



SECP  
Insurance Division  
Karachi

Reference No: ID/PRDD/PDW-II/BancaReg/2013/005

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**Circular No: 18 of 2013**

**Subject: Draft Bancassurance Regulations, 2013**

In exercise of the powers conferred by sub-section (3) of section 167 of Insurance Ordinance, 2000 read with clause (ii) of sub-section (1) of section 40 and clause (u) of section 20 of the Securities and Exchange Commission of Pakistan Act, 1997 thereof, the Commission is pleased to announce the publication of the Draft Bancassurance Regulations, 2013 to elicit public opinion thereon within thirty days from the date of its publication.

2 The draft regulations have been published in daily Dawn and Express Tribune today. The same have been placed at the following URL:

<http://www.secp.gov.pk/notification/pdf/2013/Draft-Bancassurance-Regulations-2013.pdf>

3 All concerned are advised to submit their comments, if any, on the above to the Commission by October 23, 2013. Any query on the above may be forwarded to the undersigned.

**Syed Nayyar Hussain  
Director**

**Distribution:**

1. Chief Executives of all Life and Non-Life Insurers.
2. Chief Executives of all Family Takaful & General Takaful Operators.
3. Chairman Insurance Association of Pakistan (IAP).
4. President (Institute of Chartered Accountants of Pakistan).
5. President (Pakistan Society of Actuaries)
6. President (Institute of Cost and Management Accountants of Pakistan).
7. Executive Director, BPRD (State Bank of Pakistan)
8. Chairman (Pakistan Bank's Association)
9. Joint Secretary Investment (Ministry of Finance Islamabad)
10. Joint Secretary Insurance (Ministry of Commerce Islamabad)
11. Executive Director (IS & T) (SECP Islamabad)
12. Secretary to the Commission (SECP Islamabad)

SECURITIES & EXCHANGE  
COMMISSION OF PAKISTAN  
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**PART II**

**Statutory Notification (S. R. O)**

**GOVERNMENT OF PAKISTAN**

**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

**NOTIFICATION**

*Islamabad, the-----September, 2013*

S.R.O\_\_/2013: The following draft regulations, made by Securities and Exchange Commission of Pakistan, in exercise of the powers conferred by sub-section (3) of section 167 of Insurance Ordinance, 2000 ( XXXIX of 2000) read with clause (ii) of sub-section (1) of section 40 and clause (u) of section 20 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997) thereof, are hereby published for the information of all the persons likely to be effected thereby and notice is hereby given that all draft will be taken into consideration after thirty days of its publication in the newspapers.

Any objections or suggestions which may be received from any person in respect of the said draft, before the expiry of the aforesaid period shall be taken into consideration by the Securities and Exchange Commission of Pakistan.

**CHAPTER 1**

**PRELIMINARY**

**1. Short title, Commencement and Applicability. –**

- (1) These Regulations may be called the Bancassurance Regulations, 2013.
- (2) These Regulations shall come into force at once.
- (3) These Regulations shall apply on all new Bancassurance Agency Agreements signed on or after January 1, 2014 and on existing Bancassurance Agency Agreements in force as on December 31, 2013 and for all existing Bancassurance Agency Agreements, the Bank and the Insurer shall make amendments in the existing relationship, wherever necessary, to comply with these Regulations. Such amendments shall be completed no later than December 31, 2013. The Insurer shall send a written confirmation, signed by the Designated Insurance Executive, to the Commission mentioning that the necessary changes have been completed and the relationship with the Bank complies with the requirements of these Regulations.

2. **Definitions.**- (1) In these Regulations, unless there is anything repugnant in the subject or context,-
- (a) **"Annexure"** means annexures appended to these Regulations;
  - (b) **"Bancassurance"** means the offering, advertising, distributing, selling and/or marketing of insurance products by a Bank incorporated under relevant laws of Pakistan to their account holders / customers / general public through their sales and distribution channels including but not limited to branches, telemarketing centres, websites etc. by virtue of Bancassurance Agency Agreement(s) between the Insurer and the Bank whereby the Bank acts as the corporate agent of the Insurers;
  - (c) **"Bancassurance Agency Agreement"** called by whatever name or title, means a legal contract between the Bank and the Insurer, under which the former acts as the corporate insurance agent of the latter, meeting all the requirements of the relevant provisions of the Ordinance and Insurance Rules;
  - (d) **"Bank"**, for the purpose of these Regulations, means:
    - (i) a "Banking company" as defined in Clause (vii) of Section 2 of the Ordinance;  
or
    - (ii) a "scheduled bank" as defined in Clause (lvii) of Section 2 of the Ordinance; or
    - (iii) any other institution or organisation directly or indirectly regulated by the State Bank of Pakistan;
  - (e) **"Bank Insurance Executive"** means an employee of the Bank, by whatever name, title or designation called, directly or indirectly responsible for managing the Bancassurance arrangement for the Bank who complies with the provisions of sub-section (1) of section 96 of the Ordinance, and such individual shall also comply with the provision of Section 97 of the Ordinance;
  - (f) **"Certification"** means the process by which a Specified Person is issued a certificate jointly by the Bank and the Insurer entitling him to solicit and procure insurance business on behalf of the Insurer under the Bancassurance Agency Agreement;
  - (g) **"Commission"** means the Securities and Exchange Commission of Pakistan established under section 3 of the SECP Act 1997;
  - (h) **"Designated Insurance Executive"** means an employee of the Insurer, called by whatever name, title or designation, directly or indirectly responsible for managing the Bancassurance arrangement with the Bank on behalf of Insurer;
  - (i) **"Direct Sales Model"** means a particular bancassurance distribution model whereas the Bank uses its own sales force to market and distribute insurance products through its network;
  - (j) **"Group Life Insurance Policies"** means a life insurance contract having a term not exceeding one year, offered on yearly renewable term and group underwriting basis through a master policy document. The policyholder is a company, body corporate, bank, registered association or any enterprise having a separate legal entity. It excludes

