

GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

-:-:-

Islamabad, the 5th July, 2022

NOTIFICATION

S.R.O.1013(I)/2022.- In exercise of the powers conferred under section 40B read with clause (u) of subsection (4) and clauses (fa), (fb), (fc) & (g) of sub-section (6) of section 20 of the Securities and Exchange Commission of Pakistan Act, 1997 (Act No. XLII of 1997), and clause (f) of sub-section (1) of section 11 and section 12 of the Insurance Ordinance, 2000 (Ordinance No. XXXIX of 2000), the Securities and Exchange Commission of Pakistan is please to notify the following amendments to the Code of Corporate Governance for Insurers, 2016, the same having been previously published for public comments vide SRO 1085(I)/2020 dated October 19, 2020, namely:-

AMENDMENTS

In the aforesaid Code, -

- (1) in clause (ii) for the expression “Code of Corporate Governance, 2012”, the expression “Listed Companies (Code of Corporate Governance) Regulations, 2019” shall be substituted;
- (2) in clause (iii):
 - (a) for the expression, “in so far as applicable, shall encourage effective representation of independent non-executive directors, including”, the expression, “shall ensure effective representation of independent non-executive directors and shall facilitate” shall be substituted, and for the word “may” the word “shall” shall be substituted;
 - (b) for the existing clause (a), the following new clause (a) shall be substituted:

“(a) the Board of Directors of the insurer includes mandatorily one third of the total members of the Board as independent director(s). The Board shall state in the annual report (i.e. along with the annual audited financial statements, auditor’s report and directors’ report thereon) the names of the non-executive, executive and independent director(s).

Provided that for the purposes of clause (a), an insurer shall explain the reasons, in the compliance report, if any fraction contained in such one-third number which is not rounded up as one.

Provided further that the requirement of appointment of independent directors on the board of directors of listed insurers shall be as per the timelines given in the Listed Companies (Code of Corporate Governance) Regulations, 2019 and for unlisted insurers shall be applicable on the expiry of the current term of its board of directors.

Explanation.—For the purpose of this clause, the expression "independent director" shall have the same meaning as ascribed to it under subsection (2) of section 166 of the Companies Act, 2017.

Professional indemnity insurance cover in respect of independent directors shall be recommended.

(c) after clause (b), the following new clause (c) shall be inserted:

“(c) at least one member of the Board of Directors of the insurer is a female director.”

(3) in clause (viii), the expression, “by the directors” shall be omitted;

(4) in Explanation to clause (xi), after the bullet point “Risk management”, the following new bullet point shall be inserted:

“• Conflict of interest of employees of insurance companies with insurance intermediaries (insurance agents, insurance brokers and insurance surveyors) covering ownership and management interest (both direct and indirect);”

(5) after clause (xix), the following new clauses (xixa), (xixb) and (xixc) shall be inserted:

“Directors Training

(xixa) Insurers shall ensure that:

- (a) by December 31, 2022 at least 25% of the directors on their Boards;
- (b) by December 31, 2023 at least 50% of the directors on their Boards;
- (c) by December 31, 2024 at least 75% of the directors on their Boards; and
- (d) by December 31, 2025 all the directors on their Boards have acquired the prescribed certification under any director training program offered by institutions, local or foreign, that meet the criteria specified by the Commission and approved by it.

Provided that for the purpose of this clause, the prescribed certification and the criteria specified and approved by the Commission shall be the one provided under the Listed Companies (Code of Corporate Governance) Regulations, 2019.

Provided further that the requirements under this clause shall be applicable on unlisted insurers and for listed insurers the timelines as provided in the Listed Companies (Code of Corporate Governance) shall be followed.

- (xixb) A newly appointed director on the Board may acquire, the directors training program certification within a period of one year from the date of appointment as a director on the board:

Provided that director having a minimum of 14 years of education and 15 years of experience on the Board(s) of insurer(s) shall be exempt from the directors training program;

Provided further that a director who is exempted under the requirements of Listed Companies (Code of Corporate Governance) Regulations, 2019 shall also be exempted from the requirements of directors training program under this code.

- (xixc) Insurers are also encouraged to arrange training for the company secretary, chief financial officer, head of internal audit and internal actuary (where applicable) under the directors' training program from year January 2022";
- (6) in clause (xxii), in clause (d), for the full stop appearing at the end, the expression “; or” shall be substituted and thereafter a new clause (e) shall be inserted as follows:
- “(e) an individual having master degree in commerce or business administration with specialization in finance.”
- (7) in clause (xxiv) for the expression, “section 236 of the Companies Ordinance, 1984”, the expression, “section 227 of the Companies Act, 2017” shall be substituted;
- (8) in clause (xxix):
- (a) in clause (b) for the expression, “Companies Ordinance, 1984”, the expression, “Companies Act, 2017” shall be substituted; and
- (b) in clause (c) for the words, “Listing Regulations”, the expression, “Listed Companies (Code of Corporate Governance) Regulations, 2019” shall be substituted.
- (9) in clause (xxxiii) for the expression, “Companies Ordinance, 1984”, the expression, “Companies Act, 2017” and for the words, “listing regulations”, the expression, “Listed Companies (Code of Corporate Governance) Regulations, 2019” shall be substituted;
- (10) in clause (xxxiv):
- (a) for the expression, “Insurer shall ensure that the firm”, the expression, “The firm” shall be substituted and for the expression, “do not”, the expression, “shall not” shall be substituted;
- (b) for the existing first proviso, the following first proviso shall be substituted:

“Provided that where a firm or a partner or his/her spouse or minor child owns shares in an insurer, being the audit client, prior to the appointment as auditors, such insurer shall take measures to ensure that the auditors disclose the interest to the insurer on his appointment as auditor and such person shall divest such shares not later than ninety (90) days of such appointment.”

