

GUIDELINES FOR BANCASSURANCE - 2010

1. PREAMBLE

- 1.1 The advantages of a potential customer-base of banks and the trust their customers repose in them has led to the phenomenal success of selling insurance products via banks, wherever introduced.
- 1.2 “Bancassurance” – the selling of insurance products by banks as distribution channels (on behalf of the insurance companies) is yet to be defined in Insurance Ordinance 2000 (“the Ordinance”).
- 1.3 Section 95 (2) of the Ordinance defines an insurance agent and Section 96(1) of the Ordinance allows a corporate body to act as an insurance agent. These provisions of the laws are being used by insurance companies to employ banks as their distribution channels in the role and style of corporate insurance agents.
- 1.4 For ensuring the protection of the policyholders’ interest in respect of any insurance product being offered to them through the banks, it is pertinent that Bancassurance be developed in an orderly manner to efficiently deliver and distribute the insurance products and services to the consumers.
- 1.5 It is envisaged to ensure, through these Guidelines, that the insurance products distributed through the banks benefit the consumers by not only being cost-effective, but also facilitating the consumer to compare the products being offered through Bancassurance arrangements with similar products available in the market from other distribution channels. Further, the consumers’ traditional trust and confidence in their banks demand enhanced product transparency.
- 1.6 In these Guidelines, the word “Takaful” may be used interchangeably with the word “Insurance”, “Family Takaful” with “Life Insurance”, “General Takaful” with “Non-Life Insurance”, “contribution” with “premium” and “Company” & “Insurer” with “Operator”

2. Definitions

In these Guidelines, unless there is anything repugnant in the subject or context;

(a). **“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 relevant rules;

(b). **“Bancassurance”** means the selling, marketing and distribution of insurance products by Banks on behalf of an insurer under an agreement. This includes, but is not limited to, insurance products which are (i) bundled with banking products, (ii) actively sold as independent products through the branch banking network, (iii) actively sold through other channels such as direct sales personnel of the Bank or Insurer, telemarketing, direct mail shots, newspaper, ATM screens, website, email, SMS or (iv) sold through any other channel that is recognized as an acceptable sales channel for banks by the State Bank of Pakistan;

(c). **“Bank”**, for the purpose of these guidelines, 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.

(d). **“Bank Insurance Executive”** means an employee of the Bank, called by whatever name, title or designation, holding a responsible position with the delegated authority to be directly responsible for managing the Bancassurance arrangement with the Insurer, for the Bank, and who complies with the provisions of Section 96 (1) of the Ordinance. Such an individual shall also be deemed to be complying with the provision of Section 97 of the Ordinance.

(e). **“Certification”** means the process by which a Specified Person is issued a certificate jointly by the Bank and the Insurance Company entitling him to solicit and procure insurance business on behalf of the Insurance Company under the Bancassurance Agency Agreement;

(f). **“Designated Insurance Executive”** means an employee of the Insurer, called by whatever name, title or designation, holding a responsible position with the delegated authority to be directly responsible for managing the Bancassurance arrangement with the Bank for the Insurer;

(g). **“Insurance Company” or “Insurer”** means a company registered as an “insurer” under the Ordinance;

(h) **“Insurance Consultant”** means a Specified Person who is an employee of the Insurance Company and is responsible for soliciting and procuring insurance business under the Bancassurance Agency Agreement;

(i). **“Ordinance”** means the Insurance Ordinance, 2000 (XXXIX of 2000).

(j) **“Persistency”** means the ratio of renewal premiums collected/paid in a policy year to the premiums due in the same policy year (the premiums due being inclusive of any increase as a result of a policy provision). This terminology applies from 2nd policy year and onwards of a regular premium individual life policy, excluding annuity plans.

(k). **“Policyholder”** shall have the same meaning as given in Section 2(xlvi) of the Ordinance.

(l). **“Practical 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 Securities and Exchange Commission of Pakistan (“the Commission”) from time to time.

