



CLIMATE RISK INSURANCE AND PAY-OUT OF THE FLOOD INSURANCE PRODUCT

The Daily Star, the United Nations World Food Programme (UNWFP), and Oxfam in Bangladesh jointly organised an online discussion titled "Climate Risk Insurance and Pay-out of the Flood Insurance Product" on November 24, 2020. Here we publish a summary of the discussion. Speakers' serial has been maintained as per the flow of the discussion.



Mr. Mohammad Soeb Iftekhar,
Head, Economic Inclusion and Justice,
Oxfam in Bangladesh

In our journey, Korea International Cooperation Agency (KOICA) and UNWFP supported Oxfam in Bangladesh as a funding organisation. Green Delta Insurance Ltd (GDIC), as an insurer, explained the pivotal role of covering the risks of flood-affected vulnerable people. National Development Programme (NDP) has been our local partner and extended their hand to reach out to the targeted impact group. In designing the product, three organisations, which included Weather Risk Management Services (WRMS) from India, International Water Management Institute (IWMI) from Sri Lanka, and Save the Earth Climate Services Ltd (SECSL) from Bangladesh, supported us for data services and product development.



Mr. Rezaul Karim,
Head of Programme,
World Food Programme (WFP)
Bangladesh

In Bangladesh, we are implementing a five-year country strategic plan which will end in December 2020 and then be extended for another year. In this five-year country strategic plan, WFP has worked in areas where humanitarian help is necessary and in other areas with the help of different government agencies. By providing technical assistance we improved the systems for designing the safety net programmes. WFP also carries out some innovative works such as development of systems that can improve the delivery of social protection programmes.

Through the country strategic plan, WFP also intends to find ways to help the vulnerable communities in adopting healthy coping strategies so that they do not resort to negative coping mechanisms after experiencing any shock. Our initiatives include forecasting their financing through which we find ways of reaching out to beneficiaries particularly for flood-affected groups. This initiative began in 2019 and then again in 2020 we carried this out in a much larger scale. We also have initiatives called climate risk insurance and seasonal livelihood programming.



Ms. Farzana Chowdhury,
Managing Director & CEO, GDIC

In a normal year, approximately 20 percent to 25 percent of the total land area is flooded in Bangladesh, with more extensive inundation not being uncommon. In 2020, the region experienced the biggest and the longest floods seen in the country in the last 20 years. In the last 40 years, Bangladesh experienced five major floods which caused economic losses totaling USD 8.4 billion.

Our focus when designing the insurance product that we jointly designed with WFP and Oxfam was to cover the extreme flood events and ensure quick pay-outs for the poor families to ameliorate the impact and provide support in the case of income opportunity loss. The product was designed based on satellite-based flood index. The validation of the product was done with water level data recorded on the ground in the Kurigram Sadar and Chilmari Upazila.

There are certain challenges that we have faced along the way. The pricing of the product is quite high in comparison to the earning of the farmers. There is also the factor of awareness among the consumers which can be increased through a multi-sectoral approach.

A viable, inclusive, and disruptive business model needs to be designed where all the stakeholders will be able to operate independently without direct financial aid from donor agencies. Government subsidies in premium and claims using the disruptive business model will bring in more partners in the field. A 15 percent Value Added Tax (VAT) rebate on index-based insurance products is required for reducing the price. Regulatory reformation is also highly necessary to enable "Periodic Premium Payment" by the beneficiaries to enhance the outreach of the entire agriculture insurance portfolio. Satellite remote sensing, real-time data provider weather stations, digitalisation of transaction methods, and utilisation of local authorities as a structural distribution channel are important initiatives that need to be undertaken besides building stronger collaboration between respective

departments, ministries of the government and relevant stakeholders to get the most out of the project. The availability of satellite data, digitalised solution for data extraction, and automated data circulation process by the government can facilitate index-based flood insurance across the whole country.



Dr. Giriraj Amarnath,
Research Team Leader (Water Risks & Disaster), IWMI

The role of government is very critical in supporting the gathering of data and information. The government can also help by sharing the data in a more inclusive way. The government can step in with more transparent ways of structuring the data and providing data for not just index-based insurance but broadly looking after the whole range of projects related to resilience development. The government should also ensure that the information can help improve the social response policies when it comes to disaster management.

The different relevant departments and ministries need to come up with a 'think tank collaboration' so that the academic institutes and the extension departments can work together. Collaboration is needed not just for the sake of designing an insurance product and its pricing but to also ensure that the farmers' resilience is better built in the years to come, in light of climate change.



Dr. Anuj Kumbhat,
Co-founder & CEO, WRMS

WRMS works in developing crop insurance solutions and climate risk management solutions across the globe. We started weather

Since insurance organisations have some limitations at the grassroots level, micro-financing organisations can play an important role here. They can act as a distribution channel on behalf of the insurance companies. We still need some kind of clarification from the microcredit regulatory authority (MRA) and the Insurance Development and Regulatory Authority (IDRA) on whether micro-financing organisations can provide such support or not.