Group Life policies with cash values and Individual Life policies which may be sold to a group of individuals;

- (k) **"Insurer"** means an insurance company registered under the Ordinance to carry on insurance business;
  - (l) **"Insurance Consultant"** means a specified person who is an employee of the Insurer and is responsible for soliciting and procuring insurance business under the Bancassurance Agency Agreement;
  - (m) **"Insurance Rules"** means the Securities and Exchange Commission (Insurance) Rules 2002, Insurance Rules 2002; and/or Takaful Rules 2005 or any other rule(s) issued under the Ordinance;
  - (n) **"Ordinance"** means the Insurance Ordinance, 2000 ( XXXIX of 2000);
  - (o) **"Persistency"** means the ratio of renewal year premiums collected in a policy year to the premiums due in the same policy year (the premiums due being inclusive of any increases as a result of a policy provision);
  - (p) **"Policyholder"** shall have the same meaning as per Section 2(xlvi) of the Ordinance;
  - (q) **"Protection Products"** refer to regular premium individual insurance products with no element of savings or investments for the policyholder, such as term life policies;
  - (r) **"Referral Model"** means a particular bancassurance business distribution model whereas the Insurer uses its own Insurance Consultants to market and distribute insurance products through the Banks' distribution network based on sales leads generated by the Bank;
  - (s) **"Savings Products"** refer to regular premium individual life insurance products which have a savings or investment portion for the policyholder. This includes Investment Linked Unit Linked policies, Investment Linked Account Value policies, Universal Life policies, and with/without profits conventional endowment and whole life plans;
  - (t) **"Regulations"** means Bancassurance Regulations 2013;
  - (u) **"Specialized Training"** includes orientation, particularly in the area of insurance sales, service and marketing, as per the relevant provisions of the Ordinance, the Rules and the directives issued by the Commission;
  - (v) **"Specified Person"** means either an employee of the Bank or an employee of the Insurer who has undergone the required practical training, examination, certification in respect of Bancassurance arrangement/product, and who is responsible for soliciting and procuring insurance business for the Insurer under the Bancassurance Agency Agreement; and
  - (w) **"Schedule"** means schedules appended to these Regulations.
- (2) All words and expressions used in these Regulations but not defined shall have the same meaning as assigned to them in the Ordinance and the Insurance Rules.
- (3) In these Regulations, the word "Takaful may be used interchangeably with the word 'insurance', 'Family Takaful' with 'Life Insurance', 'General Takaful' with 'General Insurance',

'contribution' with 'premium', 'insured' with 'policyholder' and 'Company' & "Insurer" with 'Takaful Operator'. Similarly other terms used in the Takaful Rules, 2005 associated with the Takaful business may be used interchangeably with their conventional counterpart words/terms.

## **CHAPTER II**

### **NATURE AND SCOPE OF BANCASSURANCE ARRANGEMENTS**

3. **Basis of Contract.-** (1) The sale of all insurance products by any Bank on behalf of an Insurer must be done in such a manner which demonstrates that the prospective purchaser of insurance policy makes an offer by signing a proposal form to enter into the insurance contract either through the Bank, being a corporate Insurance agent on behalf of the Insurer or with the Insurer directly.
  - (2) Without the evidence of offer and acceptance, no insurance sale shall be deemed to be completed and the insurance contract shall be considered null and void.
  - (3) The role and function of the Bank as a corporate insurance agent shall be subject to the provisions of Ordinance including but not limited to eligibility, qualification and liability of insurance agents.
  
4. **Bancassurance Arrangement between Insurer and Bank.-** (1) Any Bancassurance arrangement shall not be valid unless it incorporates the following components entered into written Bancassurance Agency Agreement which shall,-
  - (a) not contain any provisions which reduce in any way the liability or responsibility of the Insurer towards the Policyholder under the Ordinance and Insurance Rules;
  - (b) specify any functions which the Insurer, as a part of such arrangement, intends to delegate to the Bank;
  - (c) clearly define the Certification process which shall include a definition of the training required prior to Certification;
  - (d) contain a provision which clearly states the "termination of agreement" clause and rights and obligation of the Bank and Insurance Company subsequent to such termination and such clause shall also state the treatment to be given to existing policyholders and remuneration to the Bank subsequent to the termination; and
  - (e) contain a provision whereby the Bank explicitly agrees to adhere to the provisions of these Regulations and the provisions of the Ordinance and the Insurance Rules in its capacity as a corporate insurance agent.
  