(m). **“Rules”** mean 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). **“Specified Person”** means either an employee of the Bank or an employee of the Insurance Company, 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 Insurance Company under the Bancassurance Agency Agreement;

All words and expressions used herein and not defined but defined in the Ordinance, or in any of the subservient rules and regulations notified by the Commission shall have the meanings respectively assigned to them therein.

3. Basis of Contract

3.1 An insurance contract is based on offer and acceptance.

3.2 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 makes an offer (either by signing a proposal form or recording verbal consent) to enter into the insurance contract, and either the Bank (being a corporate insurance agent) on behalf of the Insurer signifies acceptance or the Insurer directly signifies acceptance.

3.3 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.

4. Bancassurance Arrangement between Insurer and Bank

4.1 Any Bancassurance arrangement shall not be valid unless it incorporates the following components and is entered into in writing in the form of a Bancassurance Agency Agreement which shall:

- (a) not contain any provisions which reduce, in any way, the liability or responsibility of the Insurer towards the Policy Holder under the Ordinance and Rules;
- (b) specify any functions which the Insurer, as a part of such an 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; and
- (d) contain a provision which clearly states the “termination of agreement” clause and responsibilities of the Bank and Insurance Company subsequent to such termination. This clause shall also state the treatment to be given to existing policyholders and remuneration to the bank subsequent to the termination.

- (e) contain a provision whereby the Bank explicitly agrees to adhere to the provisions of these Guidelines and also the provisions of the Ordinance and Rules in its capacity as a corporate insurance agent.

4.2. Premium Collection:

- 4.2.1** The Insurer may transfer the responsibility of collecting premiums due on policies, once issued, to the Bank. Before it does this, however, the Insurer shall ensure that the Bank has the necessary premium collection system, such as an automated direct debit system, debit on credit cards, or any other system, in place. Should the Insurer not be 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.
- 4.2.2** 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 in the future, including the withdrawal of the premium collection function from the Bank.
- 4.2.3** The premium collection function shall be deemed to be ineffective if the premium collection ratio, i.e. the ratio of premiums collected to premiums due, is less than 85% or any figure which the Commission may subsequently prescribe. The terminology of "Premium collection ratio" in this paragraph is not intended to address the aspect of "persistence" in the case of **Life Insurance**.
- 4.2.4** 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 giving notice to the policyholder orally and in writing, or through other means such as call centre, email or SMS. The Insurer shall advise the Bank of its desired level of business persistency from time to time. The Bank shall make all reasonable efforts to ensure that its systems and processes are in place to meet these levels.
- 4.2.5** In the case of **Life Insurance**, the Insurer shall also ensure that notices under Section 93 of the Ordinance are sent to the Policy Holder.

4.3. Marketing Brochures and Sales material

- 4.3.1** 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.
- 4.3.2** In all such material the relative roles of the Bank and the Insurer shall clearly be stated at a prominent place. Such statement must particularly contain the fact that the Bank's role is that of a corporate insurance agent and that the Insurer is responsible for all liabilities under the Policy.
- 4.3.3** Also, in all such material the name, address and contact details of the Insurer shall be mentioned at a prominent place.
- 4.3.4** The market conduct rules and guidelines issued in respect of the insurance agent by the Commission shall be observed by the Bank.
- 4.3.5** For Life Insurance, wherever applicable, Illustration of Benefits, based on the prescribed format provided by the Insurer shall be signed by the Specified Person and the intending Policyholder. 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.

4.4. Claims Handling

- 4.4.1** Under the arrangement claim adjudication and settlement shall be the responsibility of the Insurer.
- 4.4.2** 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.

4.4.3 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. 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.

4.4.4 The Insurer shall make the claim settlement directly in the name of the policyholder or his nominee, as the case may be.

