

**GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

Islamabad, the 5th August, 2021

NOTIFICATION

S.R.O. 1004 (I)/2021.- In exercise of the powers conferred by section 83 of the Insurance Ordinance, 2000 (XXXIX of 2000) read with section 167 thereof, the following draft amendments to the Unit Linked Product and Fund Rules, 2015 are hereby published by the Securities and Exchange Commission of Pakistan (the "SECP") for information of all persons likely to be affected thereby and notice is hereby given that objections and suggestions, if any, received to the SECP within thirty days of this notification will be taken into consideration.

DRAFT AMENDMENTS

In the aforesaid Rules:

1. In Rule 6,

(i) clause (c) of sub-rule (1) the following shall be substituted, namely-

"(c) Product Charges Structurer & Unit Pricing Methodology: Details of the product charges structure, rates, including premium allocation charges and unit pricing methodology shall be disclosed to all policy holders in the policy document and product brochures."

(ii) After the substitution as aforesaid, the following new clause (f) shall be inserted, namely:

"(f) Disclosure of product being insurance product: All insurers shall explicitly disclose in all sales literature and brochures that "This is an insurance product that is linked to the performance of underlying assets under unit linked fund(s) and is not a pure investment or saving product such as collective investment schemes or mutual funds or bank deposits". Such disclosure shall be stated prominently in large bold font in all product literature and brochures."

2. In Rule 7,

(i) After the heading ***"Insurance Need Analysis Document."*** the expression ***"(1)"*** shall be inserted, and after the insertion as aforesaid,

(ii) the following new sub-rule (2) shall be inserted, namely:

"(2) Insurers are encouraged to ensure that the insurance need analysis of the potential policyholder is conducted through an automated application/software, which is able to provide rating relating to policyholder's risk appetite. The insurance product to be pitched shall be on the basis of risk appetite rating given to the potential policyholder by the automated application/software."

3. After Rule 7, the following new Rule 7A, 7B and 7C shall be inserted, namely:

"7A. Unit linked fund suitability analysis. -

(1) For the purpose of identifying the suitable underlying unit linked fund for the unit linked policyholder, an insurer shall also carry out investment risk profiling of the policyholder at the time of carrying out insurance need analysis under rule 7 above. The insurer may carry out investment risk profiling through a separate standalone document or may make it a part of the existing insurance need analysis document. The objective of risk profiling is to identify the suitable underlying unit linked fund as per the risk appetite of the policy holder.

(2) The investment risk profiling under (1) above shall at least take the following factors in to consideration:

- (a) Age, occupation, marital status, and dependents information;
- (b) Investment objective, risk appetite/ tolerance level, investment horizon, and level of investment knowledge;
- (c) Existing financial position and monthly savings.

(3) At the time of filling and signing of the proposal form, the default unit linked fund for allocation into the investment account of the insurance policyholder shall be very low or low risk fund of the insurer as per sub-rule 11 of Rule 8 below.

(4) Where at the time of filling and signing of the proposal form or subsequently after the issuance of the policy, the policyholder chooses to invest his premiums in a unit linked fund other than very low or low risk fund as per sub-rule 11 of Rule 8 below, the insurer shall obtain from the intending policyholder an undertaking as per Annexure 5 to these Rules, which shall be made part of the policy record of the policyholder.

7B. Adequacy of Surrender Charges:

(1) The surrender value of unit linked policy must not be less than the value of units based on the prevailing bid price at the time of surrender or lapsation of a policy, less any insurance risk charges, admin fees, surrender or cancellation charges, and surrender processing fees where applicable.

Explanation: For the purpose of this Rule, surrender or cancellation charges means those charges that are applied on the cash values either in the form of fixed amount or percentage or combination of both, resulting in forfeiture of cash values at the time of lapsation or complete surrender of policy, and does not include any nominal fee charged for processing the surrender request.

(2) A life insurer may apply surrender or cancellation charges only in first two years of the policy which shall reasonably reflects the expected incurred expenses of the insurer up to the point of surrender of the policy and shall not result in profit to the insurer on lapsed/ surrendered policies.

(3) At the product development stage, the appointed actuary under his opinion on the soundness and workability of the product, shall also provide his opinion on the reasonableness of the surrender charges as per requirement of sub-rule (2) above.

7C. Minimum allocations.- (1) With effect from January 1, 2022, in all regular premium policies sold through direct distribution channels including online channels and agency sales force, the insurer shall ensure that minimum allocations into investment account of insurance policyholder have been made as per table given below:

Effective for New Business Issued on or after	Policy Year 1	Policy Year 2	Policy Year 3	Policy Year 4	Policy Year 5 and onwards
January 1, 2022	50%	270% of the sum of 3 years Gross Premium			100%
January 1, 2023	55%	270% of the sum of 3 years Gross Premium			100%
January 1, 2024	57.5%	270% of the sum of 3 years Gross Premium			100%
January 1, 2025	60%	270% of the sum of 3 years Gross Premium			100%

Provided that in the case of policies sold through corporate insurance agents, relevant requirements of the Corporate Insurance Agents Regulations, 2020 shall apply.