5. **Premium Collection.-** (1) The Insurer may assign the responsibility of collecting premiums due on policies once issued through the Bank but before it does this, the Insurer shall ensure

- that the Bank has the necessary premium collection system, such as automated direct debit system, debit on credit cards or any other system, in place.
- (2) Where the Insurer is not satisfied with the Bank's capability to collect regular premiums and to effectively follow up on premiums due but not paid, the premium collection function shall be controlled by the Insurer.
  - (3) The Insurer shall also ensure that the Bank's premium collection system is effectively working and, if it is not, shall take such action as is required to ensure that it is effective, including the withdrawal of the premium collection function from the Bank.
  - (4) The Bank shall always pay the gross premium to the Insurer and shall not retain any part of the insurance premium received from the policyholders for payment to the Insurer.
  - (5) Every Bank shall, with a view to conserve the insurance business already procured through it, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by notifying the policyholders orally and in writing, or through other means such as call centre email or SMS and the Insurance Company shall advise the Bank of its desired level of business persistency from time to time and the Bank shall make all reasonable efforts to ensure that its systems and processes are in place to meet these levels.
  - (6) In the case of life Insurance, the Insurer shall also ensure that notices under Section 93 of the Ordinance are sent to the policy holders.
  - (7) Any payment for premium made by the policyholder and received by the Bank shall be deemed to constitute payment to the Insurer.
- 6. Marketing Brochures and Sales material.-** (1) The content and layout of all marketing and sales related materials used to solicit Bancassurance business shall be approved both by the Bank and the Insurer and should not be in conflict with applicable insurance laws and regulations.
- (2) In all such material the relative roles of the Bank and the Insurer shall clearly be stated at a prominent place and such statement must particularly contain the fact that the Bank's role is that of a corporate insurance agent and that the Insurer as principal is responsible for all liabilities under the policy and in all such material the name, address and contact details of the Insurer shall be mentioned at a prominent place.
  - (3) The market conduct rules and rules issued in respect of the insurance agent by the Commission shall be observed by the Bank.
  - (4) For Life Insurance, wherever applicable, Illustration of benefits, on the prescribed format provided by the Insurer shall be signed by the Specified Person and the intending Policyholder and any insurance proposal, where the Illustration of benefits is missing, unsigned or is not based on the product parameters mentioned in the proposal form, shall not be accepted by the Insurer for any further process.
- 7. Claims Handling.-** (1) Under the Bancassurance arrangement, the claim adjudication and settlement shall be the responsibility of the Insurer and the Bank shall play a facilitating role by assisting the policyholder or nominee(s), as the case may be, in claim processing. The contact details of the Insurer for claim settlement shall be prominently displayed on the insurance contract and also be made available by the Insurer to the Bank so that the information can be cascaded to the policyholder or nominee(s) at the time of claim intimation.

- (2) The Bank shall facilitate the Insurer in all possible manner in collecting the necessary documents and information related to claims, as requested by the Insurer and the Bank shall not question the information requested by the Insurer for claim adjudication and settlement, and shall not interfere with or influence the decision of the Insurer regarding the payment or repudiation of a claim.
  - (3) The Insurer shall make the claim settlement directly in the name of the policyholder or his nominee, as the case may be.
- 8. Commission Payable to Bank.-** (1) The level of commission payable to the Bank for its role of soliciting and procuring insurance business as corporate insurance agent may vary based on any performance criteria which the Insurer and Bank may agree and the rates and structure of the commission shall be clearly mentioned in the Bancassurance Agency Agreement.
- (2) Any commission to be paid by the Insurer to the Bank must be computed on premiums received by the Insurer and under no circumstances the commission on premiums to be received in future, be paid.
  - (3) The Bank shall not charge, to the policyholder, any service fee, processing fee, administration charge or any other charge unless such a charge has been included by the Insurer in the premium and communicated to the policyholder in advance.
  - (4) Nothing in Regulation 8(1) shall prevent the Insurer from sharing any third party costs incurred by the Bank related to advertising or development of marketing material.
  - (5) The following shall be applicable for **Life Insurers**, in addition to those stated above:
    - (a) The commission payable to the Bank shall be in the form as set out in these Regulations and shall not exceed the limits set out in these Regulations; and
    - (b) Any sharing of third party costs incurred by the Bank related to advertising or development of marketing material shall be subject to any limits prescribed in these Regulations.
- 9. Pricing /Risk Assessment/Insurance Related Documents.-** (1) Pricing of insurance products shall be the sole domain of the Insurer and the Bank shall not interfere in this process.
- (2) Risk assessment, determining the risk premium and insurance underwriting shall be the responsibility of the Insurer and the Bank shall not interfere in this process.
  - (3) Where the Insurer has provided automated underwriting software to the Bank to accept and underwrite insurance proposals, the Bank may use the system based on the exact guidelines provided by the Insurer.  
(For insurance proposals underwritten through such a system, and where the policy can be issued immediately without referring the proposal to the Insurer, the

Bank, based on the guidelines provided by the Insurer, may issue policy/certificate/document to the Policyholder).

