

# CLIMATE CONTROL

In a world of increasing weather extremes, the question is no longer whether climate change is happening, but rather how businesses can protect themselves from it. **Mark Rüegg**, founder and CEO of CelsiusPro, explains how professional weather protection is helping CFOs take control.



**Whether it's** a power utility, a farm or a firm trading seasonal products, adverse weather conditions can interfere with a company's bottom line and cut a hole in profits. CelsiusPro, founded in March this year and based in Zürich, aims to help managers eliminate downside risks and earnings volatility caused by weather, paying its customers automatically and promptly when their pre-defined weather conditions occur – without them having to submit a claim.

Mark Rüegg, founder and CEO of CelsiusPro, has a 15-year background in investment banking and foreign exchange brokerage. He first looked into weather derivatives after becoming aware of the climate change problem.

'One side of my businesses was hedge funds, the other was broker dealers – FX retail aggregators where you can open an account for £20,000 and trade FX at low margins,' he says. 'I thought that was a pretty good business model. I then decided to build an online platform where people can trade weather derivatives and hedge against the effects of adverse weather, as this is what is needed with climate change. That's how it all started.'

## Sporting chance

CelsiusPro acts in the market as a principal, trading back-to-back with its partner Swiss Re, which enables it to provide customers with up-to-date pricing on the internet. Rüegg found himself in strong demand at the UEFA Euro 2008 football tournament, where several companies hedged against rain, including outdoor retailers and larger wholesale companies wanting to protect revenues for beer and sausage consumption.

'At these events, if the weather's bad, many people stay home watching the game, which hits sales badly,' explains Rüegg.

CelsiusPro has also worked with ski resorts in Switzerland and Austria. 'We conducted an analysis on the guests they have on the slopes in the winter season,' he says. 'In the warm winter of 2006/07, they had a drop of between 100,000 and 200,000 guests per season, which translates to Sfr 4-8 million, or up to 25% of their usual revenue.'

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As Rüegg points out, in a warm winter, household gas consumption is

**'Hedge funds regularly trade weather derivatives as well as commodities and companies affected by weather.'**

significantly lower. In construction, temperatures below 5°C make it difficult to carry out some softer construction work, and rain can also be highly obstructive. In agriculture, CelsiusPro has been carrying out an analysis of potato harvests in Germany.

'For wheat and potatoes, drought is the biggest threat,' says Rüegg. 'There's a 90% correlation between the amount of rainfall and the yield they have in the fields.'

## Effective analysis

Why should CFOs know about CelsiusPro? Rüegg says CFOs are ultimately responsible for the bottom line of the company, so they must know which factors influence this and whether they want to hedge or not.

'You can only decide once you've properly analysed how weather affects

your business and what's at risk,' he says. 'My advice is to assess the risk, get a price to offset the risk, then make a judgement call.'

Rüegg believes investors are now more educated. 'The weather excuse is no longer accepted. For example, if a sports retailer in the UK has suffered a bad summer, the investors know there is something they can do about it.'

He also warns that some hedge funds trade weather derivatives as well as commodities and companies affected by weather. 'If they judge that your sales results will be impacted by adverse weather, they start selling your stock.'

Additionally, a CelsiusPro certificate can also help firms to grapple with the effects of the credit crunch. 'If you can show you have protected your earnings using weather derivatives, that helps you with your credit rating and the ability to borrow money, as well as increasing the value of your company.'

CelsiusPro starts with £2,500 of premium. 'In the past, weather derivatives were only for the big boys, with premiums starting at \$100,000,' says Rüegg.

'Now all the small and mid caps can do it as well. We reduce the legal complexity, bringing documents down from 30 pages to around five. My goal is that everybody should be able to read this stuff and understand it – don't make it overly sophisticated, because it doesn't have to be.' **FDE**

## Further information

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