



Securities and Exchange
Commission of Pakistan

UNLOCKING THE POTENTIAL OF MICRO & INCLUSIVE INSURANCE IN PAKISTAN



WHY THIS REPORT?

This report is intended to provide basis for engagement and stimulate discussion among insurance industry, consumers, policyholders, distribution channels, government agencies, regulators and other relevant stakeholders on measures to address protection gap. The ideas outlined in this report can also serve to support concrete action on this critical area.

Furthermore, this report aims to explore the current landscape of existing inclusive insurance in Pakistan by drawing comparisons with other jurisdictions. It delves into the importance and necessity of inclusive insurance in Pakistan, the country which is vulnerable to natural disasters such as floods, heavy rains, and landslides. For the purpose of this report inclusive insurance means microinsurance products distributed with the help of Microfinance Institutions & Microfinance Banks and small ticket products distributed digitally through Insurtech, Mobile Network Operators MNOs and mobile apps.

This report provides an overview of the journey of microinsurance in Pakistan in terms of regulatory framework as follows:

2012	SECP published a Diagnostic Study on Microinsurance in Pakistan in collaboration with the World Bank. The study touch upon the demand and supply side of microinsurance and identified the need for comprehensive and dedicated regulatory framework.
2014	SECP notifies The Securities and Exchange Commission (Microinsurance Rules) 2014
2022	In 2021, SECP issued a position paper on the regime for Digital Only Insurer and Dedicated Micro-insurer. Subsequently in 2022, the requirement of digital only insurer and micro insurer were elaborated in Insurance Rules, 2017

WHERE DO WE GO FROM HERE?

The objective of this report is to analyze the inclusive insurance segment of the insurance sector and determine whether it has effectively served the untapped market by offering customized solutions that are affordable, acceptable, and easy to understand.

This report focuses on reviewing the potential of inclusive insurance in Pakistan by identifying gaps that have hindered the growth of this segment. Based on these identified gaps, the report analyzes the way forward for transforming the potential of microinsurance into inclusive insurance.

THIS REPORT ENCAPSULATE THE FOLLOWING AREAS:

 Industry Landscape: Status of inclusive insurance in Pakistan	 Trends in other Jurisdictions	
 Comprehensive Gap Analysis: Identifies the lacking in current landscap	 Way Forward: Shift from micro to inclusive insurance	 Aim of SECP: To provide conducive regulatory framework for inclusive insurance with focus to target untapped potential market.

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MESSAGE OF THE COMMISSIONER



I am delighted to share with you a comprehensive report on unlocking the potential of micro and inclusive insurance in Pakistan. This report aims to shed light on the current landscape of inclusive insurance in our country and provide a concise overview of the vast untapped market potential. Furthermore, this report explores the current legal framework, a comparative of other jurisdictions, a comprehensive gap analysis and the proposed way forward.

The draft version of this report was initially published in December 2023, and a synopsis was presented during the International InsureImpact Conference, 2023. Feedback and insights gathered from local and international experts during this conference were instrumental in shaping the final report.

The data collected for this report indicates a shaky status of inclusive insurance market in Pakistan, revealing lack of insurer's focus on this segment. A total of 12.56 million insurance policies were sold through microfinance banks/institutions. Out of these, 89 percent are credit life insurance, indicating a primary focus on covering the underlying credit risk. Moreover, it is surprising that 20 insurers are offering inclusive insurance, and out of them, only 4 are actively involved in digital distribution of small ticket products.

According to the Global Climate Risk Index, Pakistan is ranked as the 5th most vulnerable country to climate change and faces significant risks such as heavy and frequent rainfall and floods, which disproportionately impact communities associated with agriculture, rural labor, and small businesses. Furthermore, the population by and large, lacks awareness of insurance products. Accordingly, the low-income segment remains untapped by conventional insurance services.

The report underscores significant gaps in the microinsurance landscape that require immediate attention. Despite the introduction of Microinsurance Rules by the SECP in 2014, no applications for dedicated micro-insurer licenses or the launch of microinsurance products have been submitted under these Rules.

The scope of microinsurance products in the rules covers only the product offering to low-income individuals and excludes the small-ticket product offered to the untapped market. Other obstacles include the prior approval required for launching of a microinsurance product or modifying features of an existing microinsurance product,

and the lack of a regulatory framework for designing and underwriting inclusive insurance products by a digital intermediary. These issues raise substantial concerns about the effectiveness of the current regulatory framework. It is apparent that the existing framework has not succeeded in fostering the expansion of the segment.

Further, multiple layers of taxes on insurance business impact the affordability of insurance products. Additionally, tailored insurance products for the underserved segment are not a primary focus, highlighting the need for greater inclusivity and innovation within this segment. The absence of mass-scale and mandatory inclusive insurance, such as agriculture, disaster microinsurance, and mandatory health insurance scheme, further exacerbates the situation. Moreover, the lack of awareness among the population regarding the importance and availability of insurance services poses a significant challenge.

With a working-age population of 159 million and over 5.2 million SMEs, Pakistan has vast potential for inclusive insurance. The country's digital landscape is significant, with a population of 191 million cellular subscribers, 1.6 million e-wallet accounts, and 15.3 million mobile banking users. Coupled with a young population of 73 million and a considerable number of microfinance borrowers, the prospects for inclusive insurance are immense.

Acknowledging the urgency of this situation, collaborative efforts are required to bridge regulatory gaps, streamline processes, enhance awareness and improve product accessibility through focusing on digital distribution. Collectively SECP, insurance industry, alongside other relevant authorities, must prioritize the development and implementation of comprehensive policies to facilitate inclusive insurance growth. Additionally, proactive engagement from insurance companies, insurtech, and the Government is essential in ensuring that inclusive insurance becomes accessible to those in need of it.

In conclusion, I express my gratitude for the unwavering support of the Insurance Division and the Chairman of SECP in advancing the insurance sector. Special recognition is due to the authors of this report, Wazirzada Yasir Almas Khan, Additional Joint Director and Sache Dino, Management Executive, for their dedicated efforts in compiling this comprehensive report.