- (4) The Bank shall abide by the guidelines provided by the Insurer for usage of the automated underwriting computer system and the use of the system by any sales channel of the Bank does not imply in any way, or entitle the Bank to represent itself or act as the insurance underwriter.
- (5) The Bank's name shall not appear in the policy document as this could mislead or deceive the buyer of the insurance product and all requirements for new products (for life insurance), as mentioned in the Ordinance, shall be complied with by the Insurer.
- (6) The Insurer shall submit a copy of the Bancassurance Agency Agreement that it has entered into with the Bank for the record of the Commission within 7 days of its execution. This requirement shall apply to both Life and Non-Life Insurers.

### **CHAPTER III**

#### **CODE OF CONDUCT FOR BANK, INSURER AND SPECIFIED PERSONS**

**10. Code of Conduct for Bank.-** (1) Every Bank shall, -

- (a) ensure that the Bank Insurance Executive and all Specified Persons are properly trained as per the relevant provisions of the Ordinance and possess sound knowledge of the insurance products they would market, and have undergone the process of the Certification.
- (b) ensure that the Bank Insurance Executive and the Specified Person do not make any misrepresentation or make misleading statement to the prospect on policy benefits and returns available under the policy which may tantamount to misleading or being deceptive under the relevant provisions of the Ordinance in respect of the market conduct.
- (c) ensure that no prospect is coerced by the Bank Insurance Executive or Specified Person to buy an insurance product.
- (d) give adequate pre-sale and post-sale advices to the prospective insured in respect of the insurance product.
- (e) extend all possible assistance and cooperation to an insured/nominee in completion of all formalities and documentation in the event of a claim; and
- (f) give due publicity to the fact that the Bank does not underwrite the risk or act as an Insurer;



**11. Code of Conduct for Bank Insurance Executives and Specified Persons.-**

- (1) Every Bank Insurance Executive or Specified Person shall,-
  - (a) identify that the Bank is acting as an agent of the Insurer at every meeting with the prospect and shall always ensure mentioning the name of the Insurer to the prospect;
  - (b) disseminate the requisite information in respect of the insurance products offered for sale by the Insurer and take into account the needs of the prospect while recommending/tailoring a specific insurance plan;
  - (c) indicate the premium to be charged by the Insurer for the insurance product offered for sale;
  - (d) for an insurance product which is bundled with a Bank product, mention the cost of the insurance product and the Bank product separately;
  - (e) guide the prospect in completing the proposal form and also explain to him the importance of disclosure of material information required under the relevant insurance contracts;
  - (f) obtain the requisite documents at the time of completion of the proposal form by the prospect and other documents subsequently asked by the Insurer in connection therewith; and
  - (g) render such assistance to the policyholder or claimant or nominee, as may be required in complying with the requirements for settlement of claims by the Insurer.
  
- (2) No Specified person shall,-
  - (a) solicit or procure insurance business without undergoing the Certification process;
  - (b) give information to the prospect which deviates from the information provided by the Insurer with regard to the insurance product;
  - (c) induce or misguide the prospect to avoid disclosing any material information in the proposal form;
  - (d) induce or misguide the prospect to submit wrong information in the proposal form or documents submitted to the Insurer for acceptance of the proposal;
  - (e) behave in a discourteous manner with the prospect;
  - (f) interfere with any proposal introduced by any other Specified Person or any insurance agent of the Insurer;
  - (g) offer different rates, benefits, terms and conditions other than those offered or agreed by the Insurer;
  - (h) demand or receive a share of proceeds from the policyholder or claimant or nominee under an insurance contract;
  - (i) force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination; and
  - (j) become or remain a director of any Insurer;

## CHPATER IV

### LIMIT ON THE COMMISSION PAYABLE TO BANK

12. **Direct Sales Model.-** Where Bank uses its own sales force to market and distribute insurance products through its own distribution channel then such a model shall be referred to as the Direct Sales Model.
- (a) **Regular Premium Individual Life Plans.-** (Savings Products and Protection Products)
- (i) **First Policy Year Commission to Bank.-** In the first policy year the commission to the bank will be subject to the maximum limit given as per Table A1 in Schedule to these Regulations;
- (ii) **Renewal years commission to Bank.-** For the bank's efforts in collecting second year and subsequent year's premium the second policy year commission and subsequent policy year commission to the Bank (as a % of the corresponding policy year collected premium) will be subject to the maximum limit given as per Table A1 in Schedule to these Regulations;
- Share in Investment Management Charge** (as an alternative to second policy year and onwards commission rate); Starting from the second policy year onwards, for Investment Linked Unit Linked and Investment Linked Account Value products, the Insurer shall be allowed to share with the Bank, a part of the Investment Management Fee as a % of the net asset value (NAV) of the underlying unit linked fund, or the investment fund up to the extent of the fund attributable to the policies procured through the Bank. The maximum share of the Bank in the NAV shall at any time not exceed 50% of the total Investment Management Fee charged by the Insurer on the fund to the extent of the policies procured through the Bank, up to a maximum of 0.75% per annum of the NAV.
- (iii) **Production Bonus.-** In lieu of a lower first policy year commission, an Insurer shall be allowed to pay Production Bonus to the Bank linked to achievement of mutually agreed new business targets. The sum of the Production Bonus percentage and first policy year commission shall not exceed the maximum commission rate mentioned in Schedule to these Regulations. The Production Bonus in aggregate as a % of the first policy year collected premium shall not exceed 5%.
- (iv) **Persistency Bonus.-** For the Bank's efforts in collecting renewal premium, and improving and maintaining persistency, an Insurer shall be allowed to pay

Persistency Bonus to the Bank based on minimum persistency level achieved and the rates as per as per Table A1 in Schedule to these Regulations. An Insurer may split 5<sup>th</sup> year and onward commission rates into upfront commission and targeted persistency level.