(2) *For the purpose of sub-rule 1 above, the amount of gross premium for allocation in the investment account of policyholders shall not include any premium for riders or supplementary benefits.*

4. In Rule 8,

(i) in sub-clause (i) of clause (a) of sub-rule (2) of Rule 8, after the words “to be held in various asset classes”, the expression “(asset classes, for this purpose, being listed equities, unlisted equities, government securities, term finance certificates, mutual funds, real estate, short term deposits, sukus and other instruments of redeemable capital)” shall be deleted.

(ii) after sub-rule (7), the following new sub-rules (8) to (15) shall be inserted, namely:

“(8) Investment Avenues: *A unit linked fund may invest only in securities, commercial papers, deposit with Financial Institutions, place funds with financial institutions, units of collective investment schemes including Exchange Traded Funds (ETFs), units of REITs, units of Private Funds, real estate, future contracts, margin trading system (or MTS or any other mode approved by the Commission), or invest in any other avenues as notified by the Commission from time to time.*

(9) Categorization of Unit Linked Funds:

A. *With effect from January 1, 2022, all unit linked funds of life insurers shall be categorized in accordance with the following investment criteria:*

(i) A unit linked fund categorized as Equity Fund shall have to comply with the following investment criteria:-

- (a) *Eligible Investment avenues shall include equity securities, units of ETF, units of REITs, units of equity collective investment schemes, MTS, equity future contracts, units of Private Funds, government securities and bank deposits;*
- (b) *The fund shall be required to maintain at least 70% of its net assets in equity related assets as per its investment policy during the year either directly or indirectly, based on quarterly average basis;*
- (c) *Exposure to MTS shall not exceed 25% of the net assets of the fund;*
- (d) *The remaining net assets shall be invested in other eligible investment avenues.*

(ii) A unit linked fund categorized as Money Market Fund shall have to comply with the following investment criteria:-

- (a) Eligible Investment avenues shall include government securities, cash and near cash instruments which include cash in bank accounts (excluding TDRs), treasury bills, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial papers, reverse repo, units of Money Market Collective Investment Schemes;
- (b) The fund shall have no direct or indirect exposure in equity securities;
- (c) The rating of any NBFC and Modaraba with which funds are placed shall not be lower than AAA (Triple A);
- (d) The rating of any bank or DFI with which the funds are placed should not be lower than AA (Double A);
- (e) The rating of any security in the portfolio shall not be lower than AA (Double A);
- (f) The time to maturity of any asset shall not exceed one year, however the fund can invest in 3 year floating rate instruments;
- (g) The weighted average time to maturity of the net assets shall not exceed 180 days;

(iii) A unit linked fund categorized as Income Fund shall have to comply with the following investment criteria:-

- (a) Investment avenues shall include government securities, cash in bank account, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial paper, reverse repo, TFC/ Sukuk, MTS, units of money market and Income Collective Investment Scheme;
- (b) The exposure to MTS shall not exceed 25% of the net assets of the fund;
- (c) At least 25% of the net assets of this fund, shall be invested in government securities or deposits with commercial banks/DFIs;
- (d) The rating of any security in the portfolio shall not be lower than A;
- (e) The rating of any NBFC and Modaraba with which funds are placed shall not be lower than A;
- (f) The rating of any bank or DFI with which funds are placed should not be lower than A; and
- (g) Maximum 25% of the net assets of the fund can be placed/invested in NBFCs, Modarabas and Microfinance banks.

(iv) A unit linked fund categorized as Government Securities Fund shall have to comply with the following investment criteria:-

- (a) Income Fund or Money Market Fund, having at least 70% of its net assets invested in Government Securities as per its investment policy, shall be categorized as Government Securities Fund;
- (b) Remaining assets shall be invested in A rated bank deposits and placements with AA rated financial institutions.

