

PART II

Statutory Notification (SRO)

GOVERNMENT OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NOTIFICATION

Islamabad, the 18th June, 2013

S.R.O.584(I)/2013.- In exercise of the powers conferred by Section 83 read with Section 167 of the Insurance Ordinance, 2000 (XXXIX of 2000) and clause (u) of subsection (4) of section 20 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997) , the Securities and Exchange Commission of Pakistan is hereby pleased to publish the following draft rules for information of all persons likely to affected thereby and notice is hereby given that objections suggestions if any, received within a period of thirty days from its publication in the Official Gazette, shall be taken into consideration:-

1. Short title and Commencement.- (1) These rules shall be called the Securities and Exchange Commission (Microinsurance) Rules, 2013.

(2) These shall come into force at once.

2. Definitions.-

(1) In these rules, unless the context requires otherwise;

(i) "alternative dispute resolution" means procedure for settling disputes by a process other than litigation, through the use of a forum in which parties can resolve their own disputes, with the help of a neutral third party such as by arbitration or mediation.

(ii) "branchless banking" means conduct of financial service activities as outlined in the context of these rules by financial institutions authorized by the State Bank of Pakistan for conducting such activities under the relevant laws.

- (iii) "branchless banking agent" means agent providing financial services to the customers under a valid agency agreement as a part of branchless banking.
- (iv) "Commission" means the Securities and Exchange Commission of Pakistan established under the Securities and Exchange Commission of Pakistan Act, 1997;
- (v) "family" means the husband, wife, dependent father, mother, minor brother or minor sister, or minor sons or unmarried daughters. Provided further that an insurer may, keeping within the aforesaid parameters laid down for the composition of the family, define "family" as per the requirement of the individual or group.
- (vi) "file and use procedure" means that unless Commission instructs the insurer to desist from launching the product, or to alter certain product features, the insurer can proceed to launch the product.
- (vii) "life microinsurance " means business of insurance as defined in Class 1 and 4 under Section 4(1) of the Ordinance and as may be prescribed by the Commission, subject to meeting the criteria as defined in Schedule-I.
- (viii) "low-income person" means 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 purpose of these rules.
- (ix) "microinsurance" means insurance products and services for low income persons that meet their needs for risk protection and relief against distress, misfortune or contingent event for modest and defined benefit levels.
- (x) "microinsurance agent" means an individual or a body corporate subject to the requirements as laid down in Section 96 of the Ordinance.
- (xi) "microinsurance policy" means a contract of microinsurance;
- (xii) "microinsurance policyholder" means the person to whom a microinsurance policy is issued or, in the case of a policy of life microinsurance, the person to whom the whole of

the interest of the policyholder in the policy is assigned once and for all, but does not include an assignee thereof whose interest in the policy is defeasible or is for the time being subject to any condition.

- (xiii) "non-life microinsurance" means business of insurance as defined in Class 1 ,7, 8 and 9 under Section 4(3) of the Ordinance and as may be prescribed by the Commission, subject to meeting the criteria as defined in Schedule-I.
- (xiv) "Ordinance" means the Insurance Ordinance, 2000;
- (xv) "Rules" means the Securities and Exchange Commission (Microinsurance) Rules, 2013
- (xvi) "SEC Rules" means the Securities and Exchange Commission (Insurance) Rules, 2002
- (xvii) "specified person" means either an employee of the microinsurance agent or an employee of the insurer who is responsible for soliciting and procuring microinsurance business for the insurer under the agency agreement between the insurer and microinsurance agent.
- (xviii) "third party administrator" means a body corporate which performs agreed administrative functions for the Insurer.

(2) In these Rules, the word "microinsurance" may be used interchangeably with the word "microtakaful", "life microinsurance" with "family microtakaful", "non-life microinsurance" with "general microtakaful", "premium" with "contribution" and "insurer" with "operator".

(3) All words and expressions used in these Rules and not defined here shall have the same meaning as assigned to them in the Insurance Ordinance, 2000, the Securities and Exchange Commission of Pakistan Act, 1997 or in any Rules or Regulations made there under.