(v) **Maximum Aggregate Commission.-** The maximum commission payable, i.e. cumulative First policy year, Second policy year and Subsequent policy year onwards commission, as stated above, over the entire premium paying term of a policy shall not exceed the maximum limits prescribed as per Schedule to these Regulations. For policies with premium paying terms between 10 and 20 years, or terms less than 10 years, these limits shall be prorated according to premium paying term.

(b) The maximum commission limits as per Schedule to these Regulations will also be applicable for Single Premium Savings products, Regular Premium annuities, Regular premium personal accident type policies, Group Term Life Policies for retail customers of Bank, including yearly renewable term policies, personal accident policies, Group credit life and similar products.

**13. Sales and Marketing Incentives to Banks.-** To promote Bancassurance business, an Insurer shall be allowed to share with the Bank in the costs of sales and marketing incentives including sales conventions and awards called by whatever name. The share of the Insurer in such activities shall not exceed 5% of the first policy year collected premium.

**14. Referral Model.-** (1) If an Insurer uses its own 'Insurance Consultants' to market and distribute insurance products through the Banks' distribution channel based on sales leads generated by the Bank such a model shall be referred to henceforth as the "Referral Model".

(a) The total direct expenses incurred by the Insurer in respect of new business as commission to the Bank, salaries and commission to its Insurance Consultants, sales and marketing incentives to the Bank or its Insurance Consultants and Production Bonuses shall be within the aggregate of all first year limits prescribed in 13 and 14 above for each type of product.

(b) The total second year and renewal year direct expenses incurred by the Insurer such as commission to the Bank and/or Its Insurance Consultants, and Persistency Bonus shall be within the aggregate of all second and third year onwards limits prescribed in 13 above for each type of product.

(c) The following shall apply to Regular Premium Individual Life Plans (Savings Products and Protection Products), to addition to 15(a) and 15(b) where relevant:

(i) **First Policy Year Commission to Bank** (as % of first year collected premium):  
The first year commission to the bank shall be as per Table B in Schedule. The Insurer may, based on the product structure, link the commission rate to the premium paying term of the policy, subject to the condition that the maximum commission at any premium paying term shall not exceed the above maximum limit).

(ii) **Renewal Year Commission to Bank.**- Bank's effects in collecting second policy year and renewal premium, Commission to Bank (as a % of the second year collected premium) as per Table B under Schedule to these Regulations.

**Persistency Bonus:** For the Bank's efforts in collecting renewal premium, and improving and maintaining persistency, an Insurer shall be allowed to pay Persistency Bonus to the Bank based on minimum persistency level achieved and the rates as per Table B under Schedule to these Regulations. An Insurer may split 5<sup>th</sup> year and onward commission rates into upfront commission and targeted persistency level.

(iii) where the Bank agrees to a commission rate which is less than the maximum prescribed in Schedule, the Insurer shall have the option to pay the difference in the commission rate as part of the second or later years' commission, provided the product structure permits such a commission structure.

(2) An Insurer shall not give commission to a Bank in any manner other than as described above in this section.

## 15. Commission Claw-back.-

(1) **Discontinuation of Life Insurance Policies:** If a regular premium individual life insurance policy is discontinued during the first policy year or before the payment of second year annual premium, then the following shall be applicable:

(a) where the premium payment mode is *annual* and the reason for discontinuation is *lapsation* due to non-payment of second year premium within the grace period, then the entire first year commission paid by the Insurer to the Bank will be clawed back and paid to the Policyholder;

(b) where the premium payment mode is *annual* and the reason for discontinuation during the first policy year is *surrender* at the request of the Policyholder on the

grounds of being missold, then the entire first year commission paid by the Insurer to the Bank will be clawed back and paid to the Policyholder;

- (c) where the premium payment mode is *non-annual* and the reason for discontinuation is *lapsation* due to non-payment of premium during the first policy year including the grace period, then the entire first year commission paid by the Insurer to the Bank will be clawed back and paid to the Policyholder; and
- (d) where the premium payment mode is *non-annual* and the reason for discontinuation during the first policy year is *surrender* at the request of the Policyholder on the grounds of being missold, then the entire first year commission paid by the Insurer to the Bank will be clawed back and paid to the Policyholder.

(2) **Reduction in Premium:**

- (a) **Excessive Reduction:** If during the second policy year, the annual premium of a regular premium individual life insurance policy is reduced by more than 20% of the original annual premium, then the excessive reduction i.e. the difference between actual reduction and allowed reduction of 20% will be deemed to be an ad-hoc premium paid by the Policyholder in the first policy year as a single year premium. The excessive reduction in the annual premium will be transferred to the Policyholder's investment or unit value to give an effect that such differential commission is paid by the Policyholder along with the most recent premium payment.
- (b) **Differential Commission on Excessive Reduction:** The differential commission will be calculated by applying the difference in commission rate in the first year between a regular premium plan and single premium plan on the excessive reduction. The differential commission will be clawed back from the Bank and retained by the Insurer.

