

Interview with Kenneth A. Horowitz, CEO of Weather Risk Solutions, LLC

- **When did the idea for Hurlos first come to you?**

During the 2004 hurricane season my home was damaged by two different storms – Frances and Jeanne. After discovering what my hurricane insurance did not cover, as well as the huge deductible that I was responsible for, and then waiting to obtain written damage estimates and then negotiating these amounts with my carrier for payment, I began thinking there had to be a better way.

- **How did your involvement with past pursuits, such as Cellular One, help you in your ability to launch Weather Risk Solutions?**

I was involved from the very beginning of the cellular telephone industry – during the FCC application phase for cellular licenses. Cellular telephones, let alone cellular telephone providers, did not exist. We needed to obtain approvals for the top 30 markets in the country to provide cellular services. At that time I had to convince potential investors that cellular telephones were needed and often heard, “why would I want to have a phone in my car?” Specifically, I prepared cellular applications for top markets, including New York City, and had to meet, submit information and testify before Federal regulators and persuade them that my companies should receive licenses. I was also responsible for coordinating the construction of New York’s cellular system and launch of service, among others. My days were busy convincing the FCC, investors, and equipment manufacturers to work with us on technology and a business that many people doubted would be successful. I knew that cellular telephones would revolutionize society and become an extremely productive and useful tool. Weather Risk Solution’s first product, Hurlos is going through all of the same steps. I am comfortable working with Federal regulators, potential investors and creating the technology which is necessary to make our trading platform work.

- **What/Who is your ideal customer for the Hurlo?**

The ideal customer is any individual or any business that has financial or economic risk from hurricanes. I cannot emphasize that enough. It is intended to help supplement insurance and fill the gap between hurricane-triggered financial harm that is covered by insurance and the hurricane-triggered financial harm that is not covered. People understand what their hard costs are – damage of physical property. If you have lived through a hurricane just once, the costs becomes evident, but you also quickly learn what hurricane insurance does not cover. For instance, it takes

time and money to prepare one's home or business for the possibility of a hurricane making landfall. A restaurant is a perfect example – as many as two to three days before a hurricane is expected to make landfall a restaurant will close allowing staff to protect and secure the premises. Staff is given a day off to go home and repeat the same procedures for their residences and perhaps vacate the area. The restaurant at this point suffers lost revenue and employees are not paid whether or not the hurricane eventually makes landfall. If the hurricane makes landfall it could be days or weeks before the restaurant opens and there is the added cost of spoiled food. Business interruption insurance could help if it were available and affordable, but usually it is not. If the restaurant were able to obtain business interruption insurance it would likely be very expensive and only pay if the actual premises are damaged. Of course the usual exclusions and deductibles would also apply. But what if nothing happens to the restaurant but tree limbs are down all over the city and power is out. Food deliveries, as well as employees and customers cannot reach the restaurant and the business cannot open. In this example, because the hurricane did not damage the restaurant insurance will not pay. Hurlos will pay regardless of whether the restaurant suffered a direct hit or not. Another example is automobile dealerships. Prior to a hurricane making landfall dealerships incur costs of moving vehicles from display lots to secure, protected locations. Then there are some companies that depend on revenues from providing goods and services in the aftermath of hurricanes. Examples include businesses which provide clean up services after a hurricane makes landfall. For instance, companies that clean roads of fallen debris. These businesses staff up before a hurricane makes landfall. If a hurricane does not make landfall, these companies still have employee and staging expenses. The “no landfall” option pays when a hurricane does not make landfall during the hurricane season and can provide a hedge for those companies.

- **Being a trailblazer in the cell phone industry means you likely have a mind that easily grasps and understands complicated and detailed technology. The Hurlo platform obviously incorporates some pretty sophisticated hardware. Is this something that even a layman could learn to navigate?**

Absolutely. We purposely designed our trading platform to be intuitive. Long before it was released to the public we tested it out in numerous trials, including panels of college students who were not stock market traders. The site has a tutorial but for many it really is not needed. If you touch your cursor to a given area, an explanation will pop up. When we tested the site with panels of college students I asked the students not to begin until I could explain how to use the trading platform. We had simulated hurricanes crossing the screen in fast time. The students did not listen and went right at it. They were way ahead of me. I asked everyone to stop and sit with their hands on their heads until I could explain the purpose of the trial. I have photos of those panels. It was hysterical. We designed the site to be easy to use and we included links to other hurricane and weather-related sites. We hope our trading platform educates people about hurricanes.

- **While there are other financial products that can be used to hedge ones hurricane landfall risks, you have referred to Hurlos as an “easy to access, intuitive product that removes many of the risks and complexities that may otherwise be associated with alternatives.” Can you explain?**

Hurlo is designed for everyone, average homeowners and business owners not just sophisticated traders. To reach this market we built-in protections you won't find elsewhere. Hurlo buyers pay the full option price and fees upfront. This is the most anyone can lose so there is limited risk. And since premiums are paid in full and held by a Federally-regulated Derivatives Clearing Organization there is no risk of non-payment (or systemic risk). We do not permit shorting and we do not permit margin purchases. Hurlos are that simple.

Another feature that makes Hurlo accessible to everyone is that buyers in our primary market do not need to find a party willing to sell. It's a unilateral market with open, transparent, competitive and efficient pricing based on the purchasing decisions of all market participants. No single person or dealer sets or controls the price. There is also a secondary bilateral market that operates simultaneously where people can sell Hurlos they already own to other participants through a traditional order book. Also, participants enter their own orders and this eliminates potential trade practice fraud and abuse.

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