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# Insurance against weather risk: Use of heating degree-days from non-local stations for weather derivatives

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## Summary

¶Weather derivatives enable policy-holders to safeguard themselves against extreme weather conditions. The effectiveness and the efficiency of the risk transfer is determined by the spatial risk basis, which is the stochastic dependency of the local weather outcome being insured and the outcome of the weather underlying the insurance instrument. The lower this risk basis the higher the effectiveness and the efficiency of the risk transfer. To study the spatial risk basis component in relation to the design and evaluation of a weather derivative contract to insure for heating degree-days (HDD), the historical temperature records were analyzed for five sites across the Netherlands.



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## Additional information

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