure that you have a full understanding of any product prior to purchasing protection. We can also advise you on the expected cost of the hedge.

Placing a weather derivative hedge transaction

Over its years in the weather market, SWD have cultivated extensive relationships in the weather risk taking community amongst all types of participants. These include insurance companies, banks energy companies and investment funds. We are therefore able to find the best price available for your weather protection using an understanding of the appetite that each organisation has for different types of weather risk, and how they themselves place that risk, while respecting any guidelines issued by the client, for example, in terms of counterparty credit quality. The method of risk placement also needs to be carefully designed and will depend on the size and complexity of the hedge.

We discuss with the client the process that we use to place the hedge and work in a transparent fashion acting in your best interests throughout. While the final contract will be with the counterparty that sells the protection, we will remain available for your questions throughout the life of the contract. We are also able to source on-going weather data and forecasts to allow the hedge to be monitored throughout its life and to independently determine the final settlement value and to assist with valuations within the contract lifetime.

We take no positions ourselves in weather derivatives so you are assured of objective advice based on the imperative of meeting your needs.

Examples of our consultancy projects

- Design and placement of a winter portfolio hedge for a European energy company.
- Analysis / structuring / advising on fair value of a hedge for a wind generator.
- Presenting an independent opinion on the value of a portfolio of weather derivatives for the auditor of an investment fund acting as a weather derivative market maker.
- Analysis, structuring and giving a pricing opinion on a multi-trigger crop hedge in Australia
- Analysis / structuring / advising on fair value of a wind hedge relating to tower crane operation for a construction firm.
- Advising / structuring a hedge / advising on fair value of a temperature hedge for a road gritting business.
- Advising / structuring a hedge / advising on fair value of a rainfall hedge for an earth moving business.
- Advising / structuring a marketing hedge for a travel company.
- Analysis / structuring a hedge / advising on fair value of a hedge for a chain of wine bars.
- Advising an energy company on establishing a weather trading operation.
- Advising a bank on creating a weather-linked bond.

Use of weather derivatives in marketing promotions

Although weather derivatives are usually used defensively to address earnings volatility or event risk, SWD also have experience in the use of weather derivatives in pro-active marketing campaigns. These often involve some sort of weather guarantee to potential customers of products where the purchasing decision or customer utility is somehow affected by weather.

Contact Us

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