(v) A unit linked fund categorized as Managed Fund or Balanced Fund or Asset Allocation Fund shall have to comply with the following investment criteria .-

- (a) Investment avenues include equity securities, government securities, cash in bank accounts, money market placements, deposits, certificate of deposits (COD), certificate of musharakas (COM), TDRs, commercial papers, reverse repo, TFCs/ Sukuks, real estate, MTS, preference shares, units of collective investment

schemes, units of ETFs, units of REITs, equity futures contracts, commodity future contracts, units of Private Funds;

- (b) The rating of any debt security in the portfolio shall not be lower than A-;
- (c) The rating of any NBFC and Modaraba with which funds are placed shall not be lower than AA (Double A);
- (d) The rating of any bank and DFI with which funds are placed should not be lower than A-;
- (e) Exposure to MTS shall not exceed 25% of the net assets; and
- (f) Maximum 25% of the net assets of the fund can be placed/investment in NBFCs, Modarabas and Microfinance banks

(vi) A unit linked fund categorized as Fund of Funds shall have to comply with the following investment criteria.-

- (a) These funds shall invest its net assets only in Collective Investment Schemes and units of ETFs registered with the Commission;
- (b) Every such fund shall mention its type with respect to asset class, e.g. equity fund of funds, income fund of funds etc., in its policy document;
- (c) Every such fund will be invested either in units of other collective investment schemes as per its investment policy or in cash and/ or near cash instruments which include cash in bank accounts, and government securities

B. All investments under clause (A) above shall be subject to certain parameters and limitations as mentioned in sub-rule (10) of this Rule. For the purpose of this sub-rule, further categorization of unit linked funds may be specified by the Commission.

C. No insurer shall establish a unit linked fund, not meeting the criteria as per this sub-rule, without obtaining prior approval of the Commission in writing.

(10) Investment Parameters and Limits:

(a) With effect from January 1, 2022, all investments from unit linked funds shall adhere to the following parameters and limitations:

(i) Maximum exposure of a unit linked fund, in eligible class of assets shall not exceed:

Description of Assets	Maximum Exposure
Equity securities of single entity	10% of total net assets of fund, subject to maximum 10% of the issued capital of that entity.
Debt issue of single entity	10% of total net assets of fund, subject to maximum 10% of that debt issue.
Aggregate exposure in a single entity	10% of total net assets of the fund.
Aggregate exposure in a single group of companies	Less than 25% of total net assets of the fund.
Aggregate exposure in group of companies being related party of insurer	Less than 20% of total net assets of the fund.
Single unit of real estate and in aggregate	i) 5% of total net assets of the fund, provided that Investments in real estate from unit linked fund shall be

	<i>made only in income producing properties subject to prior approval of the board of directors and no investment in real estate shall be made in properties that are owned, leased or rented by, or are in actual or constructive possession of insurer, its employees including its directors or chief executive officers, or any of its related parties or associated persons/entities;</i>
<i>Units in any one open ended collective investment scheme</i>	<i>10% of the net assets of the fund.</i>
<i>Units in open ended collective investment schemes of any one asset management company</i>	<i>20% of the net assets of the fund. A further 5% of the net assets of the fund in case of investment in ETFs.</i>
<i>Exposure in any single unlisted equity securities, units of single unlisted REIT, or units of any one Private Fund</i>	<i>5% of net assets of the fund</i>
<i>Aggregate exposure in unlisted equity securities, units of unlisted REITs, Units of Private Funds</i>	<i>10% of net assets of the fund</i>

Explanation: For the purpose of this sub-rule, the term "group" means persons having at least 30% or more shareholding in any other company, as per publicly disclosed information

- (ii) No exposure in futures contracts shall be taken from the unit linked fund other than for the purpose of hedging risks;*
- (iii) Securities held or beneficially owned by a unit linked fund shall not be pledged for the benefit of shareholders' fund or any other statutory fund of the insurer, which is not referable to its unit linked business;*
- (iv) An insurer shall not acquire twenty percent or more of the voting rights or control in any single company on behalf of its unit linked funds;*
- (v) An insurer shall not acquire more than ten percent of the voting right or control in any single related party company from its unit linked funds;*
- (vi) Insurers shall not enter, on behalf of a unit linked fund, into transactions with any broker that exceed twenty five per cent of the commission payable by a unit linked fund in any one accounting year:*

Provided that this restriction shall not apply to transactions relating to money market instruments or debt securities or MTS where transactions are carried out with

minimum two brokers or any other instrument/transaction as may be specified by the Commission through circular.

- (vii) Insurer shall not, without the approval of its Board of Directors in writing, purchase from, or sell any securities on behalf of unit linked fund to any connected person or employee of the insurer;

Explanation: This sub-clause (vii) shall not be applicable in case of transaction carried out in listed securities through stock exchange and between unit linked funds of same insurer if the transactions are in the best interest of policy holders, executed on arm length basis, and rationale is properly documented prior to execution.

- (b) The investment parameters and limits prescribed under sub-clause (i) of clause (a) above shall not apply on funds which invests only in units of Collective Investment Schemes.
- (c) The Commission may specify separate investment limits and parameters than the ones specified above for any unit linked fund, depending on its investment objective and policy.
- (d) Where the exposure of a unit linked fund exceeds the limits specified under sub-clause (i) of clause (a) above because of corporate actions including taking up rights or bonus issue or due to market price increase or decrease in net assets due to redemption, the excess exposure shall be regularized within sixty days of the breach of limits.
- (e) The exposure limits prescribed above will not be applicable in case of investment in securities issued by the Federal Government i.e. PIBs, Treasury Bills, Sukuks issued by Government.

