Insurance and
Risk Finance
Facility

Inclusive insurance and risk financing in Pakistan

Snapshot and way forward 2024

Why this report?

This report summarizes the key findings of an inclusive insurance and disaster risk finance country diagnostic carried out by the UNDP's Insurance and Risk Finance Facility (IRFF) and UNDP Pakistan. The objective of this summary report is to present a high-level overview of the following information for Pakistan:

1. **Key risks**, especially climate risks
2. The current state of **inclusive insurance**
3. The current state of **disaster risk finance**
4. **Recommendations to advance** inclusive insurance, disaster risk finance and overall development.

This summary is a starting point for discussion and collaborative action planning on inclusive insurance and disaster risk finance between UNDP and critical stakeholders, including the insurance sector, government agencies and other development sector actors.

IRFF goals

Impacts: Reduced vulnerability, enhanced resilience of countries and communities and strengthened prospects for sustainable development.

Outcomes: Country and community long-term resilience improved by development and delivery of integrated insurance, risk finance and investment solutions, from products, tools and services all the way leading to market transformation.

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Key messages

1

Risks: Pakistan is among the world's top ten countries most exposed to natural disasters. Key hazards include floods, drought, earthquakes, tropical cyclones and locust infestations.

2

Inclusive insurance: Inclusive insurance in Pakistan is primarily comprised of microinsurance and micro-takaful products bundled with micro-loans and, in some provinces, a free health insurance scheme. Policy reforms and new initiatives by the Securities and Exchange Commission of Pakistan (SECP) aim to target digitalization and innovation in the insurance sector and regulatory frameworks for digital-only insurers and microinsurance companies. Major barriers impacting demand include attitudes to insurance as being un-Islamic, low levels of insurance awareness and affordability concerns.

3

Disaster Risk finance: The National Disaster Risk Management Fund, mandated by the government, has developed the National Disaster Risk Financing Strategy (NDRFS) which has been approved by the Government. Currently, disaster risk financing comes from government budgets, donor assistance, government-sponsored flagship social safety net scheme and subsidized national agriculture disaster insurance programmes.

4

Key recommendations include: To support inclusive insurance development, interventions are proposed on conducting regulatory review and impact evaluation; enhancing insurance underwriting capabilities; boosting insurance awareness and demand; developing new products; and rolling out technology and digital innovations. To improve disaster risk financing, key interventions are recommended on establishing compulsory catastrophe insurance for public infrastructure; tracking contingent liabilities and enhancing financial disaster risk assessment; designing provincial disaster risk financing strategies; and developing disaster insurance for governments and MSMEs, as well as households and smallholder farmers, as recommended by the National Disaster Risk Reduction Policy 2013.

Pakistan's development and risk profile

Key macroeconomic and development indicators

241.5 million people lived in Pakistan in 2023,[1] making it the world's 5th most populous country,[2] and 61.18% of the population lives in rural areas.[3]

161 out of 191 was the country's rank in human development.[7]

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US$374.7 billion was Pakistan's gross domestic product (GDP) in 2022,[4] although economic growth slowed by 0.6% in 2023 after growing by 6.1 percent in 2022 and 5.8 percent in 2021.[5] Pakistan is a lower-middle-income country.

16.3% of adults (aged 15+) held an account at a regulated financial institution in 2021, most of whom were men.[9]

24% of GDP is contributed by agriculture, including livestock and crops. Agriculture also employs 37.4% of people and ensures the country's food security.[6]

39.4% of the population live below the poverty line, an increase of just over 5% in one year between 2022 and 2023, in spite of previous notable progress in poverty reduction.[8]

82 per 100 people have a mobile phone subscription,[10] but despite significant technological advancements, digital innovations are not being leveraged for the advancement of inclusive insurance.

Geographic context:

From the coastal areas of the Arabian Sea in the south to the mountain ranges of the Karakoram, Hindukush and Himalayas in the north, Pakistan is characterized by diverse topography, ecosystems and climate zones, made up of plateaus, river plains, deserts, swamps and forests.[11] The country geologically overlaps with three colliding tectonic plates – the Indian, Eurasian and Arabian plates – and the colliding boundaries of the Indian and Eurasian tectonic plates cause significant seismic instabilities in the region.[12]

Hazard context:

Pakistan ranks 10th globally for risk exposure and vulnerability to natural disasters, according to the 2022 World Risk Index.[13] The 2021 Global Climate Risk Index ranks the country as the 8th most affected by extreme weather events.[14] Natural disasters affect approximately 3 million people annually on average.[15] The World Bank estimates an exponential increase by 2030 in the number of people vulnerable to natural disasters in the country, worsened by climate change and declining water availability.[16]

Key risks and hazards

Floods

Pakistan is one of the most flood-prone countries in South Asia, with four main flood types prevalent in the country: riverine floods (concentrated in the Indus River Basin), flash floods, glacial lake outbursts and coastal flooding linked with cyclone activity.