Aamir Khan
Commissioner

EXISTING LANDSCAPE & POTENTIAL MARKET

EXISTING LANDSCAPE

Overall Insurance Sector:



Gross premium
553b

Policies
10.1m

Premium to GDP
0.87%

Premium per person
2,776

Total Insurer 42, Non-Life Insurer 28, General Takaful Operator 2, Life Insurer 8, Family Takaful 3, Reinsurer 1.

Microinsurance

(Insurance distributed with the help of Microfinance Institutions and Microfinance Banks)



	MFIs	MFBs	Total
No of policies (includes policies issued on rollover basis)	5.05m	7.51m	12.56m
No of lives covered	4.18m	7.29m	11.47m
Premium in rupess	2,941m	930m	3,870m

Number of insurers offering microinsurance: 20

Small ticket insurance

(Small ticket products distributed digitally through insurtech, MNOs and mobile apps)



No of policies
3.814m

No of lives covered
6.069m

Premium in rupess
447m

Number of Insurers-4/Broker-1/MNOs-4/Mobile Apps-6

Total Inclusive Insurance



No of policies
16.37m

No of lives covered
17.54m

Premium in rupess
4,316m

¹ MFIs and MFBs take one blanket policy for one risk and issue multiple small policies to different customer/borrowers

POTENTIAL MARKET

Mobile Density¹



Mobile Cellular Subscriber
189 million

Mobile Teledensity
78.93%

Mobile broadband subscriber
128 million

Mobile Broadband Penetration
53.20%

Mobile Wallets²

Total Electronic money wallet
1.6 million

Payment Cards issued by EMIs
2.4 million

Outstanding e-money balance
Rs. 2 billion

Live EMIs
4

	Mobile Banking	Internet Banking
Total Users	15.3 million	9.3 million
Values (Amount of transactions) in rupees)	6782.5 billion	4139.8 billion
Volume (No of transactions)	179.7 million	40.8 million

Total Population 222.4 million*³



Rural **141.9 million**

Urban **80.3 million**

Gender Diversity



Male
113.4 million

Female
108.9 million

Young Population



Age bracket 15-24 year
41.8 million

Age bracket 25-35 year
31.3 million

Total young population **73.1 million** (32.8% of total population)

Working population



Total Working Population
159.83 million
(71% of total population)



Employed
67.25 million



Population working in Formal Sector
11.58 million
(17.21% of total employed population)



Population Working in Informal Sector
30.49 million
(45.39% total employed population)



Agriculture, firestry and fishing employed
25.18 million
(37.4% of total employed population)



Labor Force
71.76 million



Total SMEs in Pakistan
5.2 million⁴



Microfinance Borrowers
9.2 million⁵

¹ PTA website: <https://www.pta.gov.pk/en/telecom-indicators>
(Last updated: December 2023)

² SBP Data as of March-23

³ LFS Survey 2020-21

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⁴ <https://www.thenews.com.pk/print/920363-smes-an-unloved-story>

⁵ Microwatch ISSUE 67: Q1 (JAN-MAR) 2023

BACKGROUND AND PURPOSE OF THIS REPORT



In 2012, SECP published a diagnostic study on microinsurance in Pakistan in collaboration with the World Bank under a project sponsored by the FIRST initiative. This diagnostic study focused on the demand and supply sides of microinsurance in the country and identified the need for a comprehensive regulatory framework for micro-insurance in Pakistan. Following this diagnostic study, a regulatory framework for microinsurance was introduced for the first time in 2014 namely, The Securities and Exchange Commission (Microinsurance) Rules, 2014.

Through this current report Commission intends to analyze whether the existing microinsurance framework serves its purpose of supplying the insurance products to the low-income population.

By providing market insights, the report aims to assist and encourage insurers and other key stakeholders in developing products and services that foster greater financial security. Ultimately, the goal is to bridge the protection gap for individuals, especially in the face of disasters and associated risks to health and economic stability.

The basic objectives of this report are to determine the understanding of inclusive insurance by insurance companies, assess the types of product categories offered in the market, collect available data from different platforms (i.e., insurance companies, insurtechs, MNOs, MFIs/MFBs), and explore the possibility of enhancing the outreach of inclusive insurance segment.

The collected data highlights the products and services offered to date and the evolving role of inclusive insurance. During the data collection for this study, a significant challenge was encountered in gathering uniform sectoral data.

The report also encapsulates the cross-country comparisons of regulatory framework for the micro or

inclusive insurance sector, as well as the range of available products, intermediaries used and claims settlement processes etc. It is worth noting that in other jurisdictions, this segment has transitioned from being solely focused on low-income products to encompassing a broader range of small-ticket products, indicating a move towards inclusive insurance.

Pakistan being the fifth largest population in the world with a population of 222.4 million where 65% of this population resides in rural areas having a median age of 20.6 years represents a significant opportunity for the inclusive insurance sector.

With a population of 30.49 million working in informal sector and a young population of 73.1 million, there is a huge untapped market in need of tailored made inclusive insurance products.

The presence of 128 million mobile broadband subscribers and 1.9 million e-wallets in the country presents yet another opportunity to offer inclusive insurance products in collaboration with Mobile Network Operators (MNOs) and by embedding small ticket products to digital services.

The way forward to make inclusive insurance accessible to the target market is through intensive use of technology. It has been observed during the preparation of this report that pure protection insurance products i.e. small ticket health insurance and small ticket term life insurance has been distributed through digital platforms which is a positive sign for the growth of this segment.

In the end, through this report an effort has been made to illuminate the benefits, opportunities, and gaps, while proposing a way forward for moving this segment from insurance for low income individuals to inclusive insurance.

IMPORTANCE OF INCLUSIVE INSURANCE



Inclusive insurance is an essential component of a comprehensive strategy for promoting financial well-being and protecting vulnerable populations. In developing economies, a significant portion of the population lacks access to traditional insurance products, leaving them exposed to various risks. Inclusive insurance caters to the needs of vulnerable, low-income segment of population, along with unserved population by offering affordable insurance coverage.

Insurance has key function of economic stabilizer in times of individual shocks, smoothing the consumption of individual facing idiosyncratic or aggregated shock such as natural disasters or financial crises.