(11) Risk Profiling of Unit Linked Funds:

- (a) With effect from January 1, 2022, all unit linked funds shall be classified as per the following risk profiles as per its investment policy:

No.	Category of Unit Linked Funds	Risk Profile
(i)	Government Securities Fund, and Money Market Fund with no exposure in corporate commercial paper	Very Low
(ii)	Money Market Funds with exposure in corporate commercial paper, Income Funds with deposits/ placement in AA or above rated banks/ DFIs, and in Government backed securities/ sukuks.	Low
(iii)	Income Funds having investments in A and above rated Banks/ DFIs, AA rated corporate debt instruments and MTS.	Moderate
(iv)	Income Funds with investments other than mentioned in (ii) and (iii) above, Balanced, Asset allocation, Managed Funds with up to 50% exposure in equity.	Medium
(v)	Equity Funds, and Balanced Funds, Asset Allocation Fund, Managed Funds, with up to 70% exposure in equity	High

- (b) Risk profiling of Fund of Funds shall be based on look through approach i.e. by looking at the underlying exposures of the Collective Investment Schemes in which investments are made from the Fund.

- (c) *Risk profile of the funds shall be prominently stated under the description of the fund wherever such description is provided in the policy documents, sales literatures, illustration, reports, statements etc.*
- (d) *Insurers shall also carry out risk categorization of its unit linked products based on the type of unit linked funds offered under the product. Any recommendation of a unit linked product to the policyholder after carrying out need analysis under Rule 7, shall also take risk categorization of product in to account.*

(12) Appropriate Branding of Product and Fund. -

- (a) *An insurer must ensure that the name of a unit linked fund reflects the underlying investment strategy for the linked assets and their inherent volatility. The category of a unit linked fund as per sub-rule 9 above, shall also be prominently mentioned beside the name of the fund.*
- (b) *In all sales literature, description of the product must clearly state that it is an investment-linked insurance product to avoid any misrepresentation of such product as a pure investment plan.*
- (c) *Any unit linked product or unit linked fund that does not offer any capital return guarantee or maturity guarantee or merely adopts an investment strategy aimed at returning policyholders' capital must not be represented as a capital guaranteed product and/ or fund or any other name capable of being construed as having a similar meaning, including, but not limited to examples such as 'capital protected' or 'capital preserved'.*

(13) Submission of Investment Policy: *(a) An insurer shall submit investment policy of the fund duly approved by the Board, and certified by the appointed actuary with the Commission at the time of creation of fund under Rule 9 below. In case of any subsequent changes or amendments made to the investment policy, the revised investment policy shall also be submitted to the Commission.*

(b) The Commission may require an insurer to make amendments in its investment policy where the Commission believes it to be in the policyholders' interest to do so.

(c) In case of major changes in Investment policy which impact the underlying risk of the fund, insurers shall give prior notice to policy holders with an option to change the fund without any charges.

(14) Responsibilities of Insurer: An insurer shall:

- (a) act in good faith and in the best interest of its policyholders without taking advantage for itself or any of its related parties, group companies or employees at the expense of its policyholders;*
- (b) place policyholders' interest before its own, when managing unit linked portfolios;*
- (c) ensure that the investment decisions and actions under unit linked funds are in accordance with their respective investment policy, objectives and restrictions including risk parameters, as stated in the investment policies;*
- (d) ensure employment of sufficient trained human resource for management of unit linked funds;*

- (e) *not carry out any transaction on behalf of unit linked funds with any of its connected person unless such transaction is carried out at arm's length terms and with appropriate disclosure;*
- (f) *not trade unnecessarily or excessively under unit linked funds, considering the stated investment objectives of the funds;*
- (g) *not participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity, or loyalty to policyholders;*
- (h) *neither profit or seek to profit from confidential information, nor provide such information to anyone with the objective of making profit for himself or for its policyholders;*
- (i) *ensure that individuals involved in making investment decisions for the unit linked fund are not trading on the basis of inside information;*
- (j) *develop a criteria for appointing a diverse panel of brokers and monitoring compliance thereof, to avoid undue concentration of business with any single broker; and*
- (k) *shall formulate policies and procedures duly approved by its board of directors, for proper discharge of its fiduciary responsibility. Such policy shall cover the following minimum principles / requirements, -*

