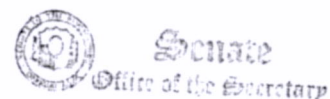


SEVENTEENTH CONGRESS OF)
THE REPUBLIC OF THE PHILIPPINES)
Second Regular Session)



'18 MAR 20 P 4 :57

SENATE Bill No. 1759

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Introduced by **SENATOR CYNTHIA A. VILLAR**

**AN ACT TO STRENGTHEN THE RESILIENCY OF SMALL FARMERS AGAINST
CLIMATE CHANGE AND EXTREME WEATHER RISKS
BY ESTABLISHING THE REGULATORY FRAMEWORK AND PROGRAM FOR A
FREE WEATHER INDEX-BASED CROP INSURANCE, PROVIDING THE SOURCE OF
FUNDING THEREFOR, AND FOR OTHER PURPOSES**

EXPLANATORY NOTE

The Philippines is one of the most disaster-prone and climate-change vulnerable countries in the Asian region. Its geographic location places most of the agriculture production areas in the direct path of most typhoons that originate in the Western Pacific. The country is, thus, highly exposed to various hydro-meteorological hazards, including climate-change induced super-typhoons and storm surges.

Farmers in the Philippines are the poorest among the various economic sectors, mostly due to poor productivity and antiquated farm practices. But this is gravely exacerbated by the high risks brought about by weather disturbances and calamities. For instance, according to the Philippine Food Security Information System of the Philippine Statistical Authority, floods and typhoons from the year 2000 through 2012 wreaked havoc on rice and corn farms costing farmers up to P54.8 billion or an average of P4.2 billion per year. The Department of Agriculture reckons a total of P106.9 billion in weather damages for all crops for the ten year period from 2000-2010. According to the Philippine Crop Insurance Corp. (PCIC), corn farmers alone have suffered cumulative losses of P7 billion

over the three decades from 1982-2012 due to the many catastrophic typhoons, floods, droughts, plant diseases and pests wreaked havoc on their crops.¹

The World Bank's Global Index Insurance Facility has noted that the "most powerful of recent typhoons, Yolanda, which struck in November 2013, damaged crops, property, buildings, and infrastructure worth PhP361 billion (US\$7.5 billion)" apart from thousands of lives that were lost.² In 2015, The Climate Change Act of 2009 (RA 9729) has called for the design of relevant and appropriate risk-sharing and risk-transfer instruments and coordination with local government units (LGUs) and private entities to address vulnerability to climate change impacts of regions, provinces, cities and municipalities. Likewise, the Philippine Disaster Risk Reduction and Management Act of 2010 (Republic Act No. 10121) sought to have "continuing budget appropriation on disaster risk reduction from national down to local levels towards building a disaster-resilient nation and communities" and "to lessen the impact of disaster, and facilitate resumption of normal social and economic activities."

An average farmer can lose up to P50,000 a year in vanished productivity due to extreme weather events.³ But we have yet to produce a tangible response that will help our farmers cope with climate change risks. It behooves the government, then, to introduce more effective disaster risk management and climate-change adaptation approaches to help farmers gain resiliency and the ability to financially recover faster, contribute to productivity, and safeguard the country's food security.

It is true that we have the Philippine Crop Insurance Corporation but thus far it has had too few participants and very miniscule outreach compared with the total number of farmers that it is supposed to serve. From 2013 up to 2017, Congress has been appropriating an average of PhP1.55 billion per year to subsidize the PCIC insurance premiums on up to 600,000 hectares of rice farms in a number of provinces. Still, against a total of almost P380 billion in palay production in 2014⁴, the Philippine Crop Insurance Corporation has been insuring only around P12.2 Billion worth of crops annually or roughly 3% of potential insurable value.⁵ In short, the greater numbers of our small

¹ <http://www.philstar.com/headlines/2014/08/18/1358840/crop-insurance-program-shields-farmers-climate-change>

² <http://documents.worldbank.org/curated/en/608151490705770748/text/113748-BRI-PH-Philippines-Nov8-digital-PUBLIC.txt>

³ <https://www.rappler.com/move-ph/issues/hunger/52992-climate-change-food-security-ph>

⁴ www.psa.gov.ph

⁵ Computed based on data farmers registered as derived from PCIC website.

farmers remain uninsured simply because of the inadequate resource base and outreach of the PCIC.

To effectively reach and serve more and more of country's five million small-hold farmers, provide them with greater resiliency, there is a need for the country to involve the private sector and adopt a more relevant strategy and also safeguard the food security of the broader rural population. Weather Index-based Crop Insurance (WIBCI) has become a very popular mode of providing risk transfer on the part of millions of farmers in a growing number of countries in Asia, Africa and Latin America.