16. **Minimum Surrender Values.-** (1) This Section is applicable for regular premium individual life investment plans offered under a bancassurance arrangement as investment contracts (i.e. either investment linked unit linked policy or investment linked account value policy) or conventional non-linked policy with cash value.

(2) Where an investment contract is discontinued as per paragraphs (a) to (d) under Rule 16(1), then the Insurer will pay 100% of the Policyholder's investment account or unit value to the Policyholder along with the commission clawed-back.

- (3) If a conventional non-linked individual life policy (with cash value) is discontinued as per paragraphs (a) to (d) under Rule 16(1), then the Insurer will pay 30% of the first year premium to the Policyholder along with the commission clawed back.
- (4) For the purpose of sub-regulation (2) above, the account value or unit value shall be calculated based on the unit valuation methodology in respect of in-force policies as on the expiry of the grace period of the policy.

**17. Sales Process for Bancassurance Business.-**

(1) **Insurance Need Analysis Document.-** No life insurance policy will be sold through bancassurance channel unless the specified person has carried out an “Insurance Need Analysis” of the prospective customer. A general format has been given in Annexure to these Regulations containing the minimum aspects to be covered by such a document. An Insurer may use a different format for additional information.

(2) **Illustration to be given in both Urdu and English languages.-** No life insurance policy will be sold unless the “illustration” is given in both Urdu and English languages and comprehensively explained to a prospect.

(3) **Illustration to be given as a stand-alone document.-** The Bank shall ensure that the illustration has been given to a prospect as a stand-alone document enabling him to take an informed decision considering the appropriateness of a particular insurance product with his identified insurance needs. The Bank shall ensure that there must be a reasonable time period available to a prospect to understand the illustration before purchasing a life insurance product.

**18. Minimum Financial Protection under Regular Premium Individual Life Plans.-**

(1) All life Insurers carrying out unit linked business shall offer the unit linked products whereas the financial protection component (i.e. life insurance coverage) shall not be less than as specified in table below:

| <b>Type of Product</b>   | <b>Minimum Financial Protection</b><br>(life insurance cover for death due to any cause)  |
|--|---|
| Regular premium individual life contracts<br>(Endowment, wholelife etc.)   | 10 times the basic annual premium   |
| Child education / marriage or family income benefit contracts (where no fixed sum cover is paid on death due to any cause) | The present value of the income benefit calculated at policy inception shall not be less than 10 times the basic annual premium |
| Single premium contracts / funds accelerated / adhoc / top-up premium  | 1.25 times the premium amount   |

(2) For children education, children marriage, family income benefit and similar plans the present value shall be calculated on the same basis as being used for determining the sum cover to be ceded to Re-insurer under existing reinsurance arrangement of the Insurer.

**19. Minimum Term of the Regular Premium Individual Life Plans.-** No Insurer shall issue an individual life insurance regular premium (saving) plan of a term shorter than 5 years through the bancassurance channel.

**20. Recycling of Life Insurance Policies.-**

(1) Where a regular premium individual life policy is lapsed / surrendered during the first three policy years, then unless that policy is reinstated / revived, a Bank will not sale a new individual life policy to the same Policyholder through the same Insurer or through a different Insurer within a year from the effective date of the policy acquiring lapsed / surrendered status.

(2) Where a regular premium individual life policy is lapsed / surrendered after the third policy year, than unless that policy is reinstated / revived or the Policyholder has separately consented to that effect, a Bank will not sale a similar new individual life policy to the same Policyholder through the same Insurer or through a different Insurer within a year from the effective date of the policy acquiring lapsed / surrendered status.

**21. Minimum Financial Underwriting.-** (1) An Insurer will consider the regular income of the proposed Policyholder in determining the affordability of the policy from the Policyholders' perspective:

*Explanation:-* For the purpose of this sub-regulation, the amount of the annual premium shall not be more than 20% of the regular annual income of the Policyholder.

(2) An Insurer should consider, amongst other pertinent factors, the average balance maintained by the prospect at the concerned Bank during at least the last year in assessing his annual regular income.

**22. After Sale Call by the Insurer to All Policyholders.-** (1) The Insurer shall make a structured telephonic call within the free look period to all Policyholders to confirm their understanding of the product, appropriateness of the product considering the identified insurance needs and affordability of the product for the entire term. The Insurer will retain the record of such calls, preferably using Interactive Voice Response System, for at least 5 years or maturity of the product whichever is earlier.

- (2) Where the policyholder gives an adverse response, the Insurer will return the premium to the policyholder within 15 days of such call.