- (i) *Mechanism to ensure its employees involved in investment function exercise reasonable care and prudent judgment while managing unit linked portfolio;*
- (ii) *Restriction on its employees engaged in investment function from entering into any transaction which may conflict with a duty of care owed to policyholders. Where it is practically not possible to avoid conflict, ensure its complete and timely disclosure to Risk Management and Compliance Committee;*
- (iii) *Measures for always ensuring that the best price and terms are negotiated when trading in securities, that are in the best interest of the policyholders;*
- (iv) *Appropriate measures to determine and present investment performance in a fair, accurate and timely manner and not misrepresent the performance of the unit linked funds;*
- (v) *Mechanism for ongoing and timely communications with policyholders such as their unit linked portfolio information, which does not contain any inaccurate or misleading information. Procedure for documentation and recording of all communication with policyholders shall also be implemented and followed;*
- (vi) *Formalizing a mechanism and take steps to avoid and eliminate the misalignment of incentives due to conflict of interest between the compensation of key executives of insurer and interest of the policyholders;*
- (vii) *Policy for trading room and related internal controls including but not limited to; recording of transactions; authorizations; communication channels; restriction on entry and exit; clean screen and clean desk policy; etc.*
- (viii) *Proxy voting policy on behalf of investment of unit linked funds, covering at minimum the following:-*
 - *Authority and responsibility for voting proxies and record keeping of proxy voting; and*
 - *Proxy voting in the areas of election of directors, corporate governance, appointment of auditors, changes in legal and capital structure and merger and acquisition.*

(15) Ex-gratia Payments from fund: *In case of unit linked funds cost of any compensation or ex-gratia payments to policyholders shall be charged to the shareholders' fund of insurer.*

Examples of occurrences that lead to the cost of compensation or ex-gratia payments being incurred include, but are not limited to:

- (a) mis-selling;*
- (b) errors or delays in unit pricing;*
- (c) incorrect fees and charges levied to funds and policyholders; and*
- (d) incorrect computations of NAV.*

5. In sub-rule 3 of Rule 10, after clause (c) following new clause (d) shall be inserted, namely:

“(d) A life insurer may place aggregate order on behalf of unit linked funds for investment in securities through a single UIN subject to compliance with following terms and conditions:-

- (i) A life insurer must establish and implement an order allocation policy providing sufficiently precise terms for the fair allocation of aggregate orders, including how the volume and price of orders determines allocations and the treatment of partial executions etc. The policy should also cover the mechanism / procedural requirements related to allocation from Insurer account to respective unit linked fund with appropriate identification.*
- (ii) A life Insurer must ensure that aggregation of orders will not result in disadvantage to any of the unit linked fund or their policy holders.*
- (iii) A life insurer must ensure that order to respective unit linked fund should be on the basis of weighted average price.*
- (iv) A life Insurer must ensure that when an aggregated order is partly executed, allocation to respective unit linked fund will be done in proportion to the initial amount ordered unless there are sound reasons for applying alternative allocation criteria.”*

6. In clause (iii) of sub-rule 2 of Rule 11, after the words *“issuance of policy and realization of renewal premium etc.”* following new words shall be inserted, namely:

“On receipt of properly documented request for full surrender or partial withdrawal by any unit linked account holder, an insurer shall process the same immediately and payments shall not be made later than six working days of the request in any case.”

7. In sub-rule 4 of Rule 12 titled “Summary of Investments”, shall be substituted with the following, namely:

*“(4) **Fund Manager Report:** Insurers shall prepare and place Fund Manager Report for each month on its website along with its intimation to the unit linked policyholders through physical or electronic means (such as SMS, email or in-app notification etc.). The Fund Manager Report (FMR) shall have the following minimum content:*

- (a) Basic Information of the fund including:*
 - (i) Name of the Fund;*
 - (ii) Investment Objective of the Fund;*
 - (iii) Category of the Fund (as per Rule 9 above);*
 - (iv) Risk Profile of the Fund (as per Rule 11 above);*

- (v) *Launch Date;*
- (vi) *Month end date till which the FMR is made;*
- (vii) *NAV per unit at launch date;*
- (viii) *NAV per unit at month end;*
- (ix) *Net Assets under the fund at month end;*
- (x) *Fund Management Fee per annum;*
- (xi) *Weighted Average Time to Maturity in case of Money Market Fund, Income Fund, and Government Securities Fund.*

(b) *Asset Allocations at month end with comparison of asset allocation of last month;*

(c) *Sector wise allocation in case of equity investments;*

(d) *Credit quality/ Asset quality of the portfolio in case of exposure in money market placements, debt based securities, placements with Banks/ DFIs, etc.;*

(e) *Total Expense Ratio of the fund which shall be calculated as:*

Total Expenses of the fund ÷ Average NAV of fund

where:

i. Total Expenses means the sum of daily expenses of the fund from January 01 till end of the calculating month;

ii. Average Net Asset Value means the sum of daily net assets from January 01 till end of each calculating month divided by total number of days from January 01 till end of that month.