Importance of inclusive insurance in the context of Pakistan:



Financial inclusiveness

Development of inclusive insurance in Pakistan helps the affordability, accessibility and availability of essential insurance to all segments of society, particularly those who were previously excluded or underserved by traditional insurance market.



Empowering low-income segment of society

By offering inclusive insurance coverage, low-income individuals can better manage sudden loss/disruption of income, expenses related to a medical emergency, illness, or injury.



Market development

Inclusive insurance can boost the development of insurance market in Pakistan while offering small ticket and affordable products to all segments of population, hence providing financial security against essential risks.



Reduction in the financial burden on the Government in case of disaster

In the event of heavy rains and floods, people engaged in agriculture and related activities are the most affected. Most of the time, the Federal and Provincial Government provides them with financial assistance from its own pockets. Therefore, the development of inclusive insurance market will reduce the heavy burden from the shoulders of government.



Introducing the concept of insurance to larger segment of population (Awareness)

In Pakistan, a significant portion of the population is unaware of the significance of insurance. Offering affordable inclusive insurance products to a large segment of society can introduce the concept of insurance and recognize the importance to the broader population, thereby creating awareness.



Inclusive insurance as a lifeline for the underprivileged

Low-income workers, landless farmers, and small-scale shopkeepers often rely on traditional methods like as Bachat committees or high-interest loans from local lenders to cope with unforeseen events. In emergencies, they may resort to selling valuable assets, leading to financial loss. Through inclusive insurance, they have an alternate and reliable source to mitigate this risk.

EXISTING MICRO INSURANCE REGULATORY LANDSCAPE IN PAKISTAN



A. Evolution of Microinsurance Regulatory Framework

In 2012, SECP published a diagnostic study on microinsurance in Pakistan in collaboration with the World Bank under a project sponsored by the FIRST initiative. Diagnostic study focused on the demand and supply sides of microinsurance in the country and identified the need for a comprehensive regulatory framework for microinsurance in Pakistan.

Following this diagnostic study, in 2014, a regulatory framework for microinsurance was introduced for the first time through “The Securities and Exchange Commission (Microinsurance) Rules, 2014”. These rules establish the comprehensive framework for microinsurance, encompassing the product features and details for both life and non-life microinsurance and procedure for approval, disclosure requirements, requirements of policy documents, an overview of intermediation (including the training of microinsurance agents and their roles and responsibilities), the overall process for claim handling and the grievance mechanism, a code of conduct for microinsurance agents, and code of consumer protection provisions (all of which shall be included in microinsurance policy documents).

However, to date, the Commission has not approved any products designed by insurance companies that fit within the definition of the SEC Microinsurance Rules, 2014.

B. Salient Features of Regulatory Framework:

The Securities and Exchange Commission (Microinsurance) Rules, 2014:

Salient features of the Microinsurance Rules, 2014 are;



Microinsurance

Microinsurance is an insurance product or service for low income person to meet their needs for risk protection and relief against distress, misfortune or contingent events, providing modest and defined benefits levels;



Low-income person

Low-income person is a person whose monthly income is less than the minimum taxable income as prescribed by the Government of Pakistan or as may be prescribed by the Commission for the purposes of these Rules;



Strict onus

Strict onus on the insurer to submit for approval only microinsurance product to Commission that satisfies the definition of microinsurance;



File and use procedure

File and use procedure mean Commission approval required to launch product;



Product

Product along with summary description be submitted to commission at least 30 days prior to intended launch date;

Business plan setting out expect premium income, expenses and results of the applicant for period not less than 10 years from the date at which authorization is obtained;



Policy document and marketing material

Policy document and marketing material (i.e. written or electronic or other) shall prominently carry the caption microinsurance product and be submitted to Commission



Marketing material

Requirement of submission of copy written or electronic or other marketing material to Commission;



Microinsurance availability

Microinsurance available over the counter and can be purchased directly from insurer or microinsurance agent;



Agent requirement

The qualification for appointing an agent for sale of microinsurance products is as par with the requirement for selling any other insurance products. The microinsurance agent is required to complete a training program lasting at least 20 hours, which will be conducted by the respective insurer or an organization approved by the Commission.



14 days Free look period

If a policyholder cancels the policy during this period, a full premium will be refunded without any deductions.



Claims processing

Claims to be processed within a maximum period of thirty (30) days upon receipts of all required documents;



Code of conduct and code of consumer protection

The insurer shall strictly adhere to the code of consumer protection, which must be written in simple Urdu language in policy documents and directly communicated to the insured. Furthermore, microinsurance agents and their specified personnel shall also strictly adhere to the code of conduct for microinsurance agents.



Complaint handling

Microinsurance-related complaints shall be responded to within 5 working days from the filing of the complaint, and resolution shall be made within 25 working days from that time.

Insurance Rules 2017

Salient features of the Insurance Rules 2017 regarding digital only and microinsurers;

In 2021, SECP issued a position paper on the regime for digital only and dedicated microinsurers. Subsequently, in 2022, the requirement of digital only insurers and microinsurers were elaborated in Insurance Rules, 2017.

With the aim to encourage innovation, improve competition, widen product range and enhance financial inclusion, in 2022, the Commission introduced amendments to the Insurance Rules, 2017 thereby providing registration regime for dedicated microinsurers and dedicated digital-only insurers. The registration requirements were designed to reduce barriers to entry in the microinsurance and digital only insurance space through rationalized paid up capital and solvency requirements.

The reduced minimum capital requirement and solvency requirement for digital-only insurers and microinsurers are amended in the Insurance Rules 2017 and are given in the table below:

MINIMUM CAPITAL REQUIREMENT			
Life Digital Only Insurers	Non-Life Digital Only Insurers	Life Microinsurers	Non-Life Microinsurers
Rs.250M	Rs.100M	Rs. 150M	Rs.80M

SOLVENCY REQUIREMENT LOWERED	
Life Digital Only and Life Microinsurers	Non-Life Digital Only and Non-Life Microinsurers
Rs. 75M	Rs. 50M till December 2024

Notably, the new framework does not prohibit existing insurance companies to underwrite microinsurance products or to distribute insurance through digital modes, under their existing setup.