Flooding events account for 77% of all individuals affected by natural disasters since 1973. Flooding's annual economic impact is estimated between $1.2 billion and $1.8 billion, and potential losses from a major flood event could exceed $15.5 billion.[17]

In 2022, Pakistan experienced catastrophic floods that impacted about 33 million people, displaced around 8 million and resulted in over 1,700 fatalities. The 2022 floods had a fiscal impact of approximately $30 billion.[18]

Drought and heatwaves

Pakistan is increasingly vulnerable to droughts marked by rainfall fluctuations and deficit and is regularly exposed to heatwaves.[19] Balochistan, Sindh and southern Punjab are particularly vulnerable to recurring droughts and heatwaves.

Balochistan is especially vulnerable to hydrological droughts due to its arid climatic conditions. The province is affected by drought every four in ten years. Balochistan is heavily reliant on agriculture, and from 1975 to 2010, prolonged droughts destroyed nearly 80% of fruit orchards and caused the deaths of around 2 million animals.[20] Crop cultivation has reduced by 34% due to drought, and food insecurity is very high, with 74% of households moderately to severely food insecure and 22% severely food insecure.[21]

In 2022, Pakistan experienced its hottest March and April on record, with temperatures over 4°C higher than the long-term average. The devastating 2022 floods followed on the heels of an unusually severe heatwave and drought during which temperatures continuously remained above 45°C.[22] In the same months, there was significantly less rainfall than usual.[23]

These conditions result in hospitalizations and deaths, as well as livestock loss and crop failure. All these factors contribute to a high level of malnutrition among children.[24]

It was estimated that over 65,000 people were hospitalized during the 2015 heatwave.[25]

Earthquakes

Because of the colliding tectonic plates on which it is located, Pakistan is prone to earthquakes, especially in the Hindu Kush, Karakorum and Kohe-Suleiman mountain ranges. Weak infrastructure exacerbates these areas' vulnerability to earthquake risk.

The 2005 earthquake was the deadliest, claiming over 75,000 lives, injuring 138,000 and displacing 3.5 million.[26] It was also costly, resulting in total economic losses of around $5.2 billion, approximately 4.5% of GDP at the time.[27]

Smaller, frequent earthquakes also destroy peoples' homes. Residential/housing sector losses (financial losses incurred in the housing sector within a single year due to earthquake) attributable to earthquakes have been estimated at $1 billion annually, potentially exceeding $18.7 billion in a 1-in-100-year scenario.[28] Other estimates place average annual losses from earthquakes at around $614 million.[29]

Locust invasions

Pakistan is the site of internal breeding grounds for desert locusts, traditionally found in Balochistan's deserts during winter and migrating to Sindh and Punjab in the summer. Changing weather patterns have disrupted the locust's traditional migratory routes, forcing them to remain in specific areas for breeding. As a result, Pakistan has experienced a surge in locust outbreaks, notably in 2020, primarily affecting Sindh and Punjab. Estimates show that a locust invasion could result in potential agricultural losses of approximately PKR 353 billion (~$1.2 billion) for rabi (winter) crops and PKR 464 billion (~$1.5 billion) for kharif (summer) crops.[30]

Tropical cyclones

Pakistan has a history of exposure to tropical cyclones and associated hazards, particularly in the coastal regions of Balochistan and Sindh. These hazards include high winds and heavy rainfall, often leading to flooding. They are expected to worsen due to changes in cyclonic activity in the Indian Ocean caused by climate change.[31]

In 2007, Cyclone Yemyin triggered flash floods across Balochistan and Sindh, resulting in 380 deaths, some 350,000 people displaced, 1.5 million people affected and more than 2 million livestock lost.[32] It is estimated that Yemyin caused total damages equivalent to $2.1 billion. In 2010, Cyclone Phet resulted in losses of $99 million.[33]

Inclusive insurance[34]: Status

Enabling environment[35]

