

Terms of Reference (ToR)

for

**“Development of Standard Operation Procedure for Index
Based Insurance in Nepal”**

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Practical Action Nepal Office
Panipokhari, Lazimpat,
P.O. Box 15135, Kathmandu, Nepal
PHONE: +977-1-4413452/4423639/640
E-mail: proposals@practicalaction.org.np

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1. INTRODUCTION

Practical Action is a global change-making group that consists of a UK registered charity with community projects in Africa, Asia and Latin America, an independent publishing company and a technical consulting service. It combines these specialisms to multiply its impact and help shape a world that works better for everyone. In Nepal, Practical Action is focused on putting ingenious ideas into work to contribute to poverty reduction and sustainable wellbeing through working in three expertise change areas: **Energy that transforms; Farming that works** and **Resilience that protects**.

Under **Resilience that protects**, Practical Action is implementing Nepal Flood Resilience Project (NFRP) through Zurich Flood Resilience Alliance since 2013; from July 2018 second phase is running with envisioned end date in December 2024 with funding support of Z Zurich Foundation and Zurich Insurance. The alliance is a multi-sectoral partnership focusing on finding practical ways to help communities in developed and developing countries strengthen their resilience to flood risk. Zurich Flood Resilience Alliance, a cross-sector global collaboration between Zurich Insurance groups, NGOs and academia and contributing to the alliance three overarching objectives: (i) increase funding for flood resilience (ii) strengthen policy at global, national or sub-national level to support flood resilience, and (iii) improve flood resilience practice.

The project aims to increase social political and financial investment in community-based flood resilience building through public, private and third sector partnership visioning floods have no negative impact on people's and business ability to thrive.

Index-based flood insurance, as risk transfer mechanism for the flood prone communities is a step towards contributing to one of the objectives of ZFRA on increment of funding for flood resilience, aligned with the pathway to create or pilot innovative private sector or public-private finance opportunity to contain loss and recover in a timely manner. In achieving the pathways of climate resilience, we have come up to introduce an **Index-based flood insurance (IBFI)**, as risk transfer instruments for the flood prone communities of lower Karnali, Nepal. Index-based flood insurance (IBFI) is an innovative approach of risk transfer which could help developing an effective payout scheme for poor and flood vulnerable flood-prone communities. The project aims to integrate hi-tech modelling and satellite imagery with other data system for the determination of flood risk and exposure thresholds. Based on the agreed threshold a speedy compensation payout will be designed, which is one of the important milestones of the project. Effective end-to-end solutions will be developed in collaboration with Shikhar Insurance, Stonestep, Global parametric, and with local cooperatives together with other concerned Government agencies at local, provincial, and federal level. Therefore, this innovative risk transfer mechanism expected to contribute to the development of the local insurance market by building consumer awareness, education of the importance of risk transfer mechanisms, ultimately increasing willingness to buy diverse insurance products as a means of risk transfer.

The overall objective(s) of the IBFI is to develop risk transfer mechanism for climate vulnerable smallholder farmers and marginalized people in Western Nepal in partnership with private sector actors, local government, and local institutions.

The expected outputs are: (1) Establish institutional setup for the pilot programme and capacity building for insurance administration; (2) Establish the enabling external environment for the index-based insurance product to scale; and (3) Develop and pilot IBFI in communities.

IBFI of the ZFRP will develop and roll out index-based insurance product that uses a proxy measurement to pay for economic losses, particularly, damage on properties and agriculture production. IBFI model is reliant on the accurate flood modelling: Inland Flood depth Index, that takes to develop a method for setting flood premiums and post flood payments.

Unlike traditional insurance policies, customers often don't receive a pay-out until a loss adjustor assesses the damage to the property and its contents. A parametric insurance policy uses a pre-agreed pay-out based on defined threshold. Therefore, there is no haggling or other bureaucratic process when a claim is made. This makes the claims process quicker, and more transparent in comparison to other traditional types of insurances claim.

One of the objectives of the pilot project is to develop standard guideline leading to support Parametric insurance policy and guideline for disaster risk transfer in the form of Standard Operating Procedure (SoPs) that will be submitted to the government for adoption. The SoP for disaster risk transfer will detail out on the necessary steps to institutionalize risk transfer mechanism in Nepal at federal, provincial and local level. The SoP is a step-by-step process compiled to help institutions and stakeholders to carry out routine operations. The SOP will also highlight the role of key stakeholders that are to be involved in the process and clarify the protocol for systematizing and implementing disaster risk transfer in Nepal. The SoP will create a basis to develop and implement necessary policy and guideline which can be adopted by federal, provincial, and local government to facilitate disaster risk transfer in Nepal.

2. OBJECTIVES

The main objective of this study is to generate detailed guideline for disaster risk transfer in Nepal in the form of Standard Operating Procedure (SoPs) and the policy guideline for ideal Index based flood Insurance (IBFI) highlighting the existing national insurance policy and procedures that support and hinder index-based flood insurance. The SoP prepared is expected to highlight the steps to be adopted for IBFI detailing out role of all the key stakeholders and the protocols to carry out duties in regard to facilitation of disaster risk transfer mechanism requirements at policy level and implementation level in Nepal. The policy guideline in synergy with the SoP should highlight insurance policy that support the requirements of IBFI and clauses to be adopted in the policy for IBFI.