CURRENT STATUS OF INCLUSIVE INSURANCE IN PAKISTAN

As mentioned at the outset of this report, inclusive insurance is bifurcated into two parts: Microinsurance and Small-Ticket Products. In this section of the report, we discuss the current status of inclusive insurance in Pakistan.

Microinsurance:

Microinsurance refers to insurance products distributed in collaboration with Microfinance Banks and Microfinance Institutions. For the purpose of this study, data has been collected as of December 2022. The key statistics of the products offered through this collaboration are as follows:

**Microinsurance
Consolidated Data As of Dec-2022**

Table-1			
Health 		Agriculture/ Live stocks 	Credit Life 
Total Number of Policies	1,232,756	Total Number of Policies	117,266
Total Premium (PKR in Million)	1,096	Total Premium (PKR in Million)	303
No of person/ Lives covered	2,982,892	No of person/ Lives covered	123,039
Property 		Others 	Total 
Total Number of Policies	1,362	Total Number of Policies	6
Total Premium (PKR in Million)	1,217	Total Premium (PKR in Million)	5
No of person/ Lives covered	867	No of person/ Lives covered	50
			Total Number of Policies
			12,561,784
			Total Premium (PKR in Million)
			3,870
			No of person/ Lives covered
			11,468,111

As it is evident, these products include credit life protection, health, agriculture/livestock. It is important to mention here that none of the microinsurance products offered in this collaboration is categorized and approved under the SEC Microinsurance Rules, 2014 by the Commission, and also, these products do not fit within the definition of low income as given in the Rules.

Credit-life protection is a major chunk of this collaboration, indicating that such microinsurance

covers only disbursed loan amount of the microfinance banks/microfinance institutions. Hence, the MFB/MFI is protected in the event of the borrower's death, and similar is the case with agriculture/livestock and property insurance.

Health insurance is the only insurance which is being offered as embedded insurance in this arrangement.

Small Ticket Insurance

The term “Small-ticket insurance products” used in this report refers to products distributed in collaboration with InsurTech, brokers, MNOs and mobile apps, as none of the product in this category are approved by Commission under Microinsurance Rules, 2014.

Small ticket insurance represents an opportunity for insurers; it can help them expand and diversify their business model by reaching market segments that are currently excluded or underserved. For this report, the data for small ticket insurance segment has been aggregated from multiple sources. Due to the non-availability of data for the year December 2022, the data for current year up to August 2023 has been utilized, and key statistics are provided in the table below:

Table-2: Small Ticket Insurance: Consolidated Data as of Aug-2023

Health 	Personal Accident 	Mobile Phone Insurance 
No of policies 3,418,576	No of policies 390,113	No of policies 731
No of lives covered 3,780,047	No of lives covered 530,461	No of lives covered 731
Total Premium (PKR in millions) 248	Total Premium (PKR in millions) 17	Total Premium (PKR in millions) 0.2
Life 	Total 	
No of policies 5,023	No of policies 3,814,443	
No of lives covered 1,758,193	No of lives covered 6,069,432	
Total Premium (PKR in millions) 181	Total Premium (PKR in millions) 447	

The majority of small ticket insurance is distributed digitally through MNOs, and the data provided above reveals that small ticket health and small ticket term life insurance are the two major products sold through these channels. Moreover, out of the 20 insurers offering inclusive insurance, only 4 insurance companies are actively engaged in the digital distribution of small ticket insurance products.

Dominant players in this insurance segment are not

insurance companies, but in fact, it is insurtech and distribution channels who are digitally distributing these products with the help of mobile network operators and mobile apps.

This highlights a compelling value proposition for the business model, particularly for digital intermediaries seeking to leverage their expertise and data holdings to underwrite diverse range of products on their books.

TRENDS IN OTHER JURISDICTIONS



Inclusive insurance plays a crucial role in promoting financial security and resilience, especially among vulnerable and low-income populations in developing countries. It serves as a powerful tool for risk mitigation, offering affordable and accessible insurance solutions to those who might otherwise remain unprotected. In every country, special laws and regulatory frameworks are established to promote inclusive insurance and ensure compliance with these laws while expanding the network of inclusive insurance. For this report, five international jurisdictions are assessed, comparing the number of insurance companies, products, premium size, claims, and distribution channels.

According to the latest publication by the Microinsurance Network, titled "The Landscape of Microinsurance 2022," there are 253 insurers providing 945 micro/inclusive insurance products in 34 countries across Africa, Asia, Latin America, and the Caribbean.

These products provide coverage for health, reaching 81 million individuals, and life & accident, protecting 169 million people. They also extend

coverage to agriculture, aquaculture, and livestock, encompassing 8 million, as well as property and income, safeguarding 22 million people. The comprehensive coverage spans across 34 countries through inclusive insurance, insuring a total of 223 million lives, with a total premium of USD 2.2 billion in 2021. The estimated value of the total potential market in terms of premium stands at USD 61.8 billion.

Furthermore, 35 countries have implemented specific inclusive insurance regulation and 19 countries are actively developing such regulation, and remaining are revising existing microinsurance regulation.

This publication concludes that the quality of a product is only as good as its distribution channel, and microfinance institutions, financial institutions, agents, and brokers are identified as the most important avenues, reaching 62.4 million, 27.4 million, and 23.4 million people, respectively.