## CHPATER V

### REGULATORY REPORTING OF BANCASSURANCE BUSINESS

- 23. Financial Reporting.-** Every Insurer shall at the expiration of each year prepare and deliver to the Commission with reference to that year's annual bancassurance business, the following statement duly audited by an approved auditor:
- (a) Statement of premium (for aggregate bancassurance business)
  - (b) Statement of premium (for each Bank)
  - (c) Statement of expenses (for aggregate bancassurance business)
  - (d) Statement of expenses (for each Bank)
  - (e) Statement of claim (for aggregate bancassurance business)
  - (f) Statement of claim (for each Bank)
  - (g) Such other statements as may be prescribed by the Commission
- 24. Information to be provided in Financial Condition Report (FCR) in respect of Bancassurance Business.-** Every Insurer carrying out bancassurance business shall prepare and file with the Commission the following statements which shall be annexed to the financial condition report, as required under Section 50 of the Ordinance and the formats of these forms should be in accordance with the Annexure IV to the SECP (Insurance) Rules 2002 as modified on 9 January 2012 or any subsequent modification. If this information relates to a shorter period than a year, the forms may be adjusted accordingly.
- (a) in respect of Investment Linked Business:
- (i) Form LB-1;
  - (ii) Form LB-2;
  - (iii) Form LB-3;
  - (iv) Form DD;
  - (v) Form DDD; and
  - (vi) Form DDDD;
- (b) in respect of Non-Investment Linked Business:
- (i) Form NLB-1;
  - (ii) Form DD;
  - (iii) Form DDD;



(iv) Form DDDD;

(c) in respect of Universal Life and Universal Life Hybrid Business:

- (i) Form ULB-1;
- (ii) Form DD;
- (iii) Form DDD; and
- (iv) Form DDDD;

(d) in respect of Accident and Health Insurance Business, -

(i) Form NLB-1.

(e) Summary statements:

- (i) Form H;
- (ii) Form I; and
- (iii) Statement of Composition and Distribution of surplus in respect of Policyholders' fund

**25. Reporting of Statement of Maximum Management Expenses.-** In addition to the information required under (1) and (2) above, every Insurer once a year, along with the Statement of Maximum Management Expenses as required under Sections 22(9) and 23(9) of the Ordinance, file an itemized computation for each Bank and product. This statement shall be certified by the external auditor and Appointed Actuary.

**26. Repeal.-** Bancassurance Guidelines 2010 is hereby repealed.

Schedule

Maximum Limits on Commission Payable to Bank in a Specific Policy Year

(These limits are subject to the aggregate limits as per Table B below whereas the proportionate reduction to be applied on each year's maximum commission rate)

Table A1. Direct Sales Model

| Product                               | Year 1          |                 | Year 2              |            |                  | Year 3          |                     |            | Year 4+          |                 |
|---------------------------------------|-----------------|-----------------|---------------------|------------|------------------|-----------------|---------------------|------------|------------------|-----------------|
|                                       | Commission Rate | Commission Rate | Persistency Bonus   |            | Total Commission | Commission Rate | Persistency Bonus   |            | Total Commission | Commission Rate |
|                                       |                 |                 | Minimum Persistency | Bonus Rate |                  |                 | Minimum Persistency | Bonus Rate |                  |                 |
| Regular Premium Individual Life Plans | 45%             | 5%              | 80%                 | 10%        | 15%              | 2.5%            | 90%                 | 5%         | 7.5%             | 2.5%            |
| Single Premium Investment Plans       | 4%              | NA              | NA                  | NA         | NA               | NA              | NA                  | NA         | NA               | NA              |
| Regular Premium Annuities             | 10%             | 2.5%            | 80%                 | 2.5%       | 5%               | 2.5%            | 90%                 | 2.5%       | 5%               | 2.5%            |
| Regular Premium Personal Accident     | 50%             | 40%             | 80%                 | 10%        | 50%              | 40%             | 80%                 | 10%        | 50%              | 40%             |
| Group Credit Life and Similar Plans   | 50%             | NA              | NA                  | NA         | NA               | NA              | NA                  | NA         | NA               | NA              |

Table A2. Referral Model

| Product                               | Year 1          |                 | Year 2              |            |                  | Year 3          |                     |            | Year 4+          |                 |
|---------------------------------------|-----------------|-----------------|---------------------|------------|------------------|-----------------|---------------------|------------|------------------|-----------------|
|                                       | Commission Rate | Commission Rate | Persistency Bonus   |            | Total Commission | Commission Rate | Persistency Bonus   |            | Total Commission | Commission Rate |
|                                       |                 |                 | Minimum Persistency | Bonus Rate |                  |                 | Minimum Persistency | Bonus Rate |                  |                 |
| Regular Premium Individual Life Plans | 35%             | 5%              | 80%                 | 10%        | 15%              | 2.5%            | 90%                 | 5%         | 7.5%             | 2.5%            |
| Single Premium Investment Plans       | 4%              | NA              | NA                  | NA         | NA               | NA              | NA                  | NA         | NA               | NA              |
| Regular Premium Annuities             | 7.5%            | 2.5%            | 80%                 | 2.5%       | 5%               | 2.5%            | 90%                 | 2.5%       | 5%               | 2.5%            |
| Regular Premium Personal Accident     | 40%             | 30%             | 80%                 | 10%        | 40%              | 30%             | 80%                 | 10%        | 40%              | 30%             |
| Group Credit Life and Similar Plans   | 40%             | NA              | NA                  | NA         | NA               | NA              | NA                  | NA         | NA               | NA              |