3. Contract and disclosure Requirements.-

(1) A microinsurance policy shall clearly state the benefits and terms of coverage. The insurer providing microinsurance shall ensure that the contract provisions in the microinsurance policy can easily be understood by the insured and are printed in legible form and font, at least in simple Urdu language.

(2) A microinsurance policy shall contain least key facts as provided in Schedule-II.

(3) Every microinsurance product, including the policy document and marketing material shall prominently carry the caption "Microinsurance Product".

4. Product Features and Submission.-

(1) Every insurer shall be subject to the file and use procedure with respect to filing of microinsurance products or as may be prescribed by the Commission.

(2) Insurers shall submit to the Commission the details of microinsurance products, along with summary description of claims process, at least 30 days prior to the intended launch date of such microinsurance product. The filing details under this sub-rule shall at least include the product specification, policy document, product brochure or marketing material, distribution channel agreement and details of the sales process to be followed for such microinsurance product.

(3) Such file and use procedure shall apply for every new microinsurance product or to any existing microinsurance product already approved by the Commission if any significant revisions in policy terms, conditions, premium or benefit levels have been made to such existing microinsurance product by the insurer.

(4) For life microinsurance, when filing with the Commission, the insurer shall be required to submit the details as per the requirements laid down in Section 6 (8) of the Ordinance, in addition to the summary description of claims process to be followed for such microinsurance product.

(5) For non-life microinsurance, when filing with the Commission, the insurer shall be required to submit the microinsurance product details and summary description of claims process, in addition to the requirements as may be prescribed by the Commission.

(6) Every insurer shall also submit to the Commission a copy of any written, electronic or other material proposed to be issued by the insurer for mass communication or for communication with the microinsurance policyholder or prospective microinsurance policyholder, in respect of the marketing of microinsurance products to be offered by such insurer.

5. Intermediation.-

(1) In addition to an insurance agent or insurance broker licensed under the Ordinance, microinsurance products may be distributed through a microinsurance agent.

(2) A microinsurance agent shall be appointed by an insurer in the same manner as required under the Section 95(2) of the Ordinance.

(3) The microinsurance agent shall be required to perform one or more of the following functions, as specified in the agency agreement, namely:

- (a) collection of proposal forms;
- (b) collection of self-declaration form from the proposer that he/she is in good health;
- (c) collection and remittance of premium;
- (d) distribution of microinsurance policy documents;
- (e) maintenance of register of all those insured and their dependents covered under the microinsurance policy, together with details of name, gender, age, address, nominees and thumb impression/ signature of the microinsurance policyholder;
- (f) assistance in the settlement of claims;
- (g) ensuring nomination to be made by the insured;
- (h) the selling, marketing and delivery of microinsurance on behalf of an insurer under an agreement; and
- (i) any other service as may be specified by the Commission.

(4) The microinsurance agent or the specified persons of the microinsurance agent, shall undergo a training program of a duration not less than twenty (20) hours to be conducted by the respective insurer or any organization as may be approved by the Commission, with a thorough focus on consumer protection as outlined in Schedule-III of these rules. This training program shall follow the broad outline prescribed by the Commission.

(5) In case of the provision of microinsurance through branchless banking operators acting as microinsurance agents, the branchless banking agent shall undergo a training program of a duration not less than four (4) hours to be conducted by the respective branchless banking operator or any organization as may be approved by the Commission, with a thorough focus on consumer protection as outlined in Schedule-III of these rules. This training program shall follow the broad outline prescribed by the Commission.

(6) The insurer shall be required to report the details of its microinsurance agents to the Commission as part of its annual returns by including a statement of the insurance premium written through the microinsurance agent, subdivided by classes of microinsurance business, along with a statement of commission, by whatever name called, received or receivable by the microinsurance agent, subdivided by classes of microinsurance business.

(7) A microinsurance agent may be paid remuneration for all the functions rendered as outlined in the agency agreement, by an insurer, and the same shall commensurate within the limits as prescribed by the Commission from time to time.