- (11) for the existing clause (xlili), the following new clause (xlili) shall be substituted:

“All board committees of an insurer, except the Audit Committee which shall meet as per the requirement of clause (liv), shall meet at least twice in a year. The proceedings of the meetings of all committees (whether management committees or the Board committees) shall be recorded and be kept at the insurer’s head office. Each committee of an insurer shall appoint a secretary of the Committee. The secretary shall circulate minutes of meetings of the relevant Committee to all members, directors and, if necessary, the Chief Financial Officer within a fortnight.”

- (12) in clause (liii), the word “preferably” and the expression, “but should at least be a non-executive director” shall be omitted;

- (13) in clause (lvi), after clause (c), the following new clause (ca) shall be inserted:

“(ca) periodic review of related party transactions, prior to placement before the Board of Directors for its review and approval;”

- (14) after clause (lviii), the following new clauses (lviiiia) and (lviiiib) shall be inserted:

“(lviiiia) The internal audit function, wholly or partially, may be outsourced by the insurer to a professional services firm or be performed by the internal audit staff of the holding company and in lieu of outsourcing, the insurer shall appoint or designate a fulltime employee other than chief financial officer or an employee directly reporting to the chief financial officer, as head of internal audit holding equivalent qualification prescribed under this code, to act as coordinator between firm providing internal audit services and the Board:

Provided that while outsourcing the function, the insurer shall not appoint its existing external auditors or any of its associated company or associated undertaking, as internal auditors.

(lviiiib) The head of internal audit shall functionally report to the audit committee and administratively to the chief executive officer.”

- (15) in clause (lxvi), for the word, “powers” the word “rights” and for the expression, “section 255 of the Companies Ordinance, 1984 (Ordinance No. XLVII of 1984)”, the expression, “section 248 and 249 of the Companies Act, 2017” shall be substituted;

- (16) in clause (lxxii), for the expression “such as PACRA or JCR-VIS”, the expression “duly licensed by the Commission” shall be inserted;

(17) after clause (lxxii) amended as aforesaid, the following new clause (lxxiia) shall be inserted:

“Trading by Employees

(lxxiia)The insurer shall have a board of directors approved employees trading policy governing trading or investment in securities by its employees, their spouse and dependent children to ensure compliance with regulatory requirements governing prohibition of insider trading. Such policies shall at least cover disclosure requirements, retention of records and stringent requirement for personnel involved in investment decision function or process.”

(18) for the existing clause (lxxv), the following new clause (lxxv) shall be substituted:

(lxxv) The Claims Settlement Committee shall oversee the activities of the grievance function of an insurer and shall present summary results of the complaints lodged, resolved and outstanding, to the board of directors at least on a quarterly basis.”

(19) after clause (lxxxi), the following new clause (lxxxii) shall be inserted:

“Offenses and Penalties

(lxxxii) Any failure on part of any insurer to comply with the requirements of the code is punishable under section 40A of the Securities and Exchange Commission of Pakistan Act, 1997.”

(20) In Annexure I:

(a) in point 1, for the expression “The insure encourages” the expression “The insurer ensures” shall be substituted and after the expression, “non-executive directors and” the word “facilitates” shall be inserted;

(b) in the table to point 1, the following new entry shall be inserted at the end:

Female Directors	
------------------	--

(c) in point 1, after the table, the expression “(if any)” appearing after the words “All independent directors” and the expression, “In case of unlisted insurers, if no independent director has been appointed on the Board, the reason(s) for non-appointment of the independent director should be stated.” shall be omitted;

(d) in point 18, the expression “(if applicable)” and the expression “/ non-executive director” shall be omitted;

(e) existing point 19 shall be substituted as follows:

“19. The terms of references of the Committees have been formed and advised to the Committees for compliance. The frequency of meetings (quarterly / half

yearly / yearly) of the Committees were as follows:

- (a) Ethics, Human Resource & Remuneration Committee;
- (b) Nominations Committee (if applicable);
- (c) Investment Committee;
- (d) Audit Committee;
- (e) Underwriting Committee;
- (f) Claim Settlement Committee;
- (g) Reinsurance & Co-insurance Committee; and
- (h) Risk Management & Compliance Committee.”

(21) in the table given in Annexure III:

(a) in the entry for clause (iii)(a):

(i) the expression, “, where practicable” shall be omitted; and

(ii) for the expression “Election / Appointment / Nomination of Directors or three years from the date of coming into effect this Code, whichever is earlier”, the expression,

“For insurers, on which Regulation 6 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 apply, as per the timeline given therein.

For insurers to which the said regulations do not apply, six months from coming into effect of amendments to this Code, after which on the expiry of the current term of the board of directors”

shall be substituted;


(b) after entry for clause (iii)(b), the following new entry shall be inserted:

(iii)(c)	Composition of the Board of Directors (Appointment of Female Directors)	<p>For insurers, on which Regulation 7 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 and Regulation 23 of the Companies (General Provisions and Forms) Regulations apply, as per the timelines given therein.</p> <p>For insurers to which the said regulations do not apply, on the expiry of current term of board of directors.</p>
----------	---	---

(c) After entry for clause (lxxii), the following new entry shall be inserted:

(lxxiia)	Trading by Employees	Immediate but not later than six months from the date of coming into effect of the amendments to this Code
----------	----------------------	--

[File No. ID/MDPR/COCG/2022]


(Bilal Rasul)
Secretary to the Commission