

Measuring and Managing Weather Variability: Protecting Businesses from Weather Risks

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A new white paper has been released today by the researchers of Meteo Protect exploring the impact of changes in weather to find the maximum potential loss caused by adverse weather for any business. This innovative approach allows risk managers to have a full understanding about the impact of daily deviations from expected or seasonal weather and to be able to evaluate, for the first time, the total extent of their exposure to the weather. In turn, they may determine how much of this risk should be hedged in order to secure their sales and EBITDA, and to assess the changes they need to make to their operations and business practices to mitigate risks attributed to climate change.

Given the heightened attention to the effects of climate change on all sectors of society at the recent Cop21 climate conference in Paris at the end of the year, businesses are facing increased scrutiny of their contribution to climate change by governments needing to meet emissions targets. At the same time, the effects of climate change are already impacting business profits, and investors and

shareholders alike are also applying pressure, demanding climate vulnerability assessments to study the weather risks to which the business in which they have invested is exposed, and how the company is mitigating these risks.

In previous white papers, Meteo Protect researchers demonstrated how risk managers can understand the impact unseasonal weather has had on their performance in a given year, remove this impact to obtain the performance at normal climate conditions, and plan the following year much more accurately without integrating past weather effects into forecast business budgets. With this paper, “Measuring and Managing Weather Variability: Protecting Businesses from Weather Risks”, managers can now know how weather affects their budget going forward through the measurement of the average and maximum losses, or “Weather Risks”. This is particularly relevant because risk managers need to know not just how they are affected by deviations in the norm, but what the worst case scenario, or maximum risk, is as a result of the weather.

As a result, risk managers can now accurately determine how much of their Weather Risk they wish to mitigate using financial hedging solutions. With the purchase of index-based weather financial hedging products, in derivative or insurance form, companies gain the stability required to be able to invest in operational changes to reduce their Weather Risk exposure, and to invest in efforts to reduce their carbon footprint.

Meteo Protect is a driving force behind the call for ratings agencies to include climate change vulnerability as an individual weighted methodology in their rankings, and this paper demonstrates the science behind such an endeavour. As companies now have the tools to measure their Weather Risks, they ought to not only voluntarily disclose them for the benefit of investors and shareholders alike, but ratings agencies should consider them in assessing the value of businesses. Without incorporating climate resiliency into their ratings methodologies in a substantial, transparent and comprehensive fashion, credit ratings agencies may be substantially miscalculating the risks of climate change to the corporate sector.

A must-read for finance executives, investors, asset managers and business analysts, the White Paper takes a new approach to tackling a long-standing and unresolved problem, making it understandable, relevant and manageable.

[Download the White Paper](#)