



Position Paper
**Registration Regime for Digital-only Insurer
and Dedicated Microinsurer**

Draft Amendments to the Insurance Rules, 2017



Position Paper

Registration Regime for Digital-only Insurer and Dedicated Microinsurer

June 14, 2021

Preamble

With the objective to promote financial technology and innovation, to leverage the cost-effectiveness and accessibility, increasing competition, widening product range, improve customer experience, and enhancing financial inclusion, the Securities and Exchange Commission of Pakistan (SECP) intends to introduce regime for registration of entities desirous to transact insurance on digital-only basis and small ticket size insurance i.e. microinsurance through amendments to the Insurance Rules, 2017.

The State of Digitalization in Insurance Sector in Pakistan

Technology has mainly been leveraged in respect of insurance distribution in Pakistan such as Point of Sales systems being utilized primarily in bancassurance, mobile apps and websites used by insurers and distribution partners for information, customer engagement, sale of insurance and online insurance comparison and sales platforms. Insurers are offering first level protection-based products on their own online sales platforms (website and apps), and have also partnered with 3rd parties' digital platforms, such as Banks, Mobile Network Operators, Aggregators, Insurtech platforms to offer such products. However, impact of technology driven growth in insurance business is yet to be witnessed. So far, only 27 online products have been registered with SECP by the life insurance companies under the "file and use" prescribed under Section 13 of the Insurance Ordinance, 2000. Also, use of technology in other areas of insurance is the untapped area such as tech-based innovative products, automated underwriting, policy administration, claims processing and payments, among others.

International examples of digital only insurers

Insurance companies are transacting insurance through digital modes in various parts of the world leveraging on the innovation, efficiency, speed, cost effectiveness, and accessibility of technology. Few of the examples are presented below.

Digital Insurer in the USA

The Lemonade Insurance Company is licensed as property and casualty insurer by the New York Department of Financial Services and maintains "digital only" presence voluntarily i.e. it is not restricted by law to not engage in physical modes of operations. This is because there is no customized registration regime for digital-only insurers.

Lemonade is offering low-cost homeowners and renters insurance through digital platforms with Artificial intelligence based claims processing which is fast and convenient i.e. it claims to pay a quarter of claims filed with it within 3 seconds. Its policies are simplified which create comfort in the minds of

consumer, coupled with the low-cost aspect. In case of an issue, the claim is forwarded to human team for assessment.

Digital Insurers in the Hong Kong

The Hong Kong Insurance Authority launched the separate licensing program for digital-only insurers, known as Fast Track, in September 2017 to promote the development and application of new technology in the insurance sector. The digital-only insurer licensed through this program is prohibited by law to engage in physical modes of operation.

The Fast Track provides a dedicated queue (i.e. an expedited and streamlined process compared with other insurance licence applications) for new authorization applications from applicants which would operate solely on digital basis, without the use of any conventional channels involving agents, banks or brokers. All solvency, capital, and local asset requirements, which are set for ensuring sufficient loss absorption capability of authorized insurers must be met. All other requirements under the relevant guidelines should apply, except where the Insurance Authority agrees to exempt or modify after due consideration.

In December, 2018, Hong Kong's Insurance Authority granted the first license under an expedited scheme for digital-only insurers to local startup Bowtie Life Insurance Co. Ltd. In quarter 4, 2019, the first general insurance company, Avo Insurance was granted the digital only license by the Hong Kong Insurance Authority. The Insurance Authority, granted digital-only license to ZA Life, part of ZhongAn Technologies International Group, under the fast track program on May 4, 2020 during the Covid-19 pandemic. ZA Life offers Term Life, Critical Illness cover, Accident and hospitalization cash, while the Avo Insurance offers Wallet insurance, travel insurance, health insurance (Covid-19 cover, child vaccination, and voluntary health insurance service) and critical illness cover. The Bowtie Life, the first digital insurer of Hong Kong offers term life, health insurance and critical illness cover.