Specifically, this assignment tries to answer:

- What are the essential requirements of parametric Insurance for flood peril (Index Based Flood Insurance-IBFI?)
- What are the disaster insurance policies practiced in Nepal? What are the supporting and hindering policies for IBFI?
- What are the gaps and limitations for rolling out IBFI and accessing of IBFI by cooperatives and small holders?
- How can these policies and tools be adapted to roll out IBFI effectively? Addressing institutional gaps and challenges?

The steps to proceed the assignment might comprise:

- Asses the existing policy on index-based weather insurance and relevant indemnity insurance policies that target disasters. Assess the requirements of Parametric Insurance for flood peril (Index based flood Insurance).
- For the assessment of IBFI requirements.
 - Outline the detailed process from – flood modelling, identifying, and agreeing on parameters/ indices based on exposure to flood, designing a product, approval of the product from national insurance board, rolling out the product in field,

collecting premium and distributing payouts once the indices are met and suggest on making it more scientific, robust and prompt.

- Identify role of possible stakeholders such as national insurance board, Insurance company, Department of Hydrology and Meteorology (DHM), National Disaster Risk Reduction and Management Authority (NDRRMA), Ministry of Home Affairs (MoHA), Ministry of Federal Affairs and Local Administration (MoFAGA), , provincial governments and local governments, Multipurpose -Micro Finance Institutions, Civil Society Organizations such as Community Disaster Management Committees / Community deemed essential to be engaged in disaster risk transfer at all levels.
- Assess the role of national and international reinsurance company when working on disaster insurance and specifically parametric insurance.
- Assess the role of CSOs and other key stakeholders to create enabling environment for implementing parametric insurance in Nepal.
- Assess the digital system requirements for the IBFI to be pushed through mobile applications.
- Assess the documents needed to reduce the burden of documentation that exist in Indemnity insurance.
- Identify potentiality to scale up the index-based insurance across multi hazard and multi crop / assets.
- Develop a guideline for risk transfer mechanism focusing disaster insurance (Parametric insurance) and SoP.

3. SCOPE OF STUDY

- Asses the existing policy on index-based weather insurance and relevant indemnity insurance policies that target disasters. Assess the requirements of Parametric Insurance for flood peril (Index based flood Insurance). Based on the assessment come with the standard operation procedure required for Index based flood Insurance. For the policy guideline come up with highlights on policies that support IBFI and clauses/points to be considered for policy enabling environment for IBFI.
- Carry out detailed stakeholder analysis for step wise guideline leading to SOP preparation.
- Outline the process to incorporate parametric insurance.
- Identify the potentials of upscaling the Index based insurance across multiple hazards namely: fluvial flood peril, pluvial flood peril.
- Identify willingness of all levels of government and challenges of risk transfer with an appropriate recommendation
- Identify digitization of the parametric insurance product (enrollment and payout) mechanisms.

4. ELIGIBILITY AND TEAM COMPOSITION

The consultant team should comprise disaster insurance policy expert and flood expert having flood risk modelling experience.

5. RESULTS, DELIVERABLES and DUE DATES

- The expected deliverables of the assignment are:
- Inception Report entailing the framework or methodology for the assignment. Mid-term report incorporating inputs from the Practical Action and its partners.
- Final report SOP – with all the recordings, meeting details and analyzed data in original file.

- Summary report with key policy guidelines/recommendations and SoPs recommendation.
- Final presentation in presentation format.

6. ROLES AND RESPONSIBILITY

6.1 CONSULTANT

The main roles of the consultant shall be:

- Lead the overall process of data collection, stakeholder analysis, policy process and report writing.
- Organize all the workshops, discussion and key informant interviews as and where needed
- Identify, contact stakeholders and collate information
- Collect data, process, Analyze and Finalize standard operation procedures to be used for Index based Flood Insurance (IBFI) within the given timeframe after incorporating feedbacks given by Practical Action team.

6.2 PRACTICAL ACTION

The main responsibility of Practical Action Nepal Office is to:

- Orient consultant on the concept and objectives of the assignment.
- Provide timely feedbacks and inputs.
- Release budget as per the agreement.

7. DURATION

The duration of this assignment will be approximately three months. The consultant is expected to start work from mid July 2022 and complete the assignment by mid October 2022.

8. BUDGET

The total maximum budget available for this assignment is **NRS. 555,000.00** (In words: Five hundred fifty-five thousand only) inclusive of all applicable taxes. This includes consultant's fee, lodging/accommodation, travel, stationaries, and any relevant expenses involved in this assignment. *The budget is not subject to negotiation.*

All applicable taxes will be deducted at source. The release of funds will be made in three instalments: 30 percent upon completion of inception phase, 30 percent upon submission of mid-term report and remaining 40 percent after submission of final reports.

Practical Action Local partner will help the consultant in organizing ground truthing meetings in the field.

9. EVALUATION OF PROPOSAL

All received proposals shall be reviewed following criteria based on sound understanding of the assignment, competent methodology, consistency, coherence and compliance, experience of the consultant and proposed budget. All rights of approval of proposal remain with Practical Action and its decision will be considered final.

10. INVITATION OF PROPOSAL

Practical Action Nepal Office requests interested firms/company/agencies (registered in VAT) to submit (i) a letter of interest (1 page), (ii) a brief technical proposal and CVs of professionals to be involved in the assignment and (iii) a financial proposal with detail budget breakdown

to conduct the proposed work activities in a non-editable PDF version through an email mentioned below on or before 17:00 hrs., 01 July 2022.

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“Practical Action believes in and follows through a fair and competitive process to recruit the consultant in all of its assignment to ensure quality assurance”

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