(f) *Investment Returns of the funds at least for following periods:*

- (i) Calendar year to date (both absolute and annualized);*
- (ii) Since inception (annualized);*
- (iii) Last 5 years (annualized);*
- (iv) Last 10 years (annualized)."*

8. After Rule 12, following new Rule 13 shall be inserted, namely:

"13. Discontinuation of Unit-Linked Fund.-

(1) *An insurer shall not close or discontinue any unit linked fund without first obtaining prior approval of the Commission in writing. For this purpose, insurers shall be required to provide such information as may be required by the Commission to its satisfaction.*

(2) *The information required to be provided under sub-rule (1) above, shall include but not limited to:*

- (a) Proposed date for closing the fund;*
- (b) Reasons for discontinuing the fund;*
- (c) Total number of policies linked and value of assets maintained in the fund;*
- (d) Name and details of the fund(s) to which discontinued fund's assets shall be transferred, subject to requirement of sub-rule (3) below;*
- (e) Manner for transfer of discontinued fund's assets to another fund;*
- (f) Treatment to policyholders that have units in the fund to be discontinued*
- (g) Any other information as the Commission may require.*

(3) Prior to closing or discontinuing a fund, an insurer shall send notice to policyholders prior to 30 days from the intended close date of the fund, providing them with option to transfer their investment values to another fund. Such notice shall also mention the default fund to which their investment values will be transferred automatically, in case no optional fund is selected by the policyholder during the notice period.

(4) An insurer shall not charge bid offer spread or any other charge, by whatever name called, to the policyholders on transfer of discontinued unit linked fund's assets to another fund and shall ensure that such transfer does not result in any disadvantage to the policyholders."

9. After the insertion as aforesaid, following new Chapter 4 titled "Sales & Marketing Practices" shall be inserted, namely:

"Chapter 4

Sales & Marketing Practices

14. Sales process for unit linked products.- With effect from January 1, 2022, the following requirements shall apply to all unit linked policies sold through any distribution channel of the insurer except for corporate insurance agents where relevant requirements of the Corporate Insurance Agents Regulations, 2020 shall be applicable:

- (1) **Bilingual documents to be provided to policyholder.-** All documents provided to the policyholder such as proposal form, marketing brochure, sales material, policy documents and any other pre-sale or post-sale document provided to the policyholder or the prospective policyholder shall be bilingual i.e. both in English language and Urdu language written as line by line translation on the same page.
- (2) **Free look period to be mentioned at prominent place on policy document, policy schedule and marketing material.-** The insurer shall ensure that it is mentioned in bold font, at a prominent place on first page of the policy document, policy schedule and marketing material that the policyholder can cancel the policy within fourteen (14) days of the receipt of the policy documents by the policyholder.
- (3) **Audio-visual clip for guidance on proposal form and key product features.-** The insurer shall ensure that a brief audio-visual clip (in English or Urdu language), of at least two (2) minute duration is shown to the prospective policyholder prior to providing him/her the proposal form for filling. The audio-visual clip shall cover the following:
 - (i) key features of the insurance product being offered covering premium payment, coverage extended, minimum financial component, free look period, surrender options and partial withdrawals etc.
 - (ii) contents of the proposal form, its significance, duty to provide accurate information and implication of non-disclosure and/or material misrepresentation of material information on claim adjudication.

In the case of sale of regular premium individual life policies sold through telemarketing the requirement of showing audio-visual clip shall not be applicable.

- (4) **Communication during policy cycle.-**

(i) *The insurer shall maintain continuous communication with the policyholder so as to provide him pertinent information about the policy and any ancillary matters related thereto, in a timely and effective manner through the communication channel, chosen by the policyholder, throughout the policy cycle. The insurer will, at the least, communicate with the policyholder in the following instances as follows:*

(a) *The insurer shall send a “welcome message” through SMS at the registered mobile number of the policyholder containing information about issuance of insurance policy, dispatch of insurance policy documents, and free look period clause.*

(b) *The insurer shall send the renewal notice to the policyholder prior to the due date of premium through mail/courier or email at his/her active email address, or both, as specified by the policyholder in writing at the time of policy inception, or later. The insurer will also send follow-up SMS for collection of renewal premium, two days after sending the renewal notices. The insurer shall send the renewal notices for policies with variable premium payment frequencies, at the following intervals, as provided through the table below:*

Premium payment frequency	Minimum No. of days prior to due date
<i>Annual</i>	<i>Thirty days</i>
<i>Semi annual</i>	<i>Fifteen days</i>
<i>Quarterly</i>	<i>One week</i>
<i>Monthly</i>	<i>One week</i>

(c) *After premium payment is received by the insurer from the policyholder, the insurer shall send an SMS for acknowledging the receipt of payment to the policyholder, in addition to any other payment acknowledgment receipt provided to the policyholder;*