Weather Index-based Crop Insurance is a unique insurance product based on the occurrence of breach of a weather-based parameter, which serves as legal proof of the occurrence of extremely adverse weather conditions and proxy for the expected crop damage. WIBCI is an innovation that requires less administrative costs in terms of selling the product, administering the policy coverage and monitoring over wide areas; maximizes the use of relevant technologies and networks in order to reach out to more and more farmers; and provides faster payout turn-around in the event of breach of the agreed parameters without need for bureaucratic processing by an adjuster. The hassle-free disbursement of claims is made possible through the use of technology and a widely distributed network of payment centers.

The required elements already exist in the country but need to be organized under a coherent policy framework and a conducive policy environment. The insurance contracts elaborating rates, terms, and conditions requires strong collaboration among a variety of participants including: Meteorological Agency and/or Satellite-based Weather monitoring services; Agriculture research institutions to do correlation research studies to validate crop sensitivity to specific weather disturbances; insurance service providers, including the PCIC; Local Government Units; and the farmers, themselves.

Another important component of Weather Index-based Crop Insurance is the support for re-insurance to provide a second layer of insurance support to help the originating insurance providers in absorbing shocks from disasters and in spreading out their risks. This enables originating insurance providers with predictable financial relief, greater capacity to insure more and more farmer clients and strengthen societal resilience.

The country has around 5.5 million small-hold farms dispersed in the various island groups, the majority of which are in Luzon, Mindanao, Negros and Panay Islands, the

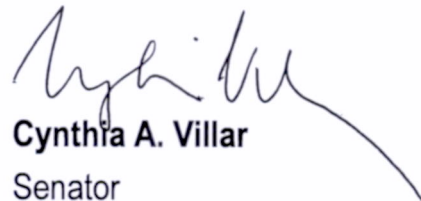
MIMAROPA island group. Around 2.4 million farmers are into rice production, each tilling an average of 1.14 hectares or a total rice area of 2.88 million hectares⁶.

The prospects of growth for the WIBCI industry should focus on enticing the players of the insurance industry, to provide cover to more and more of the country's farmers. This will require a policy environment that will encourage the wider use of WIBCI as a policy instrument to support social safety nets, disaster resiliency, and food security.

This bill aims to institute measures needed to effectively establish the weather index-based insurance service in the Philippines, ensure the access initially of the 2.4 million rice farmers to an innovative risk sharing arrangement aimed at enhancing their capacity to deal with extreme adverse weather events. The program will require around PhP 5.8 billion per year to be initially sourced from the Risk Management Fund (Unprogrammed Appropriations) to potentially cover the FIBCI premiums for 2.8 million hectares of rice lands.

The need to provide an immediate tangible social safety net for the Filipino farmers cannot be over-emphasized.

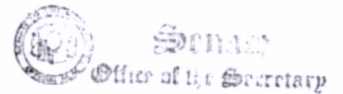
Approval of this bill is urgently requested.



Cynthia A. Villar
Senator

⁶ "Rice Farming in the Philippines: Facts and Opportunities." PowerPoint presentation by Bruce Tolentino, IRRI. September 2015.

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SENATE Bill No. 1759

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**AN ACT TO STRENGTHEN THE RESILIENCY OF SMALL FARMERS AGAINST
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FREEWEATHER INDEX-BASED CROP INSURANCE, PROVIDING THE SOURCE OF
FUNDING THEREFOR, AND FOR OTHER PURPOSES**

*Be it enacted by the Senate and House of Representatives of the Philippines in
Congress assembled:*

1 Section 1. **Short Title.** This Act shall be known as the Free Index-Based Crop Insurance
2 (FIBCI) Act of 2017"

3
4 Section 2. **Declaration of Policy.** It is the policy of the State to ensure food security,
5 intensify food production, and increase climate resiliency of the country's agricultural
6 communities by ensuring the availability of critical safety nets to help farmers and
7 agricultural producers withstand the adverse impact of disastrous weather events,
8 facilitate their prompt recovery from crop damage or crop devastation which often lead
9 them to uncompensated losses, heavy financial burden and unpaid debts.

10
11 Recognizing the increasing frequency and/or severity of droughts, fires, floods and storms,
12 the Climate Change Act of 2009 (RA 9729) has sought to "create an enabling environment
13 for the design of relevant and appropriate risk-sharing and risk-transfer instruments;" and
14 to "coordinate with local government units (LGUs) and private entities to address
15 vulnerability to climate change impacts of regions, provinces, cities and municipalities."

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The Philippine Disaster Risk Reduction and Management Act of 2010 (RA 10121), has also it declared policy of the State to:

a) *Xx "Uphold the people's constitutional rights to life and property by addressing the root causes of vulnerabilities to disasters, strengthening the country's institutional capacity for disaster risk reduction and management and building the resilience of local communities to disasters including climate change impacts;" xx*

b) *xx "Incorporate internationally accepted principles of disaster risk management in the creation and implementation of national, regional and local sustainable development and poverty reduction strategies, policies, plans and budgets;"xx*

c) *xx "Institutionalize the policies, structures, coordination mechanisms and programs with continuing budget appropriation on disaster risk reduction from national down to local levels towards building a disaster-resilient nation and communities;" xx*

In view thereof, the State shall strengthen government initiatives and programs to effectively address the weather and climate risks faced by small agricultural producers in the Philippines, and extend crop insurance coverage to crops and agricultural production.