(8) Where the agreement between the microinsurance agent and insurer is terminated for any reason whatsoever, no remuneration which is to be incurred in future, shall be payable.

(9) Any of the functions as specified in sub-rule (3) above may be performed by a third party administrator at the sole discretion of the insurer. The insurer shall enter into an agreement with the third party administrator which specifies the functions required to be performed and the remuneration payable to the third party administrator.

6. Registration & Licensing.-

(1) Microinsurance, by whatsoever name called, shall only be undertaken by the entities having certificate of registration in accordance with Section 6 of the Ordinance and duly authorized by the Commission to carry out such activities.

(2) All entities providing microinsurance, by whatever name called, as defined in these rules, that are not authorized shall be required to acquire authorization from the Commission to act as an insurer to provide microinsurance or become a microinsurance agent under an agency agreement with a licensed insurer within six months of notification of these rules. In case any entity fails to take necessary authorization or license as the case may be, action shall be taken against such entity in accordance with provisions of the Ordinance read with Securities and Exchange of Pakistan Act, 1997.

7. Claim Handling and Process.-

(1) The documentation required by an insurer for issuance of the microinsurance policy and settlement of claims shall be kept minimal by the insurer or as may be prescribed by the Commission.

(2) All insurers shall process and settle microinsurance claims within a maximum period of fourteen (14) days upon the receipt of all required documents as stated in the microinsurance policy document.

(3) The insurers and microinsurance agents shall implement and follow the claims procedures and claims documentation requirements as specified in the respective microinsurance policy document.

8. Complaints and Grievance Handling.-

(1) All microinsurance related complaints should be handled in the first place by the insurer and the insurer shall ensure that the complaints shall be acted upon within 5 working days from filing of a complaint along with completion of all documentation requirements and a resolution shall be made within 25 working days from such time.

(2) Notwithstanding anything against the sub-rule (1), if the complaint is not resolved at the level of the insurer, the complaint may be referred by the insured to an alternative dispute resolution service approved by the Commission from time to time.

(3) Notwithstanding anything against the sub-rule (2), if the complaint is not resolved at the level of the alternative dispute resolution service, the complaint may be referred by the insured to the Insurance Ombudsman. The complaint may also be referred by the insured to the Small Disputes Resolution Committee subject to the provisions of Section 117 of the Ordinance.

(4) Every insurer undertaking the microinsurance business shall establish an internal dispute resolution mechanism for client complaints and grievances handling, which shall facilitate the microinsurance policyholders for speedy resolution of complaints.

(5) The Commission, where deem appropriate may direct the insurer and the microinsurance agents for any change in their complaints and grievance handling mechanism.

9. Code of Conduct and Consumer Protection.-

(1) The insurer shall strictly follow the code of consumer protection as prescribed by the Commission in Schedule-III of these rules. Such code of consumer protection shall be written at least in a simple Urdu language in the microinsurance policy document and communicated directly to the insured by the microinsurance agent or their specified person.

(2) The microinsurance agents and their specified persons shall strictly follow the code of conduct as prescribed by the Commission in Schedule-IV of these rules. It shall be the responsibility of the

insurer to ensure that microinsurance agent and its specified persons are abiding by the prescribed code of conduct.

10. Prudential rules.-

(1) For life insurers the annual financial condition report shall specifically consider the implications of the microinsurance business on the financial soundness of the insurer as required under Section 50 of the Ordinance.

11. Regulatory reporting and Information Sharing.-

(1) For each insurer conducting microinsurance business, it will be required to provide regulatory returns under current reporting requirements but with microinsurance identified as a distinct category of the respective class of business. The insurer conducting microinsurance business shall submit the regulatory returns to the Commission, as prescribed in Schedule-V in addition to any existing reporting requirements under the Ordinance.

(2) The Commission where deem appropriate may share any information related to microinsurance among the microinsurance providers or general public through the means it deems appropriate.

(3) Every year on or before the 30th day of April the insurer shall submit post-profiling assessment of the microinsurance product as filed earlier under the file and use procedure in a manner as may be prescribed by the Commission.

