

The WindX[™] parametric index is designed to support the transfer and trading of catastrophic hurricane risk in the capital markets. Based on a proprietary network of hurricane hardened wind measurement stations, the index is the first reliable means of measuring location-specific wind speeds for catastrophe-linked securities. Unlike other common structures, both issuers and investors benefit from the simplicity of a security that triggers when wind speeds on particular stations exceed a threshold.

WindX[™]

THE NEED: RELIABLE WIND SPEED MEASUREMENTS FOR U.S. HURRICANES

There has been a significant increase in parametric insurance-linked securities, particularly for such perils as Europe windstorm, U.S. earthquake, and Japan typhoon and earthquake. Issuers of these securities have been able to economically transfer peak peril hazard risk while retaining the underwriting risk and its associated return. This parametric risk transfer is made possible by reliable networks of measurement devices for each peril and region. Conspicuously missing from the list is one of the largest sources of catastrophe risk—U.S. hurricane—because, until now, there has been no reliable means of measuring wind speeds on a location-specific basis.

THE SOLUTION: THE WINDX[™] PARAMETRIC INDEX

WindX is based on a proprietary set of hurricane hardened wind stations offered by WeatherFlow, Inc. The WeatherFlow Hurricane Network consists of approximately 100 stations across the Gulf Coast, Florida, and the East Coast of the U.S.

In the event of a hurricane, wind speeds at various locations are measured and recorded by the wind stations. To obtain wind speeds over a general area, or at locations where the stations went offline, RMS employs a proprietary wind speed interpolation engine to ensure quality measurements in all locations.

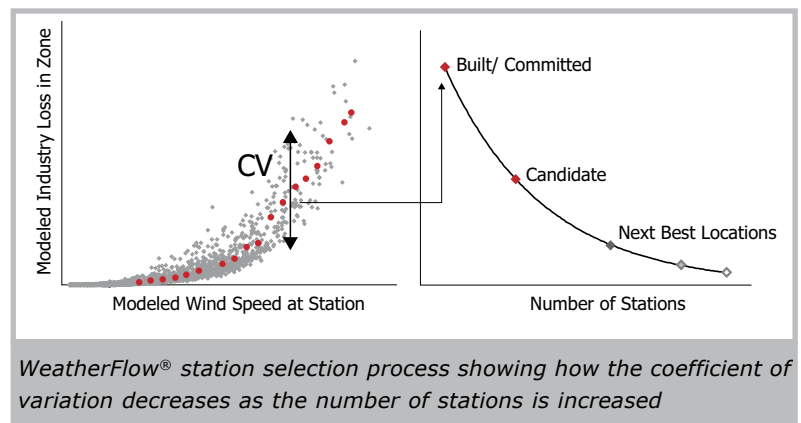


Distribution of WeatherFlow[®] stations across the U.S. hurricane covered area

The WindX solution is used to structure over-the-counter derivatives, catastrophe bonds, and industry loss warranties. Issuers can create custom WindX indices by building weighted baskets of individual stations. To promote liquidity in the market, RMS has identified WindX Risk Regions for regional sub indices for those market participants that desire more flexibility in the regions or stations covered in each security.

DETERMINING SITES FOR THE WIND SPEED STATIONS

RMS played a prominent role in the construction of the WeatherFlow Hurricane Network by prioritizing target sites based on the level of hurricane risk. Using its RiskLink® software platform, RMS simulated thousands of hypothetical hurricane events, and plotted the wind speed at each proposed measurement location versus the modeled industry loss. RMS then selected the targets that best explained the variation in modeled loss given the modeled wind speed. Consideration was also given to coverage along the coast and surrounding major exposure concentrations. The end result is a network that is optimized to represent insured industry losses—thus making it most useful for cedants who want to transfer their hurricane risk to the capital markets.



A TRUSTED NETWORK OF STATIONS AND SUPPORT

A leader in weather station management. WeatherFlow is a specialist in managing networks of weather stations and has been a reliable provider of information to such entities as NOAA, the National Hurricane Center, the U.S. Coast Guard, and the Defense Threat Reduction Agency. The WeatherFlow Hurricane Network benefits a large group of government and research entities, in addition to providing data for financial products.

Hurricane hardened stations. The WeatherFlow hurricane hardened (H2) weather station has been designed to withstand wind speeds in excess of 140 miles per hour. The anemometers are rated to a wind speed of over 200 miles per hour, and the computer capture is solar and battery powered to ensure data capture in extreme conditions and to provide failsafe measures to prevent data loss. Data is transmitted in real time via a GPRS cellular link, and is recorded onto onboard flash memory.

Backup interpolation provided by RMS. While the stations are designed to withstand hurricane-force winds, there is a small probability of a station failure. In this instance, an RMS algorithm combining track parameters and ground based measurements is used to fill the gap.

LICENSING THE WINDX SOLUTION

Access to wind speed data when an event occurs. Given an event, licensees have access to the wind speed data measured at each station — CSV files with the wind speeds can be downloaded directly from a password-protected area of the RMS website. Users also have access to preliminary notifications and event bulletins with industry probability of exceedance of wind speeds at various locations or within defined WindX Risk Regions.

Technical white papers. Detailed information on station construction, index calculation methodology, and backup interpolation methodology is available in the password-protected area of the RMS website.

The right to use WindX to settle transactions. Licenses are structured on a pay-per-transaction or unlimited use basis. For more information, contact paradex@rms.com.