Digital Insurers in India

Acko General Insurance Limited and Go Digit Insurance Limited are the two insurance companies which provide insurance services through digital mode, however, registered under the mainstream insurers' registration regime as the dedicated regime for the digital-only insurers does not exist. The aforementioned companies offer motor, health, and travel insurance to individuals and commercial entities through their digital insurance platforms.

Digital Insurers in Japan

Insurtech companies in Japan can enter the insurance business by obtaining the "Small amount & short-term insurance (SSI) provider" license which includes lenient capital requirement i.e. JPY 10 million (USD 90,000) as compared to JPY 1billion (USD 9 million) for full-fledged insurer. The business of small amount and short-term insurance provider is restricted in terms of per product sum insured limit, total annual premium to be underwritten, and maximum policy term (a maximum of

two years for property & casualty insurance, one year for life insurance). Many Japanese insurers have created SSI subsidiaries and are using them as incubators for new digital business models and cross-industry collaborations, for example with telecom companies.

Proposed Registration Regime for Digital-only Insurer and Dedicated Microinsurer

The proposed Registration Regime for Digital-only Insurer and Dedicated Microinsurer is expected to enable the small entities with vision and plan to innovate and serve the insurance market, to obtain registration with the SECP while complying with lenient regulatory requirements in terms of minimum paid up capital and solvency requirement. In-line with the principle of proportionality, lenient capital and solvency requirement have been proposed for registration of dedicated microinsurer and digital-only insurer.

Paid-up Capital

Minimum Paid up Capital Requirement	
	Amount in PKR (million)
Life microinsurers	150
Non-life microinsurers	80
Life digital-only insurers	150
Non-life digital-only insurers	80

Solvency Requirements

(i) For Life microinsurer and Life Digital-only Insurer

Rupees seventy-five million is proposed as required minimum amount to be maintained as a surplus of admissible assets over liabilities in shareholders fund of life microinsurer and life digital-only insurer. For full-fledged insurers registered under Section 6 of the Insurance Ordinance, 2000, this amount is Rupees one hundred and sixty-five million only. The solvency margin requirement for statutory funds of life insurer is formula based, as given in Annexure III of Insurance Rules, 2017 and will be automatically rationalised in-line with the business volume and operations of the entity.

(ii) For Non-life Microinsurer and Non-life Digital-only Insurer

Under the insurance regulatory framework, the solvency requirement for non-life insurer is higher of fixed amount of fifty million, and formula-based amount, calculated in accordance with Section 36(3) of the Insurance Ordinance, 2000 read with Rule 15 (2) & (3). Rupees fifty million is proposed as fixed solvency margin requirement for non-life Microinsurer and Non-life Digital-only Insurer. For full-fledged non-life insurers registered under Section 6 of the Insurance Ordinance, 2000, this amount is Rupees one hundred and fifty million only. The formula-based amount will be automatically rationalised in-line with the business volume and operations of the entity.

Registration as Dedicated Microinsurer

The entities desirous to transact microinsurance business dedicatedly may do as after obtaining registration with the SECP as microinsurer while complying with the (proposed) applicable regulatory requirements stipulated in the draft amendments annexed to this paper, however, the existing insurance companies may continue to transact the microinsurance business in the current manner. In-line with the principle of proportionality, lenient capital and solvency requirement have been proposed for registration of dedicated microinsurer, as illustrated in previous section. The dedicated microinsurer so registered, will comply with the requirements for conduct of microinsurance business set out in the SEC (Microinsurance) Rules, 2014 including, but not limited to disclosure, product features and filing, claim handling and processing, complaint handling, code of conduct and consumer protection standards.