In order to reach out and serve the greatest number Filipino farmers, fisher-folks and agricultural producers, the State shall encourage private insurance service providers to complement the government crop insurance programs by way of innovative risk sharing mechanisms, specifically weather index based crop insurance program.

1 Section 3. **Definition of Terms.** As used in this Act, the following terms shall defined as
2 follows:

3
4 a. Insurance - is the service rendered by insurance providers to protect the insured
5 clients against the probability of a large unexpected loss through the transfer and
6 sharing of risks to compensate for unexpected but financially disastrous events.
7 A contract of insurance is an agreement whereby one undertakes for a
8 consideration to indemnify another against loss, damage or liability arising from an
9 unknown or contingent event.

10
11 b. Crop insurance - is an insurance service to protect farmers and agriculture
12 producers against financial losses and uncertainties brought about by crop failures,
13 pests, extreme weather conditions and/or other causes beyond their control.

14
15 c. Weather Index-based Crop Insurance (WIBCI) - is an innovative insurance product
16 that aims to provide prompt insurance payout against the incidence of extreme
17 weather conditions through the use of scientifically measurable weather
18 parameters such as rainfall, temperature, frost, humidity and/or other gauges as
19 proxy and transparent indicators of the occurrence of an adverse event.

20
21 d. Payout- the amount paid or to be paid by the insurance service provider on account
22 of the occurrence of an event, such as the breach of an agreed lower or upper limit
23 in weather indicators, as may be indicated in an insurance contract.

24
25 e. Triggers - threshold measurement points for the selected weather index or indicator
26 at which the insurance contract starts to pay out.

1 f. Reference Unit Area (RUA) - is a contiguous geographical area such as a
2 municipality or city as may be covered or monitored by a Reference Weather
3 Station (RWS).

4
5 g. Reference Weather Station (RWS) - a specific meteorological station for each
6 insurance contract as the named reference station from which the observed
7 weather parameter/s shall be obtained. This may be a particular weather facility of
8 the Philippine Atmospheric Geo-Physical and Astronomical Services
9 Administration (PAGASA), or a PAGASA-accredited private weather station,
10 and/or satellite-based weather observation service.

11
12 h. Small Farmers/Producers - are those farmers whose combined farm-holdings
13 cover an area of not more than five hectares.

14
15 Section 4. **Free Index-Based Crop Insurance Framework.** There is hereby established
16 a nationwide Free Weather Index-based Crop Insurance (FIBCI) Program that shall
17 operate under the following policy framework:

18
19 4.1 **Weather Index-Based Insurance Product.** The typical core features of an
20 index-based insurance product shall be present in a crop insurance contract under
21 the Program, as follows:

22
23 4.1.1 An agreed weather reference index, such as, but not limited to rainfall
24 (mm), wind speed (kilometers per hour) and temperature (degrees) whose
25 quantification is provided for each Reference Unit Area and for which data
26 is monitored and reported by an independent third party service provider
27 such as PAGASA or a private professional weather information service
28 firms.

1
2 4.1.2 A Reference Weather Station as the named meteorological station
3 from which the observed weather parameter shall be obtained, which may
4 include PAGASA's own weather stations, PAGASA-accredited automatic
5 weather stations (AWS), and satellite-based weather monitoring services,
6 among others;

7
8 4.1.3 A trigger or threshold reference point for the agreed index
9 measurement for which, upon the occurrence of a breach, the insurance
10 provider obligates itself to indemnify (or make a payout) to the insured;

11
12 4.1.4 A payout or lump sum insurance payment amount that shall be based
13 on a pre-determined schedule that takes into account the actual area
14 planted.

15
16 4.1.5 Phases of crop growth that will be covered by the insurance – which
17 may refer to a separate trigger and partial payout for each phase of
18 vegetative growth, or a threshold indicator for one whole cropping period.

19
20 **4.2 Insurance Service Providers.** The FIBCI Program shall be open to all
21 government and private sector insurance and re-insurance providers that will be
22 accredited based on the policies and guidelines to be formulated by the FIBCI
23 Project Management Office created under this Act. Weather Index-Based Crop
24 Insurance providers shall be under the regulatory supervision of the Insurance
25 Commission.

26
27 **4.3 Stakeholders and Participants.** The main beneficiaries of the FIBCI program
28 shall be the Filipino farmers and agriculture and fisheries producers who shall
29 register with their respective Local Government Units (LGUs) for the particular crop