Highlights from the enabling environment for inclusive insurance in Pakistan

Regulations

Insurance Acts

- **The Insurance Ordinance 2000** is the primary insurance law in Pakistan, regulating all insurance activities. SECP is aware of the limitations of the Insurance Ordinance 2000 and has developed a draft **Insurance Ordinance (Amendment) Bill 2020**.[36] While the legislation has not yet been passed, the new ordinance has been highlighted as a critical milestone in SECP's five-year insurance road map, as part of an aim to bring the country in line with international regulatory standards to encourage foreign stakeholders to enter the market. As such, the draft bill aims to capture policy reforms and new initiatives undertaken in recent years to strengthen Pakistan's insurance regulatory framework and enhance market development. These reforms and initiatives emphasize digitization and innovation and include disaster risk finance and microinsurance enabling legal provisions.[37]
- In addition, SECP periodically promulgates rules and formulates guidelines for the insurance sector.[38]
  - **The Insurance Rules 2017** are the most recent rules and guidelines for the insurance sector. Others include the **Takaful Rules 2012** and **Regulatory Sandbox Guidelines 2019**.

Inclusive insurance related regulations

- **The Microinsurance Rules 2014** established a dedicated regulatory framework for microinsurance in Pakistan, in which microinsurance is defined as insurance products and services for low-income persons that meet their needs for risk protection and relief against distress, misfortune or contingent events for modest and defined benefit levels. The rules include a specialized code of conduct for carrying out microinsurance business with low-income customers.
  - However, it is reported that insurers see the microinsurance rules as too restrictive for implementation. As a result, products are underwritten under other classes of business, rather than offered as microinsurance.[39]
- SECP's recent emphasis on digitization and innovation is driving a paradigm shift in inclusive insurance regulation, evident in key policy reforms and new initiatives, including:
  - Amendment of the Insurance Rules to allow registration of digital-only insurers and dedicated microinsurers in an effort to lower the barriers to entry and serve vulnerable markets.[40]
  - Facilitation of a Memorandum of Understanding (MOU)[41] between IAP and the Central Depositary Company (CDC) for the digital aggregation of insurance products through **Emlaak Financials**, the country's first digital aggregator of mutual funds, piloted in 2021.
  - The proposed implementation of a **risk-based capital regime** is included in the Insurance Ordinance (Amendment) Bill 2020, which, if approved, would enable insurers to align minimum capital with risk exposure.
  - SECP's new five-year insurance road map also proposes regular consultations with various stakeholders including insurtechs, digital intermediaries and web aggregators.

Policies / Plans

National Financial Inclusion Strategy (NFIS)

- Introduced in 2015, Pakistan's **NFIS** aims to enhance financial inclusion. The NFIS includes recommendations for the further development of the Crop Loan Insurance Scheme (CLIS), but no other insurance initiatives are included.
- By 2023, the NFIS aims to enhance usage of digital payments, increase the deposit base, promote small and medium-sized enterprise (SME) finance, increase agricultural finance and enhance the share of Islamic banking. It places significant emphasis on enhancing financial inclusion for women, in recognition of its pivotal role in societal progress.[45]

Financial education initiatives

- The NFIS includes awareness raising and capacity-building activities on Islamic finance.
- The National Institute of Banking and Finance, in collaboration with SBP, launched the **National Financial Literacy Program for Youth (NFLP-Y)** in 2018, aimed at providing essential financial education to Pakistani youth and school children.
  - Through the NFLP-Y, SBP launched an e-learning game, **PomPak**, designed to enhance young people's money management skills and financial knowledge.
- SECP previously launched an initiative called Juma Poonji aimed at investor education and awareness building, but the initiative is no longer active. No known financial education initiatives dedicated to inclusive insurance and/or microinsurance currently exist.

Stakeholders

Securities and Exchange Commission of Pakistan (SECP)

SECP was created in 1997 and is the primary regulatory and supervisory body for the insurance industry in Pakistan, as well as for capital markets, the non-banking and private pensions sectors.

