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Risk Management Through Derivatives Securitization

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Poster Presentation P31

RISK MANAGEMENT THROUGH DERIVATIVES SECURITIZATION

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With the fluctuations in the financial markets reaching tens of billions of dollars in just one day, using complex financial instruments instead of typical insurance could be more effective and cheaper to finance high-severity and low frequency risk exposures. Insurance-linked derivatives such as catastrophe bonds and weather bonds have been used for some time in the United States and European Union. The risks that they cover vary from property catastrophes, weather, general liability, and extreme mortality risks. As the number of issuers for these securities increases and new over-the-counter (OTC) products appear on the secondary markets there is a growing need to understand how they should be priced and considered by law. I intend to analyze the methods of pricing as well as creating a model for a weather derivative for the Illinois corn production and test its impact based on past statistical data.