Table B. Maximum Limits on Aggregate Commission Payable to a Bank over Entire Policy Term

| Maximum Aggregate Commission (excluding persistency bonus) for regular premium paying plans | For Individual Life Insurance Policies with a Premium Payment Term of |          |         |                                   |
|---|---|----------|---------|-----------------------------------|
|   | 20 Years or more  | 10 Years | 5 Years | Between 10 to 20 or 5 to 10 years |
| Direct Sales Model  | 95%   | 65%      | 30%     | On linear proportionate basis     |
| Referral Model  | 85%   | 55%      | 25%     |                                   |

**Annexure**

Insurance Need Analysis of Mr. \_\_\_\_\_

| Basic Information   |  |             |         |            |               |         |
|---|--|-------------|---------|------------|---------------|---------|
| Name  |  |             |         |            |               |         |
| Address   |  |             |         |            |               |         |
| Telephone (Landline / Mobile)                             |  |             |         |            |               |         |
| E-mail Id   |  |             |         |            |               |         |
| Date of birth   |  |             |         |            |               |         |
| Marital status  |  |             |         |            |               |         |
| State of health   | Excellent/Very good/Good/Moderate/Poor |             |         |            |               |         |
| Smoker  | Yes/No                                 |             |         |            |               |         |
| Family Details  |  |             |         |            |               |         |
| Number of dependents                                      |  |             |         |            |               |         |
| Details of dependents                                     | 1                                      | 2           | 3       | 4          | 5             |         |
| Name  |  |             |         |            |               |         |
| Relationship  |  |             |         |            |               |         |
| Age   |  |             |         |            |               |         |
| State of Health (Excellent/Very Good/Good/ Moderate/Poor) |  |             |         |            |               |         |
| Occupation  |  |             |         |            |               |         |
| Income if any   |  |             |         |            |               |         |
| Whether financially dependent                             |  |             |         |            |               |         |
| Any scope of expansion of family                          | Yes/No                                 |             |         |            |               |         |
| Employment Details  |  |             |         |            |               |         |
| Occupation  |  |             |         |            |               |         |
| Length of service   |  |             |         |            |               |         |
| Annual Income   |  |             |         |            |               |         |
| Covered under pension scheme?                             |  |             |         |            |               |         |
| Normal retirement age                                     |  |             |         |            |               |         |
| Financial Details   |  |             |         |            |               |         |
| Value of Savings and Assets                               |  |             |         |            |               |         |
| Details of Liabilities/ Outstanding Loan                  |  |             |         |            |               |         |
| Expected Inheritance                                      |  |             |         |            |               |         |
| Pension Details   |  |             |         |            |               |         |
| Employer's Scheme/Insurance                               |  |             |         |            |               |         |
| Personal Contribution/Premium                             |  |             |         |            |               |         |
| Retirement Age  |  |             |         |            |               |         |
| Anticipated Value   |  |             |         |            |               |         |
| Future Saving Needs                                       |  |             |         |            |               |         |
| For Education for Children                                |  |             |         |            |               |         |
| For Wedding   |  |             |         |            |               |         |
| For House Purchase  |  |             |         |            |               |         |
| Others  |  |             |         |            |               |         |
| Existing Life Assurance Plans                             |  |             |         |            |               |         |
| Company   | Policy No.                             | Sum Assured | Premium | Start Date | Maturity Date | Purpose |
|   |  |             |         |            |               |         |
|   |  |             |         |            |               |         |

| <b>Financial Priorities and Objectives</b>  |  |
|---|--|
| <b>What is more important for you? (Please number in order of priority)</b>                                   |  |
| Financial Security for family in the event of death   |  |
| Financial Security in the event of Critical Illness   |  |
| Providing Retirement Income   |  |
| Planning for your children's education  |  |
| Planning for your children's wedding  |  |
| Building capital through regular saving   |  |
| Investing existing capital for better return  |  |
| <b>Identified Insurance Needs</b>   |  |
| Life Insurance (Death/Maturity)   |  |
| Desirable Sum Assured   |  |
| Health Insurance  |  |
| Desirable limit of coverage per annum   |  |
| Savings and Investment Planning   |  |
| Desirable returns per annum   |  |
| Pension planning  |  |
| Desirable pension per annum   |  |
| <b>Any Additional Information</b>   |  |
|   |  |
| <b>Recommendation</b>   |  |
| Life stage  | Childhood/Young unmarried/Young married/ Young married with children/married with older children/post-family or pre-retirement/ retirement |
| Protection needs  | Life & Health/Savings and Investment/Pension   |
| Appetite for risk   | Low/Medium/High  |
| Policy recommended, including name of Insurer   |  |
| Commitment for the current/future years   |  |
| Whether all risk elements and details of charges to be incurred and all other obligations have been explained |  |
| Why you think this policy is most suited prospect   |  |

**Agent's Certification:**

I /We hereby certify that I/we believe that the product/s recommended me/us above is suitable for the prospect, based on the information submitted by him/her, as recorded above.

Dated: \_\_\_\_\_

(Name and Signature of Agent)

**Prospect's Acknowledgement:**

The above recommendation is based on the information provided by me. I have been explained about the features of the product and believe it would be suitable for me based on my insurance needs and financial objectives.

Dated: \_\_\_\_\_

(Signature of Prospect)