- In recent years, SECP has undertaken measures to promote digitalization and innovation within registered institutions, so as to increase financial inclusion. Examples include the launch of its flagship registration platform **Leading Efficiency through Automation Prowess (LEAP)**, aimed at promoting transparency and enabling efficient transactions for consumers; the **SECP Regulatory Sandbox Guidelines** for live tests of innovative products; the creation of the **Centralized Information Sharing Solution for Life Insurance Industry (CISSI)** to assist with policy underwriting, pricing and claims processing; and the introduction of **Taktech** (Takaful Technology)[42] to extend takaful coverage to unserved population segments.
- At the end of 2023, SECP unveiled a five-year road map, Journey to an Insured Pakistan, to increase insurance penetration in the country.[43]

Ministry of Commerce (MoC)

- In addition to SECP, all state-owned insurance entities (SOIEs) fall under the administrative control of the MoC. However, this has led to weak oversight and has caused numerous regulatory challenges for SECP.
- SOIEs include state-owned insurers State Life Insurance Corporation (SLIC), Postal Life Insurance Company (PLIC), National Insurance Company Limited (NICL), Sindh Insurance Company Limited and Alpha Insurance (a subsidiary of SLIC), as well as the national reinsurer Pakistan Reinsurance Company Limited (PakRe).[44]

State Bank of Pakistan (SBP)

- SBP was established in 1956 and functions as Pakistan's central bank, regulating the monetary and credit system.
- SBP is involved in developing national policies and strategies that promote financial inclusion, in particular the **National Financial Inclusion Strategy**, as well as the **Banking on Equality Policy**, which aims to improve women's access to financial services.[46]

Stakeholders

Institute of Financial Markets Pakistan (IFMP)

IFMP is an established training institute established and managed by SECP. It focuses on providing a sound knowledge base and quality training for the financial market, including for insurance professionals.

Pakistan Insurance Institute (PII)

- PII is the primary organization for insurance training, education and knowledge-sharing in the country.
- PII offers courses for those wanting to enter or already working in the insurance industry[48] and is planning to offer basic online courses to enhance insurance awareness.[49]
- PII has hosted conferences on microinsurance[50] and could in future play a bigger role in inclusive insurance training and awareness raising.

Insurance Association of Pakistan (IAP)

- IAP, established in 1948, is a voluntary body that represents the insurance industry of Pakistan, with the objectives of promoting, supporting and protecting the mandate of its member companies. It does not have any legal authority.
- IAP has various committees, including the Technology Committee, the Takaful Committee and the Insurance Development and Promotional Activities Committee.
- Pakistan does not have a multi-stakeholder platform for microinsurance growth, and IAP could play a facilitation role in creating one, including by involving non-insurer stakeholders such as distribution channels.[47] SECP plans to build capacity within the IAP to enable it to play a meaningful role to this end.
- SECP's new five-year road map also proposes regular roundtables with IAP and microinsurance players such as insurtechs, digital intermediaries/web aggregators and microfinance stakeholders.

Benazir Income Support Programme (BISP)

- BISP is Pakistan's flagship anti-poverty initiative, impacting over 35.8 million lives through a multidimensional approach providing human capital development, jobs, livelihoods and safety nets.
- Its key achievements include:
  - Helping to collect digital data door-to-door, in a first initiative of its kind, to build a new Socioeconomic Registry including information on over 34 million families in order to assess household socioeconomic status and poverty level.
  - Cash transfers targeting women to promote women's economic empowerment.
  - Conducting the largest and most extensive social protection intervention in the history of the country through its COVID-19 response, the BISP Emergency Cash programme, which delivered PKR 179 billion as one-time emergency cash assistance to over 15 million families at risk of extreme poverty, representing nearly half the country's population.[51]
- Widespread reforms have also been introduced by leveraging technology to ensure transparent payment mechanisms through bank branches, branchless banking, device restrictions and many other safety protocol measures.

Supply-side snapshot

Overall insurance coverage (traditional and inclusive): Fast facts

42 insurers are active in the market, comprising 28 non-life insurers, 2 general takaful operators, 8 life insurers, 3 family takaful operators and 1 reinsurer.[52]

PKR 553 billion (~$1.4 billion) was total insurance gross premium volume in 2022, with life insurance accounting for 68% of gross written premiums (PKR 375 billion) and non-life 32% (PKR 178 billion). Total gross written premiums grew by 22% from the previous year.[53]

11% of the total market premium in 2022 was accounted for by takaful, demonstrating that its potential has yet to be realized.[54]

0.87% was the rate of insurance penetration (premium volume as % GDP) in 2022.[55]

PKR 4,316 million in premiums went to inclusive insurance, with 16.37 million policies underwritten in 2022.[56]

Distribution

Common channels:

- The microfinance sector is the primary channel for the distribution of microinsurance and micro-takaful products.[57]

Other potential channels:[58]

- SECP's efforts to promote technological innovations through digital-only insurers, as well as its recent emphasis on Taktech and Emlaak Financials, have the potential to enhance insurance outreach.
- The majority of microinsurance premiums written by the industry are generated through the microfinance sector, but the sector's full potential for extending insurance to untapped segments of the population has yet to be realized.
- Rural non-governmental organizations (NGOs) with a grassroots presence in communities could play an important role in building trust and reaching untapped segments, especially among women, with whom they mainly engage.

