Strengthening Pakistan’s Pension and Insurance Systems

Strong growth, employment generation, higher remittance, and a continuous increase in pro-poor public expenditures contributed to the reversal of poverty trends in Pakistan in recent years. However, with a significant proportion of the population still below the poverty line, the challenge of poverty alleviation still remains huge.1 At the same time, inequality in income distribution worsened significantly, particularly in urban areas. A large share of employment is in the informal sector, without adequate social protection.2

Weak Pension and Social Security Systems
Like most developing countries, Pakistan has weak provisioning for pensions. Most government jobs are covered by unfunded pensions—current employees will be paid pensions through tax revenues. Some private sector employees and the organized labor sector are covered by funded pensions. A very large section of the population has no pension provision and are totally dependent on the joint family support system.3

The development of pension funds in Pakistan has been largely neglected, inefficient, and a poorly regulated environment.4 Social security and pension schemes sponsored by the Government benefit a small proportion of the population in the formal sector, even though a number of programs are in place. For workers employed in the informal sector, there are civil society organizations, such as mosques, financial institutions, nongovernment organizations, and private philanthropists that are involved in the distribution of social services besides government institutions.

Reforming the Public Pension System
The country’s largest institutional investors, including the State Life Insurance Corporation (SLIC) and the Employees Old-Age Benefits Institution (EOBI), remain government-controlled. The Government directs investment policy, and the scheme suffers from a high cost structure. Administrative costs are estimated to

However, the coverage is limited and the benefits are minimal.

With increasing trends of urbanization, and the fast eroding traditional family system in the wake of rapid modernization, the issues concerning the living conditions and quality of life of the elderly and the poor merit due attention in Pakistan. In this context, the mechanisms of social transfers are becoming a challenge in terms of pension, health care, and social protection. The need to identify and implement reforms of public pension systems and social security schemes under these changing demographic conditions represents an urgent challenge for public policy.5

With increasing trends of urbanization, and the fast eroding traditional family system in the wake of rapid modernization, the issues concerning the living conditions and quality of life of the elderly and the poor merit due attention in Pakistan.
account for 16% of collected contributions. Management systems are poor, and records are acknowledged to be incomplete. Life insurance premium income amounts to less than 0.3% of gross domestic product and has shown little growth over the past few years, unlike in other emerging Asian economies. Private pensions and provident funds lack a proper regulatory framework and are offered by only a few large companies. The mutual funds industry was unable to offer attractive alternatives and to reach out to the retail market in a significant way.6

The Asian Development Bank's (ADB) technical assistance (TA) loan in 2002 on Strengthening Pension, Insurance, and Saving Systems7 was designed to strengthen the policy framework for pensions as well as the institutional capacity of key government institutions involved in the management of pensions, insurance, and savings [i.e., EOBI, the Central Directorate of National Savings (CDNS), and SLIC]. The TA was an integral component of the loan provided to Pakistan on Financial (non-bank) Markets & Governance Program.8

The TA accomplished the following:

**Establishment of an Overall Framework for Pension Provision.** The TA provided an in-depth analysis of the current framework, which served as the basis for discussion among key stakeholders on the overall framework, with recommendations to identify long-term requirements for an adequate national pension and provident fund system in Pakistan and a strategy for achieving this during the next 10 years. The strategy recommended by the TA coordination committee should be formally adopted by the Government, together with an action plan for implementation to be developed under the TA.

**Financial Assessment of Civil and Military Pension Schemes.** During its first phase, the TA assessed the financial status and the sustainability of the civil service and military scheme and its overall fiscal impact on the government budget. As needed, the TA outlined options for redesign and will explore the financial feasibility of transition from a government pillar (pillar 1) pension scheme, to a multipillar pension scheme. It assessed the administrative, financial, and fiscal costs and benefits as well as risks and options for phasing in a second pillar; and developed options for partial or full migration to such schemes by government employees. It also calculated the public sector transition costs to such schemes and estimates the long-term fiscal benefit.

**Institutional Reform and Strengthening of EOBI.** Based on an updated in-depth assessment on the operations and financial positions of EOBI, a framework and present practical options with clear cost implications for modernizing EOBI into a more efficient, transparent, and sustainable private sector pension and provident fund system was designed. The modernization plan included timing and costing and was consistent with the broad context of strategic framework on pensions adopted by the Government. Subsequent to the formulation of the plan and approval by the relevant authorities, the modernization plan was pilot tested at the headquarters and several selected branch offices.

**Capacity Building for Investment Management of SLIC.** The TA assisted SLIC in implementing measures to improve its investment management, including developing investment strategies, performance parameters, internal controls, field office operations, and streamlining and computerization of operations. Adequate benchmarks for performance measurement and an effective control mechanism were developed to ensure accountability and transparency in operations. Hands-on assistance was provided to SLIC’s top management in streamlining field operations in line with best international practices.

**Institutional Reform and Strengthening of CDNS.** The TA assessed the following:

- institutional constraints of the National Savings Scheme (NSS) and recommended measures to improve transparency in financial management,
- the merits and feasibility of moving toward a funded scheme managed with a well-conceived investment policy in government securities,
- established basic parameters for such a move, and determined how the different schemes could be rationalized and the rates on small saving schemes made market-oriented, and
- support streamlining, modernization, and computerization of operations already initiated by CDNS.

With the support of the TA loan, the Government announced the transformation of CDNS into a commercial entity and prepared the draft Savings Act, 2004. Among the recommendations were for the transition of the NSS into a fully funded system invested in government securities; development of a software solution to computerize collections; for Government to develop and introduce legal, regulatory, and tax frameworks for private pension plans; and standardize relevant accounting and information disclosure standards.9
About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to two-thirds of the world’s poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Contact Information
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org

Endnotes
2 ADB. 2002. Report And Recommendation of the President to the Board of Directors on Proposed Loans and Guarantees for the Financial (Nonbank) Markets and Governance Program in the Islamic Republic of Pakistan
6 ADB. 2002. Report And Recommendation of the President to the Board of Directors on Proposed Loans and Guarantees for the Financial (Nonbank) Markets and Governance Program in the Islamic Republic of Pakistan
10 Disclaimer
The views and assessments contained herein do not necessarily reflect the views of ADB or its Board of Directors or the governments they represent. ADB does not guarantee the accuracy of the data and accepts no responsibility for any consequence of their use.