Professor Mahbuba Nasreen,
Professor & Director, Institute of Disaster Management and Vulnerability Studies, University of Dhaka

The role of academia in research and evidence generation of climate risk insurance as a risk transfer solution is crucial. There are some areas, in the context of Bangladesh, where empirical evidence-based research is required. Academia can contribute significantly here for the development of new science and knowledge generation.

In academia, we have developed our curriculum with a series of workshops related to disaster management and climate change issues. There are certain gaps present here. We do not have enough experts in these areas and hence we have to ensure capacity building for our students. In our curriculum, we have included topics related to risk insurance, understanding disaster risk, and enhancing disaster preparedness for effective partnership. Investing in disaster risk reduction for resilience is essential because it is not the sole responsibility of the government to make the country resilient.

We are trying to come up with insurance solutions that are currently unavailable such as insurance for industrial workers. We have observed that insurance for specific products for small farmers and rural shop owners is yet to be covered by the Bangladeshi insurance companies. In light of the current scenario, we need to start thinking about designing insurance products for the COVID-19 affected individuals.

RECOMMENDATIONS

- Incorporate a viable, inclusive, and disruptive business model so that all the stakeholders are able to operate independently without direct financial aid from donor agencies
- Ensure a multi-sectoral approach in increasing consumer awareness regarding insurance products
- Reduce the 15 percent VAT on index-based insurance products in order to make the prices of the products more affordable for the smallholder farmers and most vulnerable households
- Enable "Periodic Premium Payment" through regulatory reformation
- Facilitate index-based flood insurance across the country through satellite data, digitalised solution for data extraction, and an automated data circulation process
- Provide flexible insurance solutions that are offered at a value that the targeted households can afford
- Ensure a more effective inclusion of insurance companies for the development of Bangladesh's economy
- Promote the growth of inclusive insurance through government and private sector partnerships and link with the government disaster management and social safety net programme.

insurance in India and South Asia way back in 2003.

In index insurance, the key issue is data. The government of Bangladesh is taking a very strong step in improving the data. We have been designing the solutions for flood index insurance for the last three years.

One of the key learning points from this particular project is that we need to understand and design solutions which are for the lowest levels of strata, the casual labourers. Therefore, the solutions need to be flexible enough to be offered at a value that the targeted households can afford. Risk reduction and management of climate vulnerability is a very important factor so insurance alone will not solve the issue at hand.



Dr. Shazzad Hossain,
Director (PRM), NDP

NDP is a non-governmental organisation implementing development projects in Bangladesh since 1992. As an organisation, we have been providing micro-financing support to the marginal people residing in rural Bangladesh.

Due to climate change, we are witnessing frequent disasters which have particularly affected the micro-financing sector such as ours. Actions need to be undertaken to minimise the risks not only for our benefit but to ensure that our support to marginal families can continue. Unfortunately, there are no insurance products within the micro-financing organisations which we can implement.

we do not reach the relevant communities in time, such tools have no impact. Climate actions can be linked with insurance, but only if insurance is designed in a way to facilitate climate action.



Dr. Syeda Zinia Rashid,
Senior Programme Officer, Income and Economic Development (IED), Swiss Agency for Development and Cooperation

As per the Climate Risk Index, Bangladesh is a disaster-prone country. A disaster insurance mechanism is required to achieve the Sustainable Development Goals (SDGs) and for the overall growth of Bangladesh. The climate risk insurance mechanism in Bangladesh has the potential to present an effective and efficient alternative to the traditional disaster relief approaches. This mechanism can also effectively complement social protection and humanitarian response activities of the country.

We have incepted a few pilots under promoting risk mitigation measures for climate change adaptation. One of the key components is sector coordination. Sector coordination in terms of the actors allows for the proper exchange between development partners, insurance regulatory authorities, and the Ministry of Finance. This coordination is essential because we first need to demonstrate the best practices and lessons learned from different findings. We also want to create better Public-Private Partnership (PPP) opportunities to address this issue countrywide. We need to devise climate change insurance services to reach the bottom of the pyramid. Regulatory reformation is one of our visions. To achieve that, we need to create sustainable market-based products and services for the climate resilience or climate risk insurance mechanism.



Gokul Chand Das,
Advisor, Swisscontact

According to the Bangladesh Micro-Insurance Market Development Project (BMMDP), floods have been a significant risk exposure for the farmers of Bangladesh due to their frequent nature, even in terms of flash floods. In view of mitigating the risk and vulnerability of the farmers, BMMDP planned to conduct the flood research during the inception phase of the project but could not complete the research programme. The study will give us enormous data on what factors cause flooding and the losses that occur.