4.5 Code of Conduct

4.5.1 Every Bank shall abide by the code of conduct, specified below:

- (a). to 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). to 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). to ensure that no prospect is coerced by the Bank Insurance Executive or Specified Person to buy an insurance product;
- (d). to give adequate pre-sale and post-sale advices to the prospective insured in respect of the insurance product;
- (e). to 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). to give due publicity to the fact that the Bank does not underwrite the risk or act as an Insurer;

4.5.2 Every Bank Insurance Executive or a Specified Person shall also follow the code of conduct specified below:

- (a) to identify that the Bank is acting as an agent of the Insurer at every meet with the prospect and shall always ensure mentioning the name of the Insurer to the prospect;
- (b) to 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) to 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) to 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 contract;
- (f) to 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) to 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;

4.5.3 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 agreed by the Insurer;
- (h) demand or receive a share of proceeds from the 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 insurance company;

5. Remuneration of Bank

- 5.1** The level of remuneration 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. The rates and structure of the remuneration shall be clearly mentioned in the Bancassurance Agency Agreement.
- 5.2** Any remuneration paid by the Insurer to the Bank must be on premiums received by the Insurer. Under no circumstances will remuneration, on premiums to be received in future, be paid.
- 5.3** The Bank shall not charge, to the Policyholder, any service fee, processing fee, administration charge or any other charge unless such a charge is required to be included by the Insurer in the premium to be payable by the policyholder.
- 5.4** Nothing in 5.1 shall prevent the Insurer from sharing any third party costs incurred by the Bank related to advertising or development of marketing material
- 5.5.** The insurer shall always quote the gross premium rate to the policyholder and shall ensure that no further charges are levied by the Bank. The insurer shall also, at the time of quoting the gross premium rate, clearly specify the commission rate payable to the Bank as a corporate insurance agent.
- 5.6** The following shall be applicable for **Life Insurers**, in addition to those stated above:
 - (a) The remuneration payable to the Bank shall be in the form as set out in these Guidelines and shall not exceed the limits set out in section 7 of these Guidelines.
 - (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 section 7 of these Guidelines.

6. Pricing/Risk Assessment/Insurance Related Documents

- 6.1.** Pricing of insurance products shall be the sole domain of the Insurer and the Bank shall not interfere in this process.
- 6.2.** Risk assessment and insurance underwriting shall also be the responsibility of the Insurer and the Bank shall not interfere in this process.
- 6.3.** If the Insurer has provided an 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.

- 6.4. The Bank shall abide by the guidelines provided by the Insurer for usage of the automated underwriting computer system. Use of the system by any sales channel of the Bank does not imply in any way, or entitle the Bank to pose or act as the insurance underwriter.
- 6.5. The Bank's name shall not appear in the policy document as this could mislead or deceive the buyer of the insurance product.
- 6.6. All requirements for new products (for life insurance), as mentioned in the Ordinance, shall be complied with by the Insurer.
- 6.7. 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. This requirement shall apply to both Life and Non-Life Insurers.

7. Limits on Acquisition costs in respect of Life insurance products for Bancassurance business

- 7.1. This section covers direct costs incurred by Life Insurers to procure Bancassurance business such as commissions on premiums, sales and marketing incentives to banks, production bonuses linked to premium, persistency bonus, and salaries and incentives to "Insurance Consultants"
- 7.2. 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.
- 7.3. Protection Products refer to regular premium individual insurance products with no element of savings or investments for the policyholder, such as term life policies.
- 7.4. Group Term Life Policies exclude Individual Life policies which may be sold to a group of individuals.

7.5. Direct Sales Model

If a 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 henceforth as the Direct Sales Model

7.5.1 Regular Premium Individual Life Plans (Savings Products and Protection Products)

- (a) First year Commission to Bank (as % of first year collected premium): Maximum 55% (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).
- (b) For the Bank's efforts in collecting renewal premium, second year Commission to Bank (as a % of the second year collected premium): Maximum 5%
- (c) For the Bank's efforts in collecting renewal premium, third year onwards commission to the Bank (as a % of the third year and onwards collected premium): Maximum 2.5%
- (d) Share in Investment Management Charge (as an alternative to second 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.

