

FSW-24 | Piloting Index-Based Flood Insurance for Risk Transfer in Western Nepal

Partner Financial Institution:	Stonestep TFD Pvt. Ltd (Nepal)	SCBF Contribution:	CHF 149'779 (80%)
Grantee:	Stonestep AG	Matching Contribution:	20%
Country:	Nepal	Theme:	Climate Change
Duration:	March 2021 – January 2023	Product:	Insurance
Potential Outreach:	13'875 Households	Target Group:	Smallholder Farmers
Thereof Women:	54%		

CONTEXT

Western Nepal is especially prone to hydro-met related disaster risk. Floods and landslides result in regular disaster incidence with extensive exposure causing devastating impact to vulnerable communities each year. Despite large annual losses, the Government of Nepal (GoN) has made little investment on Disaster Risk Reduction (DRR), prioritizing post-event relief instead (e.g., ~10% goes into pre-event resilience and risk reduction). Insurance has been advocated as a long-term, non-structural measure for building resilience among disaster-prone communities. However, despite promotional efforts and premium subsidies for some programs, only 17.5% of the Nepali population have some form of insurance, and most disaster-prone communities have no access to insurance at all.

Agriculture is the primary source of livelihoods for >65% of Nepal's population, contributing 27% to national GDP. Predictably, agriculture located in flood-prone areas are extremely sensitive to water-induced hazards. In 2017, the central and eastern part of the Terai region of western Nepal, where the project is proposed, suffered high rainfall and flash floods causing damage of NPR 17.9 billion (CHF 136 million) to the agriculture sector. The substantive aim of the project is to increase resilience of climate-vulnerable smallholder farmers and marginalized people in Western Nepal by enabling access to risk transfer mechanisms through the pilot of an index-based flood insurance.

CURRENT STATUS OF THE MFI

Stonestep Nepal provides insurance management software ("Insurtech") and technical management services to customer-facing distribution such as savings cooperatives/MFIs, digital channels, and insurers to meet the needs of vulnerable, low- and modest-income customers in Nepal. Stonestep, together with its partners, will develop and pilot index-based flood insurance in disaster prone communities in the Karnali River Basin in the Terai region of Western Nepal. Flood insurance is a first of its kind in Nepal and SCBF's financial support is required to de-risk the initial investment to design, develop, and test the feasibility of the product.

OBJECTIVES AND MAIN ACTIVITIES

The objective of the project is to develop index-based flood insurance for climate vulnerable smallholder farmers and marginalised people in Western Nepal. Stonestep will partner with ten MFIs and savings Cooperatives, serving as the customer-facing distribution channel and insurance policyholder. Stonestep enables all aspects of digital insurance programs including product design support, technology integrations, marketing/education design and messaging, and operations support to enable efficient program administration and implementation. Unlike traditional insurance, the index-based flood insurance product is based on a parametric index for flood level & inundation (the flood indices), using a proxy measurement to pay for economic losses (e.g., indices are automatically 'triggered' when defined events occur like floods). The project estimates to reach a total of 13'875 households by the end of the project. Upon study completion, the financial institution should be able to determine the feasibility and commercial sustainability of index-based flood insurance with the goal to scale to new disaster-prone communities in Nepal.

NEXT STEPS

Upon successful completion of the feasibility study, the partners will evaluate project replication to other disaster-prone communities in Nepal. A product upscaling grant and financial education grant are planned to support scaling to new geographies at the conclusion of the FSW.