(d) *At the time of issuing units against each premium, the insurer shall send a statement or SMS or email to the policyholder informing the amount of charges deducted from the premium, net amount invested, and number of new units created;*

(e) *The insurer shall send intimation of effectuating endorsement for any change in the insurance policy through email at the active email address of the policyholder or SMS, or both, as preferred by the policyholder. Thereafter, the insurer shall also send the endorsement through mail/courier or email, or both, as specified by the policyholder in writing.*

(f) *If renewal premium is not received one month after premium due date despite renewal notices and follow up SMS sent by the insurer, the insurer will make an interactive telephonic call to the policyholder, within seven (7) working days, to remind him about the deposit of renewal premium, inquire the reason for not depositing the renewal premium, and guide him about the non-forfeiture options that the policy may acquire in case of non-payment of premium.*

(ii) *The SMS required to be sent by the insurer under this clause shall be in both Urdu and English language.*

(iii) *The insurer shall obtain acknowledgment of the receipt of documents or policy terms, as the case may be, from the policyholder preferably through email or SMS. This requirement shall apply on all policies issued through all modes inter alia branch visit, telephone or internet.*

(5) **Illustration Requirement.-**

(i) *The insurer shall ensure that no unit linked insurance policy shall be sold unless the illustration has been provided to the policyholder as per the format prescribed by the Commission from time to time.*

(ii) *Insurer shall ensure that the illustration has been given to the 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 insurer shall ensure that there must be a reasonable time period available to a prospect to understand the illustration before purchasing a life insurance product.*

Explanation: *Above clause is not intended to breakdown the sales process into two phases. The objective of this regulation is to ensure that the agent has properly explained the product illustration to a prospective customer.*

(6) **Recycling of life insurance policies.-**

(i) *Where a regular premium unit linked policy is lapsed / surrendered during the first three policy years, then unless that policy is reinstated (in case of lapsation), insurer will not sell **any** new individual life policy to the same policyholder within a year from the effective date of the policy acquiring lapsed/ surrendered status.*

(ii) *Where a regular premium individual life policy is lapsed / surrendered after the third policy year, then unless that policy is reinstated / revived or the policyholder has separately consented to that effect, insurer will not sell a **similar** new individual life policy to the same policyholder within a year from the effective date of the policy acquiring lapsed / surrendered status.*

(7) **Minimum financial underwriting.-**

(i) *An insurer shall consider the regular income of the proposed policyholder in determining the affordability of the policy from the perspective of policyholder as per their existing financial underwriting guidelines.*

(ii) *At the time of policy issuance, the insurer will carry out and document an assessment as to whether the insured would be able to pay subsequent premiums as and when falling due, based on insured's current financial resources.*

(iii) *The underwriting committee of the insurer shall, on a sample basis, analyse the assessment carried out in accordance with clause (ii) above, and incorporate the findings so made, in the insurer's underwriting guidelines/policy.*

(8) **After sale call by the insurer to all policyholders.-**

- (i) *The insurer shall make a structured telephonic call 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 7 years or maturity of the product whichever is earlier;*
- (ii) *The after sale call mentioned at sub-clause (i) above shall be made at least one day after the sale is closed within a period of seventy two (72) hours. For ensuring that the call back confirmation is with the policyholder himself, the insurer shall devise policyholder identification mechanisms such as, telephone personal identification number (T-PIN), question about mother's maiden name etc.*
- (iii) *If a policyholder gives an adverse response, the insurer will return the premium to the policyholder within 30 days of such call.*
- (iv) *The after sale call made in accordance with this clause, shall allow cross questioning from the policyholder in Urdu or his native language. The minimum aspects of every after sales call, to be communicated to the policyholder are provided as Annexure 4 to these Rules.*

Provided that the Commission shall have the power to revise/ amend Annexure 4 to the Rules from time to time.
- (v) *The insurer shall ensure that the call centre representatives authorized to make after sales call on behalf of the insurer are well conversant with the insurance policy contents and elements required to be communicated to the policyholder during the call. The insurer shall also ensure that the call centre representatives are well acquainted with subject of insurance such that they are able to respond to the queries made by the policyholder during the interactive after sale call.*
- (vi) *The after sale call shall not be made by the sales staff which has been engaged in sale of insurance policies.*

10. For Annexure 2 to the Rules referred under sub-rule (1) of Rule 7, the following shall be substituted, namely:

Annexure 2

Insurance Need Analysis of Mr. _____

1. Basic Information

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

Financial Priorities and Objectives	
What is more important for you? (Please number in order of priority)	
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	
Identified Insurance Needs	
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	
Any Additional Information	
Recommendation	
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 by me/us above is suitable for the prospect, based on the information submitted by him/her, as recorded above.