Inclusive insurance: Fast facts

- Although the Microinsurance Rules were introduced in 2014, microinsurance business remains part of the mainstream insurance industry in Pakistan, with as yet no formal distinction of specialized microinsurance companies or products.
- Credit life insurance is mandatorily bundled with all microcredit, and although it falls under the definition of a microinsurance product, it is not reported to SECP. Additionally, some microfinance providers also bundle compulsory health insurance with microcredit. Therefore, total microfinance borrowers with insurance policies are estimated at 8.4 million.[59]

National insurance schemes:

- The **Crop Loan Insurance Scheme (CLIS)**, launched in 2008 in Pakistan, is a federal crop-credit insurance scheme compulsory for all farmers accessing seasonal production loans from commercial banks and microfinance banks. The CLIS product has a capped premium and coverage for natural calamities and crop diseases for wheat, rice, sugar cane, maize and cotton. It only protects against the most catastrophic risk, when crop damage exceeds 50% of the average yield.[60] The Government fully subsidizes premiums for loanee farmers with up to 25 acres of land (32 acres in the case of Balochistan), which takes in approximately 1.1 million borrowers.[61] The scheme is not available to non-loanees, leaving around 7.1 million smallholder farmers uncovered.
- The **Livestock Insurance Scheme for Borrowers (LISB)** was launched in 2013 and links livestock mortality insurance to livestock loans up to PKR 5 million (~$16,000) used for the purchase of cows, buffaloes and bulls. The Government subsidizes 100% of the premium for smallholder farmers, financing the purchase of up to 10 cattle.
- The Prime Minister's National Health Program (PMNHP), also known as the Sehat Sahulat Program, was launched in 2015 with the objective of improving poorer people's access to good quality medical health services through a health microinsurance scheme that includes (in-patient) packages for secondary care and priority treatment. PMNHP has enrolled over 42 million families to date. However, following a change in government, it has reportedly been suspended or discontinued since 2023.[62] In February 2024, the newly elected government of Khyber Pakhtunkhwa announced the continuation of this scheme for the entire population of this province.
- The **Government's Mark-up Subsidy Program (G-MSP)**, also known as the Mera Pakistan Mera Ghar scheme, was launched in the second half of 2020 to promote affordable housing and homeownership among low- to middle-income groups. Administered by SBP, G-MSP offers financing subsidies for individuals without existing homes, enabling them either to construct or to purchase a new house. It includes a built-in insurance component, part of which covers risk financing. This scheme was temporarily suspended in mid 2022, but was subsequently reshaped and restarted to ensure better targeting. Its current penetration levels are unclear.[63]

Demand

Microinsurance insurance uptake in Pakistan is low. Reasons include religious beliefs (that is, Islamic strictures on conventional insurance), affordability concerns, low levels of insurance awareness and financial literacy, mistrust, complex and lengthy customer journeys (especially as regards claims processing), and lack of appropriate or innovative products.[64]

The main barriers to rapid growth are supply constraints. Non-life insurance companies, mainly selling through agencies, have not been successful in creating demand for inclusive insurance by developing products and services that are easily available at affordable prices and suit the specific needs of the retail market. On the other hand, life insurers have successfully reduced supply barriers and built demand in low-income markets. This demonstrates that suppliers are often responsible for creating market demand, especially in a country like Pakistan with low literacy and income levels.

Potential untapped or underserved target segments for inclusive insurance include micro-, small and medium-sized enterprises (MSMEs), smallholder farmers' crops and livestock, agricultural value chain entities and low-income women in rural areas. According to a World Bank study on women's financial inclusion, unforeseen medical expenses, the death or disability of a member of household and the birth of a child are among the top risks faced by women in Pakistan (from samples in Khyber Pakhtunkhwa and Balochistan).[65]

Disaster risk financing: Status

Disaster risk assessments and data systems

Fiscal Disaster Risk Assessment (FDRA), published in 2015, aimed to raise awareness on the fiscal impacts of natural disasters and provide options for a national disaster risk financing strategy for Pakistan. Developed with technical support from the World Bank and the Global Facility for Disaster Reduction and Recovery (GFDRR), it was a collaborative effort involving the National Disaster Management Authority, the Ministry of Finance (MoF), SECP and the Provincial Disaster Management Authorities (PDMA).