For this report, a review of five different jurisdiction has been conducted and summary of these countries is provided below:

	India 	Philippine 	Ghana 	Bangladesh 	Peru 
Regulatory Framework	IRDA Microinsurance Regulations, 2015	Enhanced Microinsurance Regulatory Framework on Microinsurance, 2015	Market Conduct (Microinsurance) Rules, 2013		Micro Insurance Resolution (MIR) 2007 *Revised in 2009, 2010 & 2016
No of insurers offering Inclusive Insurance	18 (life)	16	19	10	05
Premiums (In dollars)	\$ 803m ⁶	\$46m	\$44.4 m	\$63m	\$81.79m
No of Products	38 Life: 18 Individual: 14 Group: 24	59 Life: 53% Personal accident: 27%, Credit life 15%, Property (non-agriculture): 5%	57 Health: 52% life (15%), funeral (13%) and personal accident (10%)	42 Credit life/loan protection: 75% life: 23% Health, personal accident & other only 1.3%	14 Agriculture: 39% Life: (37%), personal accident:(6%) Other:(18%)
No of lives covered	208m (50% were covered through group policies.)	15m	8m (about 26% of the population)	16m (16% of the inclusive insurance target market)	5.58 m
Distribution channel	Individual agents: 92% NGOs: 7.08%. Self-help groups (SHGs), MFIs and banks: 0.89%	MFIs: 64% Agents/brokers: 29%, FIs: 20% NGOs: 19%, MNOs: 12% and SACCOS (5%). Digital platforms: 37%	Agents: 67% FIs (25%), MNOs (23%), Brokers (14%) and MFIs (12%). community organisations/associations 11%	Agents: 60% Brokers: 21%, FIs.: 7% & MFIs (5%). Other: 5%	FIs and MFIs 57% Agents/brokers 29% Savings & credit cooperatives:14% Digital platforms 43% of products reported.
Claims Ratio	PMFBY crop insurance scheme has registered claims ratios of over 75% from 2016 to 2020 and around 61% in 2020-2021	The median claims ratio is 20.76%,	The median claims ratio is 36%,	The median claims ratio of 35%	The median claims ratio is 16%
Claim Turnaround Time	Not provided	Median internal turnaround time: 4 days and external as 10 days.	18 days	10 days	23 days.

⁶ The average exchange rate in India for the year 2022

JOURNEY OF MICRO INSURANCE TO INCLUSIVE INSURANCE



In many developing countries, including India, Philippines, Ghana, Bangladesh, and Peru, regulatory frameworks have been established for microinsurance, which has now evolved to inclusive insurance. These countries offer special incentives for development of this segment and also provide relaxations in regulatory compliance for inclusive insurance. Given that these nations are often impacted by climate change and natural disasters, they are particularly vulnerable. As a result, inclusive insurance is an emerging market for them. It targets populations that are often overlooked by mainstream commercial insurance providers and social insurance schemes - individuals who have not had access to suitable products.

PHASES OF EVOLUTION:

Internationally, in other jurisdiction the Microinsurance Model over the years in different phases have evolved to Inclusive Insurance as illustrated below:

First Phase (1999-2010)

Characteristics:

- Physical delivery channels (MFIs and Co-ops)
- Retail Products with down sized benefits and premiums
- Insurance bundled with credit (mandatory insurance)

Challenges:

- Delivery channels not-cost efficient
- Product not SUAVE (Simple, Understood, Accessible, Valuable, and Efficient)
- Scale-up constrained by partnerships (few big MFIs)

Second Phase (2010 until recently)

Characteristics:

- Unconventional distribution channels (MNOs, pawnshops)
- Freemium model
- Use of technology

Challenges:

- Customers not comfortable with contact-less purchase; in absence of a context
- Low claim ratio
- Insurers needed different partnerships and skill sets to serve low income segment

Third Phase (Current)

Characteristics:

- Digital ecosystems, with insurtechs offering plug-and-play solutions to insurers
- Embedding insurance within offer products and services

Challenges:

- Low/no entry barrier to offer microinsurance products
- Same platform and technology can be used to serve low income and retail customers
- Business case for microinsurance

⁷ The third wave of microinsurance (insuranceasianews.com)

BRIDGING THE DIVIDE: A COMPREHENSIVE GAP ANALYSIS:



Pakistan Bureau of Statistics data reveals that Pakistan has a working-age population of 159.83 million compared to a total of 224.4 million. Among these 67.25 million are employed, 25.18 million in agriculture, 11.58 million in the formal sector and 30.49 million in the informal sector. The labor force totals 71.6 million and over 5.2 million SMEs exist in Pakistan. Currently, Pakistan is facing significant disaster risks such as heavy rainfall and floods. These risks adversely affect populations associated with agriculture, labor, and small businesses. This presents a substantial opportunity for microinsurers to target this segment. Microinsurance has immense potential in reaching low-income and vulnerable communities.

In the process of compiling this report, consultations were undertaken with insurance experts hailing from Pakistan, Philippines, and Brazil. After words review of the inclusive insurance landscape and on the basis of insightful discussion and deliberations, the following gaps have been identified.

1) Microinsurance Rules, 2014:

Restrictive definition and limited scope

Microinsurance Rules, 2014, narrows down the scope of the microinsurance products, limiting these products exclusively for low-income individuals and lacking broader coverage. The requirement that microinsurance products be categorized as microinsurance product and exclusively sold to low-income persons poses a significant hurdle for insurance companies when designing, marketing and selling microinsurance products. This can be attributed as one of the primary reasons that no products have been approved under the existing microinsurance rules.

File and use approach

Prior approval required for launching a microinsurance product or making any changes to the features of an existing microinsurance product.

Mandatory requirements

Despite the fact that microinsurance is a low risk segment, the microinsurance rules impose stringent requirements on insurer to provide exhaustive key features document along with code of consumer protection as part of policy documents to customer while selling microinsurance products.

Also, Insurer is required to submit yearly post-profiling assessment of the microinsurance products filed with the Commission.

Agent qualification and training requirement

The qualification for appointment of an agent is same for sale of microinsurance product or any other insurance products. (i.e. matriculation for sale of life insurance and Higher Secondary School Certificate for non-life insurance). Further, microinsurance agent is required to complete a training program lasting at least 20 hours.

Lacks digital adoptability

The existing microinsurance rules appears to be inflexible in relation to the digital distribution of microinsurance.

In the emerging digital era, no provision in the regulatory framework exists for designing and underwriting inclusive insurance products by a digital intermediary who intends to leverage its expertise on the basis of available data and technology.

No specific data reporting requirements

Due to the limitation in the regulatory framework, small ticket insurance products distributed through Microfinance Institutions (MFIs), Microfinance Banks (MFBs), Mobile Network Operators (MNOs), Insurtech and mobile applications are not reported as inclusive insurance. For reporting purposes, the data is often grouped together with other major classes of businesses. Further, disaggregation of data based on geography and gender was also found to be missing.

