

Climate risk insurance: the missing links

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Pakistan is bearing the severe outcomes of droughts, floods, and heat waves, consistently keeping it among the most vulnerable countries to climate change.

Recently, Climate Risk Index 2025, ranked Pakistan as the most affected country globally for the year 2022, underscoring its vulnerability to the growing incidence and intensity of climate-brought catastrophes.

The colossal floods in 2010 and more recently in 2022 were among the most disastrous. These floods were not mere abnormalities; they were enlarged and intensified due to climatic shifts.

The inundations in 2022 were catastrophic predominantly, plunging nearly 30% of the country with estimated economic losses of around \$ 15.2 billion. The scale of destruction was beyond any comparison.

This sole event ruined the livelihoods, swept away the critical infrastructure, and left an abysmal scar on an already fragile economy.

The consequences extend beyond the instant damages as these destructions destabilise food security, the well-being of millions, and most importantly long-term economic stability.

Increasing disasters highlight the critical need to manage the disaster risk particularly due to floods. Flood risk management is approached in two ways.

The first approach centers on “hard solutions”. Hard solutions signify large-scale infrastructure projects such as building dams, levees, and flood barriers. These measures can effectively lessen risks in the long term, but they come with some downsides. Firstly, these projects necessitate huge financial capital.

Secondly, prolonged timeframes are required to implement these projects. For a developing country like Pakistan where economic stability is a serious constraint, both of them are colossal challenges. Therefore, while hard infrastructure may be part of the solution, it is far from an immediate or feasible answer for reducing disaster risk in the short term.

While dealing with disaster risks, a more adaptive approach is climate risk insurance. This approach provides immediate relief and a safety net to vulnerable individuals as well as institutions.

Insurance allows quick assistance, and well-timed and reliable finance to cover monetary losses, which supports saving lives, livelihoods, and assets and also to safeguard development gains. Insurance products or schemes are usually based on the valuation of potential financial losses; hence, assist in identifying the priorities and needs for policy development.

Given Pakistan's vulnerability and limited resources, insurance appears as a potentially more viable and scalable solution. The worldwide trend has also moved towards insurance schemes. However, when searching for insurance markets related to flood or disaster risk insurance in Pakistan, they are utterly absent or less functional.

As far as the demand for disaster risk insurance is concerned, our research has indicated a growing demand, particularly for "crop losses" and "home damages". We mapped the demand through hypothetically developed insurance products for crop damages in two different agro-ecological zones of Punjab, a decade ago and then again in 2024 for home damages in Gilgit-Baltistan.

We concluded that demand for disaster risk insurance exists. Further, another big misconception is rejected in both of the efforts that religiosity stalled insurance adoption. However, the key challenges lie on the supply side.

Although climate risk insurance for the agriculture sector exists in Pakistan, it is limited in its accessibility and scope. State Bank of Pakistan has mandated it for farmers availing loans while ZTBL and some private insurers also offer insurance for weather-related losses. However, affordability hinders widespread adoption.

Moreover, with support from the World Bank and Asian Development Bank, Index-based crop insurance has been piloted in Sindh and Punjab. Microinsurance by Pakistan Microfinance Network and some private

insurers such as EFU and Jubilee Insurance offer small agricultural coverage, but the outreach remains limited.

National Disaster Risk Management Fund is exploring better financing mechanisms for disaster risk. International donors like IFAD, UNDP, and GIZ have piloted livelihood and home insurance for flood-affected households, but it is costly and underutilized due to a lack of awareness.

Insurance providers work on business principles and usually ignore the vulnerable and poor population groups. For improving and scaling up insurance programs, financial support from donor organizations or development partners can be demanded. Which may cover premium subsidies, etc. The provincial governments in Sindh and Punjab have shown their interest in subsidized programmes but no substantial headway.

There is a very low awareness of disaster-related insurance among farmers and homeowners.

Usually, people receive post-disaster assistance from the government, NGOs, etc. To some extent individuals are engaged in life insurance, etc, but it also comes with a lack of trust in insurance providers due to some bad experiences in the past, which involved delayed or denied claims and in some cases deception or fraud. This can hurt the penetration of disaster risk insurance; nevertheless, government-backed schemes can be more acceptable.

Affordability is another big issue for small farmers or low-income households, which makes insurance inaccessible in case of high premiums. Financial constraints also limit the willingness to pay. However, government-backed subsidies can enrich affordability. Funds allocated for post-disaster relief can be diverted to support these efforts.

Another important aspect is the institutional framework to regulate and support the insurance market, presently missing, and needs immediate attention. For this, consultation and collaboration among all key stakeholders especially insurance firms and the government is essential.

Policy exchanges, knowledge sharing, and international collaboration can stimulate Pakistan's indigenous insurance industry. Foreign companies can partner with local firms, transferring technology and best practices. This will train the local players, encouraging them to enter in disaster risk insurance market. Overtime, this could lead to a self-sustaining domestic insurance industry.

While attracting global insurance providers, the high-risk exposure of the Pakistani market will be the key aspect that may discourage their entry. While estimating risk, the growing intensity and frequency of floods can be another challenge for insurers. The evolving climate risk can hurt sustainable insurance models or schemes.

Further, meteorological and hydrological systems are not very advanced, which potentially hinder reliable risk assessment. But these are not unmanageable.

Pakistan can enhance risk assessment by investing in advanced meteorological and hydrological systems, improving data accuracy for better risk modeling. Additionally, public-private partnerships and government-backed reinsurance mechanisms can help distribute high-risk exposure, making the market more viable for insurers.

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