- FDRA identified a significant financing challenge to dealing with the impact of natural disasters, with flooding alone causing an annual economic impact estimated between 3% and 4% of the federal budget.

Natural Catastrophe Modelling (NatCat Model) has been developed by the Space and Upper Atmosphere Research Commission (SUPARCO). It is intended for use by all relevant stakeholders working within the natural disaster management space, including the insurance and reinsurance industry and, most importantly, the Government of Pakistan, to enable it to allocate budget for natural disasters and assist the National Disaster Risk Management Fund (NDRMF) with disaster risk preparedness, reduction and financing. The model will eventually help in physical vulnerability and risk assessment on a national level against seismic and hydro-meteorological hazards (floods, droughts, earthquakes and cyclones). It will be available on a spatial database and web portal, also to be created under the project.[66]

Existing legal, institutional and policy frameworks[67]

Legal

The National Disaster Management Act 2010 establishes a dedicated framework for federal and provincial planning, funding and implementation related to disaster risk management, including disaster risk reduction (DRR) activities and post-disaster operations. It sets up a disaster risk management (DRM) structure at all administrative levels in the country and establishes the mechanisms for disaster management funds.

Institutional

- Under the National Disaster Management Act 2010, a three-tier institutional structure was established, in which each tier has identical roles and responsibilities for executing disaster management operations within its respective jurisdiction:
  - **The National Disaster Management Authority (NDMA)** at federal level
  - **Provincial Disaster Management Authorities (PDMAs)** at provincial and regional levels
  - **District Disaster Management Authorities (DDMAs)** at district levels.
- Similarly, a two-tier policymaking structure was established at the federal and provincial levels: **the National Disaster Management Commission (NDMC)** at the federal level and **Provincial Disaster Management Commissions (PDMCs)** at provincial levels.
- To accumulate the funds needed for post-disaster operations, a two-tier structure was set up: the National Disaster Management Fund at federal level and **the Provincial Disaster Management Funds (PDMFs)** at provincial level.
- The **National Disaster and Risk Management Fund (NDRMF)**[68] was established as a separate, government-owned, not-for-profit entity in 2016 under section 42 of the Companies Act 2017 and has a corporate structure and board of directors. Its key roles are in disaster risk reduction and disaster risk financing. It acts as a non-banking financial intermediary for disaster risk reduction and financing in Pakistan, managing and disbursing funds aimed at reducing risks and vulnerabilities and facilitating early and effective response and recovery.
  - The initial funding for NDRMF comes from a $200 million loan from the Asian Development Bank (ADB), along with grants of $3.4 million from the Australian government and $1.5 million from the Swiss Agency for Development and Cooperation (SDC).
  - NDRMF allocates funds through matching grants, providing up to 70% of support for various disaster risk reduction interventions. It also occasionally partners with other entities to extend grant financing for projects focused on disaster risk reduction and preparedness.
  - NDRMF, as mandated by the Government, has led the development of a National Disaster Risk Financing Strategy (NDRFS), which aims to facilitate informed decision-making on the selection of an efficient mix of ex-ante investments in DRF instruments to enhance Pakistan's financial resilience. The NDRFS addresses issues including sovereign disaster risk finance and transfer; financial market development; risk assessment; and accompanying measures.

Policies

- The **National Disaster Risk Reduction Policy (2013)** outlines priorities and directions for risk reduction, with an emphasis on prevention, mitigation and preparedness. It covers both natural and human-made hazards. Among its preparedness actions, the policy mandates the development of a sovereign disaster risk financing strategy with a risk layering approach comprising a mix of insurance and non-insurance instruments to finance various layers of risk in order to enhance the Government's financial response capacity. The policy acknowledges the need to develop sovereign and private catastrophe insurance market with the support of the insurance regulator, with particular focus on homeowners, SMEs, the microfinance sector, smallholder farmers and vulnerable communities.[69]
- **National Climate Change Policy (updated 2021)** aims to promote climate adaptation and mitigation. Its objectives include: to foster the development of appropriate economic incentives to encourage public and private sector investment in adaptation and mitigation measures; to enhance the awareness, skill and institutional capacity of relevant stakeholders; to focus on pro-poor gender-sensitive adaptation; to minimize the risks arising from the increase in frequency and intensity of extreme weather events; and to develop climate-resilient agriculture and food systems for all agro-ecological zones.[70]
- The **National Disaster Management Plan (NDMP) (2012–2022)** aims to improve the country's ability to prepare for and respond to disasters by defining the measures needed for disaster management and by identifying the roles and responsibilities of stakeholders.[71]