2) State Bank of Pakistan circular on sale of third-party product by banks:

SBP has issued a circular regarding the sale of third-party products by banks, which applies to both bancassurance and banca takaful. It provides details on governance, suitability, disclosure, and complaint handling and is applicable uniformly on all types of insurance products, without providing any incentive to the micro/inclusive insurance segment.

3) Non-availability of tailored insurance product for the underserved segment:

Review of the data on inclusive insurance, reveals that this particular segment is also substantially served by the MFIs and MFBs. It goes without saying that the insurance being procured by MFIs and MFBs or their clientele, is to utilize insurance to secure their lending portfolio. Existing inclusive insurance lacks customization as well as may lack in creating the genuine demand for insurance against the specific needs of different underserved population segments.

4) Lack of Claim experience:

One particular offshoot of the gap identified in the preceding point is that a significant claim portfolio of inclusive insurance products is against the lending portfolio's of MFIs and MFBs, whereby the claims are paid to the lenders. This may have implications in respect of the development of real claim experience of the persons covered under these inclusive insurance products and one can argue about the value that would be attributed to these claims by their respective insured persons.

5) Intermediation costs resulting in costlier products:

Involvement of multiple intermediaries in the inclusive insurance distribution cycle is leading to higher pricing structure for otherwise simple insurance products. This makes the product costlier for end-users and given the fact that the target persons here are the most vulnerable ones, it is important to see the products from the cost angle with the aim of making inclusive insurance more affordable product for end-users.

6) Lack of insurers focus on inclusive insurance:

In the current insurance landscape of Pakistan, it is evident that our non-life insurance market is more corporate-driven, with limited focus on retail segment. On the other hand, our life insurance market places heavy reliance on saving products and relatively lesser focus on small ticket pure protection insurance products. Resultantly, the inclusive insurance segment broadly has lacked the concentration of the insurance sector underwriters.

7) Limited collaborations:

Limited collaborations among different stakeholders for distribution of inclusive insurance products. Currently, there is little to less partnerships with insurtechs, web aggregators, microfinance institutions and mobile network operators for distribution of wide range of insurance products. There is a significant need to explore the potential emerging distribution channels for collaboration through product diversification.

8) Absence of mass scale mandatory inclusive insurance products/schemes:

a) Non-availability of country wide, mass scale agriculture insurance scheme:

The agriculture sector presently contributes 22.9% to the GDP, with 25.18 million individuals employed in agriculture and related fields, constituting 37.4% of the total employed population. Despite this significant contribution, there is a lack of a nationwide mass-scale agriculture insurance scheme. Consequently, in instances of heavy rain, floods, or crop damage, the burden currently rests on the government, which provides subsidies and grants to affected farmers. Although agriculture insurance products are available, they are bundled with subsidized loan schemes for agriculture and live stocks provided through financial institutions and commercial agri-loans offered by commercial banks in the market. Claim of these insurance schemes are linked with declaration of low area yield, disaster or calamity in that particular area by the government. However, there is limited standalone agriculture and livestock insurance products available for non-loanee farmers holding small cultivatable land.

b) Non-availability of mass scale micro disaster insurance product:

The absence of a retail or mass scale disaster insurance product is a notable gap in the current insurance landscape. This deficiency leaves a significant portion of the population vulnerable to unforeseen calamities and their subsequent financial repercussions. According to Global Climate Risk Index, Pakistan is ranked as the 5th most vulnerable country to climate change. It experiences severe weather conditions such as heavy & frequent rainfalls, floods and droughts. Without access to such tailored coverage, individuals, families, small businesses, self-employed individuals and population associated with agriculture and live stocks are left exposed to the full brunt of natural disasters, accidents, or other catastrophic events.

9) Lack of awareness and religious factors: Impeding insurance uptake in Pakistan

Insurance in Pakistan faces a significant challenge in its uptake due to lack of awareness and religious consideration, with 98% population being Muslim. A notable portion of religious individuals in the country refrains from purchasing conventional insurance products due to beliefs associated.

10) Taxation anomalies:

Multiple layers of taxation not only impact the affordability of insurance but also exacerbate existing inequalities by placing a disproportionate burden on those who can least afford it. Specifically, these taxes on insurance products increase the overall cost of insurance, rendering it even costlier for individuals, particularly those from lower-income segments of society. Consequently, addressing the issue of multiple taxation layers on insurance products is imperative for promoting financial inclusion and ensuring that insurance remains accessible to all members of society.

Currently, different government taxes and levy are applicable on insurance business, which are provided below:

i) Sales tax applicable on life and non-life businesses;

Category	Sindh		Punjab		KPK	Baloch.	ICT	FED
Life Insurance	Individual	Group	16%		15%	15%	N/A	Exempt
	3%	13%						
Health Insurance	Individual	Group	Individual	Group	0%	15%	N/A	Exempt
	3%	16%	0%	16%				
Crop Insurance	Exempt		Exempt		15%	15%	N/A	Exempt

ii Withholding/sales tax imposition on the payment of commissions to insurance agents;

Category	Sindh	Punjab	KPK	Baluchistan	ICT
Corporate Agents	5%	5%	15%	15%	Exempt
Non- Corporate Agents	5%	5%	8%	15%	Exempt

iii) Stamp duty:

Stamp duty is applicable to all lines of business without distinguishing or compensating for inclusive insurance. However, stamp duty increases the cost of insurance and hinders the growth of this segment. Here are the specific applications of stamp duty:

- Applicable on all life insurance policies
- For time policy for every full sum of Rs. 2000;
- For fire insurance (personal effects, crops and other property against loss or damage);

iv) Federal Insurance Fee (FIF)

The Federal Insurance Fee, of 1% of the premium is applicable on all non-life insurance products, adding to the financial obligations of policyholders and potentially impacting the cost-effectiveness and availability of insurance options for both individuals and businesses.

v) GST on telecom services:

If insurance products are sold through Mobile Network Operators, an additional telecom general sales tax rate of 19.5% applies, deterring the uptake for provision of insurance services through mobile network operators.