12. Offences and Penalties.-

(1) Whoever, contravenes Rules shall be punishable in accordance with the provisions of Ordinance and Securities and Exchange Commission of Pakistan Act, 1997

Schedule I

[See Rule 2 (vii) & (xiii)]

Definition of Microinsurance

1. Life Microinsurance.-

- (1) Life microinsurance shall not have the sum insured exceeding:
 - (a) For single life microinsurance, 25 times of the minimum monthly wage prescribed by the federal government;
 - (b) For joint life microinsurance, 40 times of the minimum monthly wage prescribed by the federal government;
- (2) Health microinsurance offered by life insurers shall not have the sum insured exceeding:
 - (a) For individual health microinsurance, 6 times of the minimum monthly wage prescribed by the federal government;
 - (b) For family health microinsurance, 12 times of the minimum monthly wage prescribed by the federal government;
- (3) The provisions (1) and (2) above shall satisfy the definition of "low-income person" as specified in the definitions.

2. Non-Life Microinsurance.-

- (1) Non-life microinsurance shall not have the sum insured exceeding:
 - (a) For tools, belongings, implements, hutments and other assets microinsurance, 12 times of the minimum monthly wage prescribed by the federal government;
 - (b) For livestock microinsurance, 40 times of the minimum monthly wage prescribed by the federal government;
 - (c) For crop microinsurance, 40 times of the minimum monthly wage prescribed by the federal government;
 - (d) For personal accident microinsurance, 25 times of the minimum monthly wage prescribed by the federal government;
- (2) Health microinsurance offered by non-life insurers shall not have the sum insured exceeding:

- (a) For individual health microinsurance, 6 times of the minimum monthly wage prescribed by the federal government;
 - (b) For family health microinsurance, 12 times of the minimum monthly wage prescribed by the federal government;
- (3) The provisions (1) and (2) above shall satisfy the definition of "low-income person" as specified in the definitions.

Schedule II

[See Rule 3(2)]

Key Features of a Microinsurance policy

The following features shall be applicable to life and non-life microinsurance policies:

- (a) Coverage: A microinsurance policy shall cover the insured severally or jointly with the insured's family and/or the insured's assets;
- (b) Period of cover: The term of the microinsurance policy shall state the period of cover, to be determined by the insurer depending on the type of coverage;
- (c) Terms and conditions: A microinsurance policy shall clearly state the sum insured, benefits and terms of insurance coverage. The manner and frequency of premium collections shall, if possible, coincide with the cash flow of the insured and may be collected daily, weekly, monthly, quarterly, semi-annually, and annually whichever is applicable.
- (d) Effectivity: A microinsurance policy shall become effective immediately if either the microinsurance policy has been issued by the insurer or the first premium has been paid in full by the microinsurance policyholder, whichever is the earliest.
- (e) Claims procedures: A microinsurance policy shall clearly state when, where and how can a microinsurance policyholder make a claim, the documents required to make such claim, the claims process and expected turnaround time for settlement of the claim.
- (f) Dispute resolution: A microinsurance policy shall clearly state when, where and how can a microinsurance policyholder make complaint. This should state the contact details of both the insurer as well as the insurance ombudsman.
- (g) Waiting periods: maximum of 6 months for death or disability due to natural causes for policyholders not exceeding the age of 65 years. No waiting period shall be allowed for accidental death or accidental disability.
- (h) Grace period: 30 days grace period is allowed for any microinsurance policy. If there is a claim made during such grace period, the outstanding premium shall be deducted from such claim amount.
- (i) Exclusions: All exclusions shall be clearly stated in the microinsurance policy document. No exclusions shall be allowed for pre-existing conditions unless insurer can clearly justify otherwise to the Commission.
- (j) Deductibles: No deductibles shall be allowed in microinsurance policies unless insurer can clearly justify otherwise to the Commission.

- (k) Renewals: The insurer shall send notices to the microinsurance policyholder at least 45 calendar days prior to expiration of the contract. Such notice shall include in clear terms whether the contract may or may not be renewed and any changes to be made thereon, if renewed.
- (l) Contestability: The contestability period for a microinsurance policy shall be one (1) year.
- (m) Premium payment: The microinsurance policy shall clearly state the amount of premiums to be paid with respect to the policy, where and how to pay such premium and the consequences if premiums are not paid.