Disaster risk finance mechanisms and instruments[72]

The costs of most large natural disasters are retained on government books and only negligible disaster risk insurance or non-insurance instrument has yet been set up at sovereign level by the federal and provincial governments. As such, the Government relies primarily on supplementary and contingent budgeting and reallocation of resources from development projects to meet its post-disaster needs. The protection gap in the country, exacerbated by huge funding gaps, has historically led to severe fiscal challenges.

Existing instruments:

As of now, the Government does not make specific allocations for the funds required to conduct post-disaster operations. According to NDRMF data, **government spending** on disaster-related emergency relief across various agencies averaged PKR 3 billion ($9.8 million) between 2010 and 2018.

- Contingent budget lines are used at district and provincial levels for emergency response.
- The federal budget is used where district and provincial budgets are insufficient.
- Budgetary adjustments are used for additional expenses, adjusting the next year's budget via supplementary grants.

Donor assistance is provided by international agencies and foreign governments for humanitarian relief.

Insurance for public assets. NICL has the exclusive legal mandate to insure all public assets. However, it is understood that most public assets are insured only for the construction phase.[73]

Natural disaster insurance has been underwritten by the insurance industry in Pakistan since 1947, under the class of Fire and Property Insurance. All major natural disasters are included in these policies through an Atmospheric Disturbance clause. This insurance for the commercial sector, including textile, manufacturing, oil and gas, banks, multinational companies and power plants, has historically been the biggest revenue generator for the non-life sector, with a share of between 25% and 28% of the entire total of non-life gross written premiums.[74] However, the insurance sector has been historically afflicted with severe demand and supply constraints for writing personal lines of business, and as a result, the huge retail market remains largely untapped.

As of May 2023, Start Network's second pool of **Start Ready** funds are live for a 12-month period in Pakistan for various humanitarian agencies to protect against heatwaves, riverine/fluvial floods and drought. The funds have been triggered four times so far by heatwaves for a total amount of GBP 240,555 (~$300,000).[75] Additionally, **READY Pakistan**, launched in 2021, collaborates with national authorities and international organizations to model risks, develop plans and pre-position funds against hazards in the country.

Way forward for inclusive insurance and risk financing

The following recommendations support the development of inclusive insurance and disaster risk financing in Pakistan.

1 Recommendations for the development of inclusive insurance

1.1 Regulatory bottlenecks prevent the development of inclusive insurance.

Review and update insurance regulations related to microinsurance and create enabling provisions for agriculture insurance in the Insurance Ordinance (Amendment) Bill 2020.

- The Insurance Ordinance 2000 should be updated to bring it in line with international Regulatory Standards.
- A comprehensive review of existing and draft microinsurance regulations should be conducted, along with an assessment of the specific challenges which are deterring insurance providers from registering and delivering microinsurance products.
- New provisions should be recommended in consensus with SECP and the insurance sector to address issues related to capital requirements for dedicated microinsurance companies.
- The regulatory environment related to agricultural and climate risk insurance should be reviewed, and the need should be evaluated for specialized regulations or for incorporation of new clauses into the existing regulations.
- Technical assistance should be provided to develop regulations for conventional and takaful agricultural insurance, including index-based insurance and parametric products.
- SECP should be supported with capacity-building and knowledge-sharing on inclusive insurance from other countries, particularly on index-based insurance.

1.2

There are limited need-based retail offerings suitable to meet the needs of the low-income market. Insurers lack interest in developing innovative inclusive insurance products.

Develop new inclusive insurance products.

- Available inclusive insurance products should be reviewed, including but not limited to agriculture products, and the experiences and needs of underserved target groups (smallholder livestock and crop producers, rural women and MSMEs) should be assessed. Based on this, government priorities should be identified.
- Technical assistance should be provided to develop or improve products and pilot roll-out should be supported.