WAY FORWARDS:



1. Review of existing regulatory framework for microinsurance/inclusive insurance:

The primary objective of regulatory framework is to have proportionate regulation that commensurate with the nature, scale, and complexity of the risks involved and does not overreach. A proportionate approach allows the supervisor to attain its objectives of soundness and security of insurance sector while still allowing development and increased penetration. Without a proportionate approach, regulations can become overly complex, straining the capacity of regulators and the industry and thus acting as a barrier to industry development and growth.

Based on the elaborated discussion made above in the previous part of the report, there is a dire need to undertake a review of the microinsurance regulatory framework and the overall regulatory space to remove impediments and to create an enabling environment which facilitates growth and development of this segment. The broad action areas in relation to the captioned matter include:

- i) The definition of microinsurance be liberalized in line with best international practices whilst ensuring the shift from microinsurance i.e. insurance for low-income individuals to inclusive

insurance that is more encompassing and also delineates inclusive insurance from other types of insurance.

- ii) Removal of unnecessary regulatory approvals and other impediments to facilitate the availability and ease the distribution of inclusive insurance products.
- iii) Easing qualification, training and certification requirements for Inclusive insurance agents.
- iv) Facilitating and incentivizing digital only and microinsurers.
- v) Review of regulatory framework to facilitate digital intermediaries who intends to design and offer inclusive insurance products on their own books.

2. Review of State Bank of Pakistan circular on sale of third-party product by banks

Inclusive Insurance is subject to lower risk than conventional insurance, this warrant different regulatory treatment and requirements in the interest of proportionality. The circular be reviewed in the context of proportionality and requires simplified requirements for sale of inclusive insurance by banks.

3. Availability of inclusive insurance product:

Currently, there is huge underserved market in Pakistan. This underserved market needs inclusive insurance products specifically designed on the basis of their needs and following broad parameters;

i. Suitability and affordability

Primary feature of an inclusive insurance product is its ability to effectively meet the unique needs and circumstances of low-income individuals and communities. Suitability and affordability coupled with coverage, should be tailored into the inclusive insurance product to address the needs of customer in times of most pressing risks faced by them.

ii. Tailored product

Communities in rural areas such as farmers, laborer working in informal sector and daily wage earners offer a significant market for the tailor insurance product to suit the need of these communities. This can enhance relevance and accessibility. Insurance companies to start with what is the risk, who is the customer and what product design will deliver achievable results.

iii. Small ticket insurance

There is huge potential for small ticket insurance products due to growing lower middle-class population which is creating millions of potential customers who need affordable small ticket insurance to secure livelihood and valuables.

Small ticket insurance may offer coverage for mobile phone, laptops, travel, spectacles, contact lenses insurance, motorcycles, small households, business interruption, wallet thefts, small scale health product, home appliances, small term insurance products.

The objective is to create a culture of insurance within this new and untapped potential market so that customers have trust in the promise of the insurers and naturally see insurance as part of their risk management toolkit.

4. Embedded insurance:

Innovative way for business is to integrate relevant risk protection into customer's journey by allowing them to include or add on coverage while buying their products. Through embedding insurance in non-insurance services, customer do not have to leave their journey or to do an additional effort to buy insurance. Embedded insurance is much easier to sell since most of the customer information is available via the parent products purchase.

Small ticket insurance solutions can be offered through apps offering ride hailing services and food delivery, purchasing home appliance, booking ticket online and insurance for routine traveling like highway and motorways.

5. Hiring agents form rural areas:

Insurance penetration in Pakistan remains among the lowest in the region. Traditionally, barring the state-owned insurers, private sector insurance players have predominantly served the urban areas of Pakistan. Rural areas in the country, therefore, have a huge untapped potential market but reaching people in rural areas is one of the biggest challenges. Hiring people from the local communities, who speak local language, have a better understanding of the needs of the people of the area as they may be facing the same barriers themselves, may provide the required impetus in propagating insurance in our rural areas.

6. Small scale business interruption insurance:

Business interruption insurance (also known as business income insurance) fills in the gap by addressing the issue of lost income and other issues that arise if a business of low-income person shuts down unexpectedly due to any natural disaster or catastrophic event. Business interruption insurance policies are important to be in bucket of products of insurance companies.

7. Building trust and understanding of general public through awareness campaigns

There is a need for sustained effort to raise awareness amongst people with regard to the benefit of inclusive insurance, followed by the delivery of inclusive insurance products to the poor.

Insurance is generally perceived as an expense, with no benefit if procured. Since, the target population of inclusive insurance is the low-income individuals, it is understandably hard for them to consider putting the scarce monetary resources that they have into something that may never yield a tangible benefit.

Promoting inclusive insurance in Pakistan requires a concerted effort to raise awareness among the populace about the benefits and accessibility of insurance products.

8. Enhance collaboration between insurers and distribution channels: (Partnership):

Collaboration with Mobile Network Operators (MNOs) and Microfinance Institutions (MFIs) is of paramount significance to support in expanding the reach and accessibility of microinsurance/inclusive insurance to masses. By partnering with MNOs, microinsurance providers can leverage the extensive network and digital infrastructure these operators possess. This collaboration is expected to facilitate premium payments, claims processing, and policy management through mobile platforms, which may particularly be beneficial for customers in remote or underserved areas.

Additionally, it is suggested that working closely with MFIs/MFBs allows for the integration of insurance offerings into their existing cliental network. Such collaborations strengthen the overall ecosystem, fostering financial inclusion and ensuring that inclusive insurance products effectively meet the needs of the target population.

9. Digitization:

i. Technology enabled claim verification and payment

Harnessing technology for claim submission, verification/assessment, and payment processing builds trust and enhances the customer journey. Simplifying the online document upload process and digitally verifying them will not only expedite digital claim payments but also enhance the industry's image.

ii. Open insurance:

It is important to realize that no individual insurer could practically possess all the resources, time and/or the capabilities required for success and for achievement of its objectives has to rely on external source of data. (i.e. essential data related to insurance and non-insurance)

The Insurance association has a significant role to play in propagating and building the trust of insurance companies and insurance intermediaries in data sharing and open insurance. The far-reaching impacts and benefits of data sharing, whilst not compromising of strict data usage policies and data security measures are required to be emphasized. For this purpose, it is proposed to build consensus among all stakeholders to establish a platform for open insurance and data sharing of inclusive insurance from relevant stakeholders. This is necessary to promote the inclusive insurance segment and develop the right product for the right customer.