Schedule III

[See Rule 9(1)]

Code of Consumer Protection

This code of consumer protection shall be directly applicable to all insurers transacting the business of microinsurance. However, the insurers shall also ensure that their microinsurance agents and their specified persons fully understand and comply with this code.

1. Transparency.-

(1) The insurer shall provide to microinsurance policyholders with complete, accurate and understandable information regarding the microinsurance products offered to such policyholders. The wording, language and format of disclosures should be in a form that microinsurance policyholders with limited financial experience or literacy can comprehend. To adhere to this core value, the insurer shall ensure that:

- (a) any disclosure made to the microinsurance policyholder is written at least in Urdu language, avoiding any technical and legal terminology, to the maximum extent possible.
- (b) key facts about the microinsurance policy are disclosed to the microinsurance policyholders before or at the time of inception of the microinsurance policy contract such as:
 - (i) what it does and does not provide cover for such exclusions;
 - (ii) term of the microinsurance policy;
 - (iii) the premium amount due and premium payment frequency;
 - (iv) when and how a claim can be made under the microinsurance policy;
 - (v) what is the sum insured of such microinsurance policy which can be claimed;
 - (vi) renewal conditions of the microinsurance policy, if any.
- (c) the microinsurance policyholder is informed about the name of the insurer, written clearly in the microinsurance policy document and any other key facts documents.

- (d) the microinsurance policyholder is informed about the claims process, claim documents required and recourse mechanisms.
- (e) the microinsurance policyholder is informed about their responsibilities towards the insurer as clients, such as timely payment of premium and otherwise.
- (f) the microinsurance policyholder is informed about the obligations of insurers, microinsurance agents and others as may be relevant.

2. Fair Practices.-

(1) The microinsurance shall be completely devoid of unethical, illegal and unfair practices. The microinsurance services shall be provided to microinsurance policyholders in a manner that is legal, ethical, non-discriminatory and free of deception. To adhere to this core value, insurers shall agree to:

- (a) incorporate ethical and non-discriminatory values into their operations and act fairly, responsibly and reasonably while conducting microinsurance business activities;
- (b) provide microinsurance services to microinsurance policyholders regardless of gender, religion, race, sect or language;
- (c) act as competent and responsible microinsurance providers and make sure that the microinsurance is sold based on a sound and thorough assessment of the needs of microinsurance policyholders, including ability to pay the premium;
- (d) ensure that mechanisms are in place that will mitigate the impact of high pressure sales practices, by ensuring that microinsurance policyholders have reasonable time to consider the suitability of the microinsurance product on offer such that the microinsurance policy, not being a group life microinsurance policy, shall be liable to be cancelled at the option of the microinsurance policyholder within fourteen days of commencement, and if the microinsurance policyholder cancels the microinsurance policy within that time, all amounts paid by way of premium shall be refunded by the insurer, without any deduction for management expenses, other than expenses incurred in connection with the medical examination of any person insured under such microinsurance policy;
- (e) ensure that microinsurance services are provided using the most efficient methods possible to enable access to financial services by low income households at a reasonable cost;
- (f) ensure that the claim settlement process shall be simple, efficient and friendly to clients;
- (g) monitor claims settlement performance through such measures as loss ratios and claim turnaround time.

3. Privacy and Fair Disclosure.-

(1) The insurer shall responsibly safeguard the information provided by microinsurance policyholder and maintain the privacy of such microinsurance policyholder while upholding fair disclosure. To adhere to this core value, the insurer shall agree to:

- (a) keep the personal information of microinsurance policyholder strictly confidential, implement privacy measures with respect to such information disclosure and not pass it on to external users for any unauthorized purpose, except where required under the applicable laws;
- (b) restrict the divulgence of information of microinsurance policyholder to any third party, except in the circumstances where:
 - (i) the microinsurance policyholder has been informed about such disclosure and permission has been obtained from such policyholder;
 - (ii) the party seeking the information has been authorized by the microinsurance policyholder for such purpose;
 - (iii) it is legally required to do so;