1.3

Technology and digital innovations are poised to be scaled up for inclusive insurance but are underused.

Roll out technology and digital innovations across the whole inclusive insurance value chain.

- Current digital and technology options and those with potential for use in the inclusive insurance sector should be assessed, in order to support insurer efficiency and customer journey.
- Partnerships with insurers should be developed to digitalize key processes on the back- and front-end, e.g., data assessment, automation of claims processing and integration with mobile payment channels.
- The insurance and reinsurance sectors should be supported to use the NatCat Model under development and to ensure its efficiency and accessibility for sector stakeholders.

1.4

The local insurance market has insufficient underwriting skills, especially in relation to agricultural insurance and climate risk insurance.

Enhance insurance underwriting skills.

- Investments should be made in training and development programmes to improve underwriting skills within the local insurance market.
- Collaboration should be fostered with international experts and organizations to share international best practices.
- Specialized capacity-building on inclusive insurance and climate risk insurance should be supported, building on existing platforms such as those of IAP, PII and IFMP.

1.5

Awareness of and demand for insurance is low.

Boost insurance awareness and demand.

- Joint awareness campaigns and advocacy strategies should be developed and implemented in public-private partnerships to increase insurance penetration, particularly through targeting the end-clients of inclusive insurance.
- The public should be educated about the benefits of insurance and the ways in which it can mitigate financial risks, using various methods including digital and social media platforms for effective communication.
- Research and development should be conducted to support education and awareness raising on inclusive insurance in line with Islamic finance principles.

2 Recommendations for the development of disaster risk financing

2.1

Compulsory catastrophe insurance coverage for critical life line public infrastructure does not exist.

Implement compulsory catastrophe insurance for public infrastructure in collaboration with NICL.

- A comprehensive feasibility study should be conducted to assess the implementation of compulsory catastrophe insurance for critical life line public infrastructure, building upon the work of NICL, which is in the process of developing a national registry of public assets.
- Options, including financing opportunities, should be explored for including this component in all policies covering infrastructure and public assets.
- Smooth integration should be ensured in collaboration with NICL and regulatory authorities.

2.2

The methodology for development of Fiscal Risk Statements and risk quantification should be standardized.

Establish a contingent liabilities database.

- The Fiscal Risk Statements (FRS) currently being developed at the federal level and in Khyber Pakhtunkhwa and Punjab provinces for the identification, quantification, analysis and mitigation of fiscal risks, including climate and natural disasters, should be replicated in all provinces/regions. This will enable quantification of the Government's total contingent liabilities as a consequence of natural disasters
- The database should be made accessible and usable for relevant stakeholders.

2.3

The country has limited capacity for financial disaster risk assessment.

Enhance financial disaster risk assessment.

- Data inputs into financial disaster risk assessment tools should be strengthened, potentially leveraging new initiatives such as the NatCat Model.
- Additional tools and models should be developed to facilitate a better understanding of the budgetary impacts of natural hazards and disasters.
- The financial response capacity of relevant entities and organizations should be assessed.

2.4

Region-specific DRF strategies should be developed to meet the diverse needs of all provinces and regions.

Design customized provincial DRF strategies.

- All provinces and regions should be supported by the Federal Government to develop disaster financing strategies suited to local needs. These strategies should be aligned with the National DRF Strategy.
- The strategies' implementation plans should include cost estimates and a funding gap analysis should be developed.
- The strategies should be tailored to address region-specific needs and risks.

2.5

NDMF and PDMAs have limited reserves.

Strengthen financial capacity for post-disaster operations.

- An institutionalized approach towards building adequate reserves within the NDMF and PDMFs should be developed and implemented.
- Annual budgetary allocations should be made to build up reserves in these funds and these allocations should be made non-lapsable to enable accumulation of sufficient funds over the years.

2.6

Natural disaster insurance coverage is inadequate.

Develop disaster insurance.

- Options for sovereign risk insurance should be explored to safeguard government finances at the federal and provincial level in the event of disasters.
- Offerings such as catastrophe insurance for homeowners and business interruption insurance for small businesses (MSMEs) should be considered, and agricultural insurance options for smallholder farmers should be designed to meet their specific needs.
- Integrating insurance within social safety nets should be explored, to gradually transfer liability on government books to the reinsurance markets.
- A monitoring framework should be established for private and public sector pilot schemes related to disaster insurance.

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