10. Availability of uniform data:

During the preparation of this report, obtaining of data from different sources and its verification was a huge challenge. There is a strong need for submission and collection of standardized data set for inclusive insurance. The Commission may consider review of the existing regulatory reporting requirements and revisit the same by incorporating changes that shall help insurers as well as the Commission to review the development patterns in inclusive insurance. Added focuses shall be given to ensure collection and submission of gender

dis-aggregated data since women are the most financial excluded part of our system and it is paramount importance to track their inclusion in the financial system.

11. Insurer to become access point:

Currently, the first direct access point for distribution of inclusive insurance policies are not the insurance companies themselves, instead inclusive insurance is being expanded through MNO, MFIs, MFB's, web aggregators etc. Though some insurance companies have web portals and mobile platforms, there is a need for more initiatives on this front so that insurers become the access point for their customers.

12. Transparency in communication:

Insurers offering inclusive insurance products need to clearly inform customers about features of product by providing detailed and unbiased information in a way that low-income, often illiterate persons are able to understand the benefit as well as the manner of utilization of product i.e. claim lodgment. There is a need to empower customers by providing them access to transparent information for making an informed decision.

13. Synergy group:

In order to achieve synergies for a more financially inclusive Pakistan, it is proposed that a synergy group, comprising of representatives from Insurance Industry, MFIs, MFBs, Insurtech, MNOs, National Disaster & Risk Management Fund (NDRMF) and NADRA, be constituted. This synergy group can deliberate and provide guidance on accelerating expansion of the inclusive insurance market through collaborative use of technologies, databases and development of mass-scale retail products as per need of the untapped potential market.

14. Removal of taxation anomalies:

There is a strong need that the taxation on insurance business specifically on the sale of inclusive insurance products be rationalized. Rationalization

of taxation on insurance specifically on sale of inclusive insurance products would lower the tax burden on insurance companies as well as on policyholders and would pave path for a more conducive environment for the insurance industry. Subsequently, the growth of the industry will result in more tax revenue for the tax authorities and increase financial inclusion.

15. Disaster microinsurance:

Pakistan is a disaster prone country and faces significant disaster risks such as earth quake, drought, heavy rainfalls and floods. These risks adversely affect populations associated with agriculture, livestock and informal sector such as shop owners and daily wage earners due to loss of crop, livestock, belongings, earnings etc. Accordingly, there remains this opportunity for insurers to consider targeting this segment. It is, therefore, crucial to develop mass scale disaster microinsurance products which shall help individuals during and after the of disaster and catastrophic events. For development of these products, calamities related data can be analyzed by insurers.

Insurance companies in collaboration with NDRMF can also undertake disaster mapping, data analysis and use raw data to conduct risk assessments and development of mass scale disaster microinsurance products. Data collected by NDRMF on loss and damage can be transformed into useful and meaningful data intelligence by insurers for build their understanding of disaster-prone areas and how to respond to the insurance needs of such areas. Agriculture specific data collected from the Federal/Provincial agriculture departments can also be included and made part of this database to design agriculture and livestock products for small farmers.

Government may consider inclusion of mass scale government sponsored microinsurance product by incorporating as part of its disaster risk financing and social protection schemes.

16. Development of micro-takaful insurance products:

To serve the religiously inclined population micro takaful products can serve as an alternative to conventional insurance. Designing micro takaful products for this population coupled with awareness on the benefits of shariah compliant micro takaful products by both the insurers, regulators and shariah scholars can help in attracting the masses.

17. Social protection

According to International Labour Organization - Social Protection platform, only 9.2% of the population in Pakistan is covered by one social protection program and 8.4% of the population is affiliated to another social health protection scheme. This leaves the insurance industry with a huge untapped market which is to be tapped in. With majority of the population in Pakistan working in informal sector, inclusive insurance is recommended as the second-best solution, primarily where the Government may not have the capacity to provide social protection to the persons working in the informal-sector.

i. Optimizing healthcare access through collaborative social protection programs

Government, in collaboration with insurance companies, can initiate inclusive insurance schemes that closely link to existing governmental protection programs such as Benazir Income Support Program (BISP). Integrating the element of health insurance into social protection programs as done in the case of National Health Insurance Program can enhance the value of these schemes, as a universal health coverage program. Embedding health insurance in social protection programs will not only reduce the out-of-pocket health spending but will also fulfil the state responsibility in ensuring access to health.

ACTION MATRIX

Actions	Stakeholders
1. Review of Microinsurance Rules, 2014; 2. Concept paper on digital intermediaries to design and underwrite products on behalf of insurance companies; 3. Review of the existing data reporting requirement to obtain inclusive insurance data;	SECP
4. Designing and availability of affordable inclusive insurance products; 5. Launch of embedded insurance products; 6. Availability of micro takaful products;	Insurance Industry
7. Simplification and digitization of claim process for better customer experience	Insurance Industry
8. 8. Creation of Synergy Group to develop inclusive insurance market Representation from insurance companies, insurance industry experts, PMN (MFIs & MFBs), InsurTech, Digital Intermediaries, MNOs	SECP/IAP/PMN
9. Development of mass scale insurance products: <ul style="list-style-type: none"> • Disaster microinsurance products; • Business interruption/loss of income insurance products 	Insurance Industry in Collaboration with NDRMF/NADRA/PMN/ SECP
10. Healthcare access through social protection schemes	Ministry of Finance/Ministry of Health/Provincial Health Authorities/ BISP
11. Hiring of rural based agents for distribution of inclusive insurance products	Insurance Industry
12. Removal of taxation anomalies	Ministry of Finance Federal/Provincial Board of Revenue
13. Review of circular on sale of third-party products by banks	State Bank of Pakistan
14. Awareness campaign	Insurance Industry/SECP

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**Securities and Exchange
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