Registration as Digital-only Insurer

The lenient registration requirements i.e. relaxed paid-up capital and solvency requirements have been proposed for the entities desirous to transact insurance through digital mode only, so as to enable the innovative and visionary fintech entities to enter the insurance market. The digital-only insurer will be required to demonstrate capability for conducting business through digital modes and comply with business conduct requirements proposed in the draft amendments, the key contents of which are stipulated below:

- ❖ Allowable classes of business for digital-only insurance
- ❖ Requirement to conduct pilot operations before full-scale launch
- ❖ Product filing requirement for life and non-life digital-only insurer
- ❖ Requirements related to technological capacity of digital-only insurer
- ❖ Customer onboarding through digital modes, AML/ CFT requirements
- ❖ Provisions relating to policyholder Data Security and Confidentiality
- ❖ Free-look period and accuracy of information
- ❖ Use of intermediaries in distribution and insurance policy administration
- ❖ Place of business and Customer Support
- ❖ Electronic communication and submission to be made by the digital-only insurer

Product and Sum Insured Limits

While the lenient prudential requirements are enabling and reduce the barriers to entry for innovators, the aspects of financial soundness and stability of insurance providers cannot be overlooked since the policyholder's money is involved. Therefore, classes of business which digital-only insurer is allowed to transact are specified and per product sum insured limits are proposed for the digital-only insurance products. The sum insured limits for the digital-only insurance products are proposed as follows:

1. For single life and personal accident, Rs.400,000/-
2. For joint life, single life limit as above to be complied with for each covered person

3. For individual health, Rs. 100,000/-
4. For group health, individual health limit as above to be complied with for each covered person
5. For miscellaneous insurance, Rs. 200,000/-
6. For livestock and/ or crop, Rs. 600,000/-
7. For motor insurance, Rs.1,500,000/-
8. For property and/ or assets insurance, Rs. 1,500,000/-

The limits may be revised by the SECP from time to time considering the inflation and depreciation in money value, among other factors. The digital-only insurer is also required to demonstrate sound and workable business model at the registration stage along with the financial projections.

Pilot Test Approach

A pilot test run approach is proposed for the digital-only insurer wherein the operations will be started on pilot basis i.e. on limited scale with specific terms and conditions to be stated at the time of approval of pilot operations, taking into account the strategic plan, business model and operational capacity of the applicant. On the basis of performance during pilot operations, the approval for full-scale launch may be given or the pilot may be extended. This approach will help manage inherent operational risks as the entire business model is based on technology systems and failure or inadequacy of any component of system, procedure, process or staff may lead to financial loss. The digital-only insurer is also required to comply with the SEC Cybersecurity Guidelines, 2020 which include assessment of cyber risks, disaster recovery and business continuity planning, among other provisions.

Products and Disclosure Requirements

The digital-only insurer will be required to communicate key facts of the insurance product to prospective policyholder while making the sales pitch before the offer to insurance contract is made, to enable him to make informed decision about product purchase. Also, the digital-only insurer will be required to demonstrate during product filing that how proposed insurance product is likely to provide value to the policyholders and whether the terms of the contract are fair to insured persons. The policy sold will also be subject to free-look period of 14 days. The requirements are proposed so as to create good experience for policyholders with regards to insurance leading to word-of-mouth marketing and financial inclusion.

Applicability of Insurance Regulatory Framework

After registration, the digital-only insurer and microinsurer may obtain authorization to conduct takaful operations on dedicated or window basis, while complying with the applicable provisions of the Takaful Rules, 2012. All regulatory requirements as applicable to the full-fledged insurers registered under the Section 6 of the Insurance Ordinance, 2000 will be applicable to the dedicated microinsurers and digital-only insurers including *inter alia* Insurance Rules, 2017, Code of Corporate



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
INSURANCE DIVISION**

Governance for Insurance Companies, 2016, Insurance Companies (Sound and Prudent Management) Regulations, 2012, Takaful Rules, 2012, SEC Cybersecurity Guidelines, 2020, SEC (IBNR) Guidelines, 2016.

Conclusion and Way Forward

In order to proceed in respect of introduction of registration regime for microinsurer and digital-only insurer, the draft amendments to the Insurance Rules, 2017 are annexed to this paper for review and feedback of all relevant stakeholders to be received within thirty (30) days of issue of this paper.