- (e) **Production Bonus:**
An Insurer shall be allowed to pay Production Bonus to the Bank linked to achievement of mutually agreed new business targets. This Production Bonus shall be over and above the maximum commission rate mentioned in 7.5.1(a) above. The Production Bonus in aggregate as a % of the first policy year collected premium shall not exceed 5%.
- (f) **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 second policy year persistency rates over and above the maximum commission rate mentioned in 7.5.1(b) above. The Persistency Bonus in aggregate as % of the second policy year collected premium shall not exceed 5%.
- (g) The maximum commission payable, i.e. cumulative First year, Second year and Third year onwards commission, as stated above, over the entire premium paying term of a policy shall not exceed 105% of the average annual premium collected over the policy period for a policy with premium payment term of 20 years and more. For a policy with premium paying term of 10 years, this limit shall be 80%. 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.

7.5.2 Single Premium Savings products:
Commission as % of single premium: Maximum 2%

7.5.3 Single Premium Term Life products, including mortgage plans
Commission as % of single premium: Maximum 5%

7.5.4 Single Premium immediate and deferred annuities:
Commission as % of single premium: Maximum 2%

7.5.5 Regular Premium annuities:
First year Commission to Bank (as % of first year collected premium): Maximum 10%
Second year onwards Commission to Bank (as % of 2nd year onwards collected premium): Maximum 2.5%

7.5.6 Regular premium personal accident type policies
Commission as % of premium: Maximum 50%

7.5.7 Group Term Life Policies for retail customers of Bank, including yearly renewable term policies, personal accident policies, credit life policies
Commission as % of collected premium to Bank: Maximum 50%

7.6. 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. The share of the insurer in such activities shall not exceed 5% of the first policy year collected premium.

7.7 Referral Model

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".

7.7.1 The total direct acquisition expenses incurred by the Insurer in the first policy year 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 7.5 and 7.6 above for each type of product.

7.7.2 The total second and third year onwards direct acquisition cost 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 7.5 and 7.6 above for each type of product.

7.7.3 The following shall apply to Regular Premium Individual Life Plans (Savings Products and Protection Products), in addition to 7.7.1 and 7.7.2, where relevant:

- (a) First year Commission to Bank (as % of first year collected premium):
Maximum 40%
(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).
- (b) For the Bank's efforts in collecting renewal premium, second year Commission to Bank (as a % of the second year collected premium):
Maximum 5%
- (c) 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 second policy year persistency rates over and above the maximum commission rate mentioned in 7.7.3(b) above. The Persistency Bonus in aggregate as % of the second policy year collected premium shall not exceed 2.5%.

7.8 An Insurer shall not give remuneration to a Bank in any manner other than as described above in this section.

7.9. Regular reporting of Bancassurance business for Life Insurers

To enable the Commission to effectively monitor the implementation of this section of these Guidelines, the Insurer shall 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 based on the format prescribed in Annexure A. This statement shall be certified by the external auditor and Appointed Actuary.

8. Applicability

8.1. These Guidelines shall apply on all new Bancassurance Agency Agreements signed on or after February 1, 2010 and on existing Bancassurance Agency Agreements in force as on February 1, 2010

8.2. For existing Bancassurance Agency Agreements, the Bank and the Insurer shall make amendments in the existing relationship, wherever necessary, to comply with these Guidelines. Such amendments shall be completed no later than 30th April, 2010. 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 that the relationship with the Bank complies with the guidelines.

8.3. In the case of **Life Insurers**, for the year 2010, the reporting, under 7.9, above shall be for the period 1 May 2010 to 31 December 2010. For subsequent years, the reporting shall be based on full calendar year starting on 1 January and ending on 31 December every year.