4. Client Recourse.-

(1) The insurer shall ensure that microinsurance policyholders have a recourse avenue that is effective and straightforward. To adhere to this core value, the insurer shall agree to:

- (a) make itself easily accessible to the microinsurance policyholders, through telephone in case they have complaints or suggestions;
- (b) set up internal complaint handling systems which shall take steps to correct any omissions and handle complaints effectively;
- (c) provide, at the time of the microinsurance policy inception, the contact details of the insurer and the insurance ombudsman to the microinsurance policyholder, for the resolution of any potential complaints;
- (d) inform the microinsurance policyholder about the free look period, as required in para 2(1)(d), at the time of the microinsurance policy inception
- (e) conduct a biennial client survey in order to gauge the effectiveness of the microinsurance products and client satisfaction levels

Schedule IV

[See Rule 9(2)]

Code of Conduct for Microinsurance Agents

This Code of Conduct for Microinsurance Agents shall be applicable to all microinsurance agents and their specified persons.

1. Transparency.-

(1) The dissemination of transparent and truthful information to clients is critical for effective microinsurance. Clients shall be provided with complete, accurate and understandable information regarding the products offered to them. The wording, language and format of disclosures shall be in a form that microinsurance policyholders with limited financial experience or literacy can readily comprehend.

2. Fair Practices.-

(1) It is important that microinsurance should be completely devoid of unethical, illegal and unfair practices. It is important to provide the microinsurance services to the policyholders or intending policyholders in a manner that is legal, ethical, non-discriminatory and free of deception.

3. Privacy and Fair Disclosure.-

(1) It is important to responsibly safeguard the information provided by the microinsurance policyholder and to maintain such privacy and uphold fair disclosure.

4. Client Recourse.-

(1) It is important that the microinsurance policyholders have a recourse avenue, communicated clearly by the microinsurance agent to the microinsurance policyholders, which is effective and straightforward.

5. Dignified Treatment.-

(1) The microinsurance agents and their specified persons shall be cognizant of the need to be fair, disciplined and respectful in the provision of microinsurance. They shall also realize the necessity of preserving the dignity of microinsurance policyholders or prospective policyholders at all times as well as being respectful of cultural and gender matters.

(2) The microinsurance agents and their specified persons shall avoid inappropriate occasions such as bereavement in the family or other such calamitous occurrences for making calls or visits to collect premium and wait for a period of no less than seven days before making these calls or visits.

(3) The microinsurance agents and their specified persons shall interact with microinsurance policyholders in an acceptable verbatim language and dignified manner and spare no efforts in fostering the confidence of microinsurance policyholder..

(4) The microinsurance agents and their specified persons shall maintain decency and decorum during a collection of premium visit to a microinsurance policyholder and scrupulously avoid any demeanour which would indicate any kind of threat or violence.

(5) The microinsurance agents and their specified persons shall be considerate of a client's need for privacy when they present any queries or problems.

Schedule V

[See Rule 11(1)]

Reporting requirements for Insurers selling Microinsurance

Every insurer transacting the business of microinsurance shall be subject to the following regulatory reporting requirements:

1. Regulatory Returns.-

(1) For life microinsurance, when filing with the Commission the following items of information, which shall identify microinsurance as a separate category of business, in addition to the requirements laid down in Part VII of the Ordinance, shall be required;

- a. Statement of revenue and expenses (Form LD);
- b. Statement of premiums (Form LE);
- c. Statement of claims (Form LF).

(2) For non-life microinsurance, when filing with the Commission the following items of information, which shall identify microinsurance as a separate category of business, in addition to the requirements laid down in Part VII of the Ordinance, shall be required;

- a. Statement of premiums (Form GD);
- b. Statement of claims (Form GE);
- c. Statement of expenses (Form GF);
- d. Analysis of claims (Form GH);
- e. Risk exposure (Form GI).

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Bushra
19/6/13

(BUSHRA ASLAM)

Secretary to the Commission