BMMDP operationalised the flood risk insurance programme in Bangladesh. We are also trying to implement weather index-based crop insurance services for the farmers. The crops and vegetables that would be covered under this flood insurance are maize, beans, potatoes, tomatoes, almond rice, and boro rice, for selected sub-districts under Gaibandha, Thakurgaon, Bogura, Rajshahi, Rangpur, Pabna, Naogaon, Nilphamari, and Jaipurhat. Our project is willing to help the insurance sector create a conducive regulatory environment for development and widespread adaptation and diffusion of flood insurance products through policy research and the development of necessary policy guidelines.



Sajid Raihan,
Country Manager, Start Fund Network

Start Fund Network is a civil society managed funding mechanism to address humanitarian crises. We currently have 47 member organisations covering all the districts of Bangladesh.

The frequency and intensity of climate-induced disasters are increasing. The traditional response and the aid architecture are not prepared to face this current challenge. Until now, we have been managing disasters as they happen with no prior planning. We must utilise the present technologies to better forecast disasters and hazards. Currently, for every ten dollars spent on humanitarian responses, only one dollar is spent on reducing or managing risks. This is a great imbalance. Disaster Risk Financing (DRF) can act as an incentive to help shift our behaviour over time towards a more proactive approach to risk management.

We need a better coordinated disaster financing system between the government, private sector, and humanitarian partners, to help the response and recovery efforts. Climate risk insurance is an integral part of DRF. We need to consider whether the climate risk insurance is timely, reliable, and efficient. Does it serve the interest of the climate-vulnerable population? Is it contributing to the resilience of the communities? We may have the right tools and technology, but if

The distribution partners also need to be incentivised.

A policy framework or incentives are required for the insurance companies to encourage them to reach out to the mass people. Capacity building programmes would be necessary as well.

Ms. Ilryoung Lee,
Deputy Country Director, KOICA, Bangladesh

Climate risk insurance is a newly introduced initiative in Bangladesh. In regard to this, we need to focus on two things. Firstly, the implementations carried out in this project need to have visible outcomes. Next, we need to consider the issue of sustainability. For this to happen, it is necessary to build a technically sound insurance system for the analysis of the claims. It is also just as important to make people understand the importance of insurance premium payments in advance.

Mr. Piet Vochten,
Deputy Country Director, WFP, Bangladesh

Climate risk insurance can act as an alternative crisis management technique. It can provide people with financial certainty during disasters and ensure that people have food security even during the most uncertain times. Climate risk insurance can also be a part of climate change adaptation and disaster risk management.

WFP has been involved with climate risk insurance for several years now. In fact, there are currently 2.5 million people being protected against climate risks through the insurance products developed and supported by WFP. Examples include microinsurance under the R4 Rural Resilience Initiative and national level insurance under the African Risk Capacity (ARC) Replica initiative. ARC Replica, in particular, is a novel initiative that reaches around 1.3 million people and protects these people from cases of severe droughts.

In Bangladesh, the agriculture sector is still a source of employment for almost half the population. This makes the country and its people particularly vulnerable to climate change. Therefore, building resilience is highly important in the context of Bangladesh.



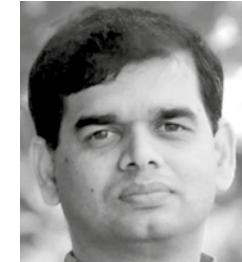
Dr. Md. Enamur Rahman,
Honourable State Minister, Ministry of Disaster Management and Relief (MoDMR), Government of Bangladesh

Due to global warming, the incidents of natural disaster are ever-increasing. In the last two years, Bangladesh has observed three cyclones and two major flood events. These natural disasters result in loss of lives and property. The marginal population residing in the coastal areas lose their livestock, crops, and fisheries whenever these natural disasters hit our country. Covering these losses becomes a major feat for the government to tackle alone. In this context, climate risk insurance will be able to create major opportunities for the victims to overcome the loss and damages inflicted by the disasters.

MoDMR has a long history of successfully preparing for and responding to disasters and coordinating the various parts of the government including the numerous international partners to ensure a harmonised and effective recovery for the affected communities across the country.

The protection of people and assets is a key component of sustainable development. Although insurance is only explicitly mentioned once in the Sustainable Development Goals (SDGs), it is implicitly intertwined with multiple goals. Insurance provides a safety net and an economic protection mechanism for all.

Climate risk insurance needs to be developed to protect the growth of all small businesses. Climate change threatens the livelihoods of all marginal people. Bangladesh is the seventh most vulnerable country in the world to natural disasters. Our Honourable Prime Minister has mentioned that there is a need for insurance to play a more effective role in the economic development of the country. The insurance industry's contribution is currently less than one percent.



Zahidul Islam Sajal,
Moderator of the session

The Daily Star thanks Oxfam in Bangladesh and the UN WFP and the other partners for supporting us in the organisation of this event.