

Policy brief: VAT EXEMPTION ON PARAMETRIC MICROINSURANCE

Fiji has one of the most developed economies in the Pacific, relying heavily on its tourism and sugar industries.

The country is however highly vulnerable to natural hazards like tropical cyclones and flooding, which can have devastating effects on the tourism and agricultural sectors.

The Reserve Bank of Fiji (RBF) is the central bank of the Republic of Fiji established through an Act of Parliament the RBF Act of 1983. The RBF is also responsible for administering the Insurance Act of Fiji (1998). Tax administration is done by the Fiji Revenue and Customs Services (FRCS).



Fiji Government exempts VAT for parametric insurance premium and payout.

Aiming to increase the affordability of insurance, the UNCDF’s Pacific Insurance and Climate Adaptation Programme successfully lobbied the government for the waiver of Value Added Tax (VAT) on the insurance premium for the **first parametric microinsurance product** introduced in the Pacific region, with cover starting from 1st September 2021.

The initial parametric microinsurance product provides coverage to sugarcane, rice and copra farmers, fishers, and market vendors through cooperatives. Coverage is for 12 months and the product automatically payouts when a trigger is met, for example a specified amount of rainfall, high wind-speed, or cyclone event.

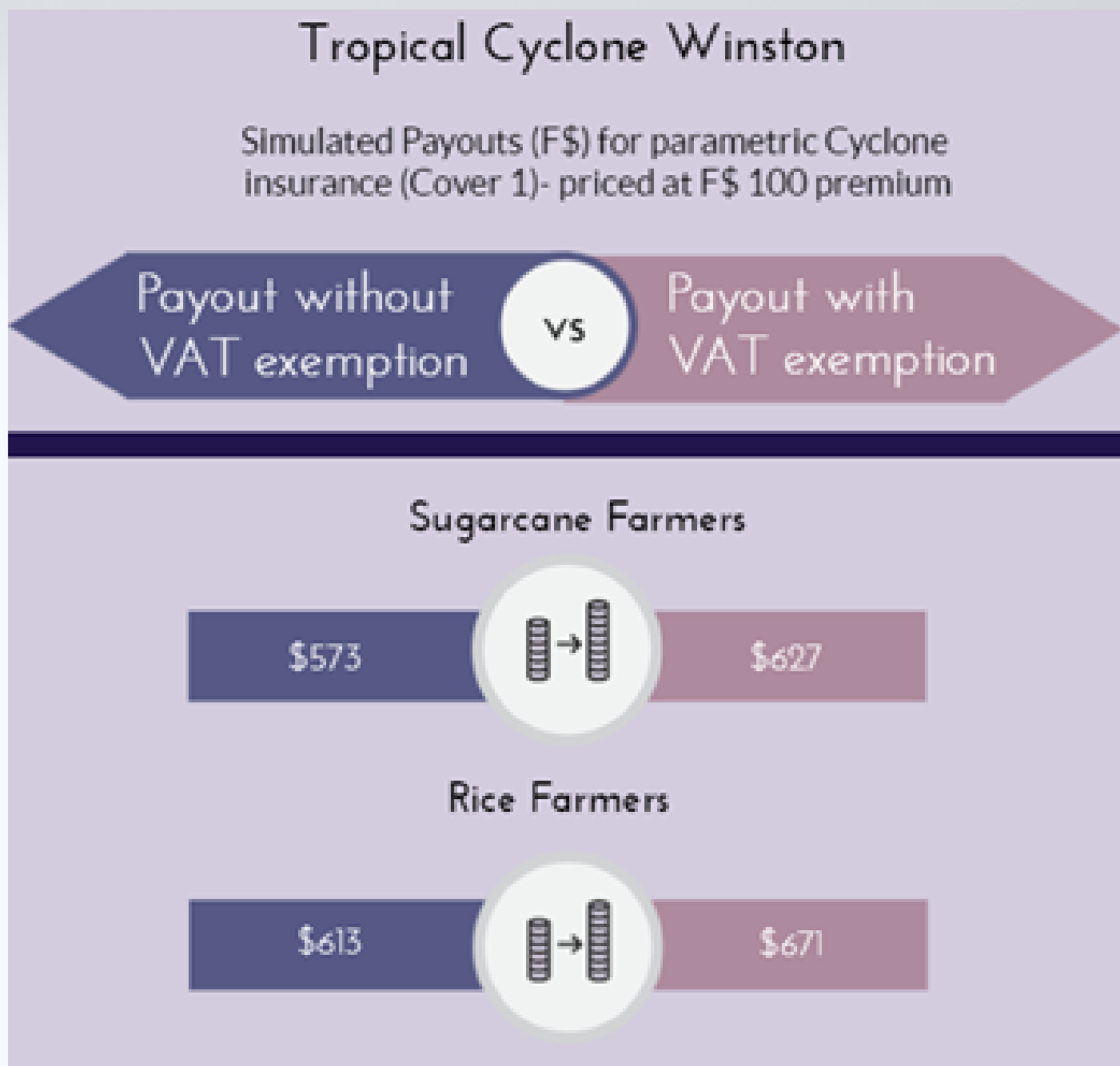
THE VAT EXEMPTION CAN HAVE THE FOLLOWING BENEFICIAL IMPACTS:

1. Effectively reduces the premium paid by households by **at least 9%**. Hence, **improves affordability**.
2. Promotes greater product **uptake among low-income households** and those who normally wouldn’t be able to afford insurance. This leads to **greater financial inclusion and livelihood protection** from major climate risks, such as tropical cyclones.
3. Makes it **easier for cooperatives** and other aggregators to pre-finance premium on farmers’ behalf.
4. Reduced cost makes it **easier for product to be scaled up** across different crops/value-chains and locations.
5. Enables parametric insurance products to be priced at a **higher target claims ratio**.

Fiji

Population: 900,000
Area: 18,376 sq km (7,095 sq miles)
Major Languages: English, Fijian, Hindi
Major Religions: Christianity, Hinduism, Islam
Life Expectancy: 67 years (men), 73 years (women)
Currency: Fijian Dollar

BENEFIT ILLUSTRATION



For sugarcane farmers, in 2015/16 season, Tropical Cyclone Winston would have triggered payouts of F\$627 (with VAT exemption) compared to F\$573 (without VAT exemption) for the premium level of F\$100 (i.e. payout would have been **F\$54 higher per customer** for policy holders due to the VAT exemption of F\$9 per customer).

Similarly, rice farmers would have received F\$58 higher payouts due to VAT exemption.