

Regulatory agencies not only relied on companies for reporting, but, more importantly for Beamish, were not organized to deal with a spill of this nature. It was not based in the ocean in a manner that allowed the Coast Guard to take sole control; for example, forcing them to interact with other agencies that not only had different agendas, but were also forced to define the event differently in order for them to become involved. Because the agencies could not agree on the definition of the problem, what Beamish calls “domain consensus,” their response to the spill was problematic at best.

Finally, there is the local community. Beamish’s explanation here is too complicated to summarize effectively, but in short, what is most important is that the community was only able to make sense of what was happening by contextualizing the event in terms of other events. In other words, even though this was a spill like no other, it had to be put in terms that allowed the local press and residents to understand what it meant to them environmentally, economically, and socially.

I would have appreciated a comparison to another crecive event just to see if the framework Beamish develops actually works elsewhere. The conclusions are largely derived from the case, and we cannot be reasonably certain that they hold up across cases. Still, I appreciate that the first work on a question should present a thorough study, allowing for others to take it in new directions.

Thomas D. Beamish brings to light an important and, alas, frequent form of industrial crisis. In a literature that usually focuses on events with a beginning, a middle, and an end, this is a refreshing and very useful addition, since it applies to many real-world cases.

Weather Risk Management, Erik Banks, editor, 2002, Palgrave, Houndmills, Basingstoke, Hampshire, and New York: Element Re Capital Products, Inc

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“Everyone talks about the weather, but no one does anything about it.” That old saw has been around for a long time. It suffers from the disadvantage of being false. As an inland marine underwriter over 40 years ago, I underwrote rain insurance policies on air races and sports car shows. My department wrote rain insurance on western movies, an insufficiency of water policy for the Shasta Dam and some ill-fated contracts insuring drying raisins against rainfall. Weather insurance in this country and the world market as a whole has been around for a long time. With its emphasis on derivatives, this book seems to view the area of weather risk management as a recent development. There is no question that the advent of derivatives has changed the weather risk financing field in a dramatic fashion.

In fact, the title of this book is misleading since it covers what risk management professionals will recognize as risk financing rather than the larger topic of risk management. The book lacks any treatment of the risk management decision process starting with risk identification and measurement, including loss control and evaluation of alternatives and cuts right to the financing decision.

This orientation can be seen on page three when they state “We use the term ‘weather risk’ to describe the financial exposure that a business may have to weather events

such as heat, cold, snow, rain or wind." This is not surprising since the book is written by the employees of Element Re Capital Products, Inc. On the book cover we are told that the market for weather risk has grown to an estimated US\$7.5 billion in just four years. Element Re, a division of XL Capital is a provider of weather risk management products and "a recognized leader in the weather risk market." This book attempts to provide information about weather derivatives and to promote that product.

The bias in this book toward weather derivatives and against weather insurance can be further seen in the fact that the topic "weather derivatives *versus* weather insurance" is found in the chapter entitled *Legal and Regulatory Issues*. Here we learn that the pattern of state regulation results in insurance products being "highly regulated" unlike derivatives, which Enron has shown contain certain regulatory loose ends.

This text points out that a disadvantage of weather insurance is that one has to show an insurable interest while, "An entity executing a weather derivative does not need to show an insurable interest in property, it just needs to be adversely impacted by fluctuations in weather." The text reports that in the year 2000, the General Counsel for the New York Insurance Department indicated that weather derivatives were not insurance. They are clearly not insurance, they are a financial instrument with the advantages and disadvantages of any other derivative. Weather derivatives have turned weather contingencies into a kind of commodity market where participants can hedge or speculate as they choose. This book provides a primer on that market.

This text provides a detailed analysis of the financial risks associated with weather events. Weather forecasting is covered in detail. There is a brief chapter on weather economics that is rather weak, given the key role that economic analysis should play in financial decisions.

Part II of the text covers the market participants. The list of providers include energy companies, such as Enron, and insurance and reinsurance companies. Other participants include "hybrid" companies that provide insurance and derivatives and transformers who will convert an insurance product into a derivative. The final major provider category includes banks. The chapter on end-users is divided into hedgers and "investors." Under hedgers the text lists several industries and enumerates their weather exposures. Under investors, the text examines various motivations for speculation in these derivatives.

Part III of the text entitled *Risk Management Markets, Products and Strategies* provides an in depth analysis of options trading. These chapters might be quite useful for professors teaching classes in finance or quantitative methods who want some examples of market applications. These chapters are the heart of the book and are very well done.

Part IV, quantitative and control issues is a heavily mathematical treatment of the subject. Chapter 10, about pricing weather risk, would provide an excellent reading assignment for a course in quantitative methods.

The text includes some case studies and an excellent glossary. I would recommend this text for anyone who wants an in depth treatment of derivatives, their use and their pricing.

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