(Name and Signature of Agent)

Dated: _____

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. I also fully understand and acknowledge that:

- (a) I am buying an insurance product that is linked to the performance of underlying assets under unit linked fund(s) and is not a pure investment or saving product such as collective investment schemes or mutual funds or bank deposits;
- (b) This is a Regular Premium product under which I will be required to pay premium on every month/ quarter, or year for the premium payment term selected by me. (only in case of regular premium product);
- (c) The investment risk under the policy shall be borne by me and cash value of the policy may go up and down according to performance of the underlying fund(s) in which I have opted to invest. The actual maturity or surrender values may be lower or higher than the projected figures.
- (d) It is a long term insurance product, and in early years of the policy, the amount of cash values/ surrender values may be lower than the principal amount or cumulative amount of premium paid by me. In case I cancel or surrender the policy in early years, I may not get the principal amount or cumulative amount of premium paid by me;
- (e) In first two years of the policy, the surrender charges may apply on the policy which may result in lower or no cash surrender value;
- (f) The policy is subject to certain fees and charges, including premium allocation charges, bid-offer spread, administration fee, investment management fee, and mortality charges (which are deducted to cover insurance risk under the policy);
- (g) There is a free look period of fourteen (14) days from the receipt of policy documents for reading and reviewing the terms & conditions of the policy, and in case I am not satisfied with the product, I can cancel the product during this period for full refund of premium subject to any medical charges;
- (h) I was shown a brief audio-visual clip by the insurance agent for guidance on filling proposal form and key features of the product.

(Signature of Prospect)

Dated: _____

ANNEXURE 4

[See Rule 14(8)(iv) of the Rules]

MINIMUM ASPECTS OF CALL BACK CONFIRMATION

- (a) You have bought an insurance policy from ____ [*Name of Insurance Company*]. Please note that it is an insurance product under which ____ risk(s) are covered. For pre-requisite checks, kindly confirm your CNIC number and mother's name*.
**(any other authentic identification mechanism may be used.)*
- (b) Total term of the policy is __ years, premium paying term is __ years, and you are required to pay premium amounting to Rs. __ every year/ quarter/ month, as the case may be. The premium of your policy may increase due to indexation option chosen by you from second year onwards*
**(This information would only be provided to customers who have chosen the indexation option as YES.)*
- (c) Please note that during first two years, the surrender charges shall be applied at the rate ____ and ____ on insurance policy resulting in lower or no cash/ surrender value*. You must be aware that an amount corresponding to ____ % and ____ % shall be deducted from your first and second year premium respectively and the remaining amounts shall be allocated into your investment account.

**(This statement shall be amended in accordance with the surrender charges applicable in the products.)*
- (d) Please note that this insurance product [insert product name] is an investment linked product and cash value of your policy may go up and down according to performance of the underlying fund(s) in which you have opted to invest. Therefore, you may earn profit or bear loss on the investments made in the said fund.
- (e) Please note that you will be covered for an amount of Rs _____ for death due to any cause and [Rs _____ for ____ risk]*. Please note that you have purchased a long term insurance policy and if you cancel the policy earlier, you may not get the total amount paid by you. It is requested to carefully read the illustration sheet specifically the charges and the policy value during the initial years.
**(for relevant riders' amount, if any.)*
- (f) Please confirm whether an audio-visual clip on product features and proposal form has been shown to you at the point of sale.
- (g) As per the information provided by you in the policy form, you are not suffering from any chronic/terminal illness such as any form of Cancer, Heart Failure, Renal Failure, Chronic Liver Disease etc. or have not received treatment for any such illness.*
**(If the policy is issued on standard terms and conditions without any extra mortality loading.)*
- (h) Please read the terms and conditions of the policy in detail. You can cancel the policy within fourteen (14) days of receipt of policy documents for full refund of premium.

ANNEXURE 5

[See Rule 7A(4) of the Rules]

**UNDERTAKING ON UNDERSTANDING INVESTMENT RISK
FOR INVESTMENT LINKED INSURANCE PRODUCTS**

To be submitted by the Insurance Policyholder

Statement in English

"I have been given complete information about the risks in the investment I have made through this insurance product [insert product name] by the insurance company representative namely Mr. _____ s/o _____. I am fully responsible for the profit or loss made in this investment. I am fully aware and informed about the inherent risks, which are in-line with my risk appetite and after thorough analysis and understanding, I am ready to purchase this product [insert product name]."

Statement in Urdu

اردو میں بیان

مجھے اس بیمہ پروڈکٹ [نام لکھیں] میں کی جانے والی اپنی سرمایہ کاری میں پائے جانے والے خطرات کے بارے میں بیمہ کمپنی کے نمائندے _____ ولد _____ نے مکمل آگاہی فراہم کر دی ہے۔ میں اس سرمایہ کاری میں نفع اور نقصان کا مکمل طور پر ذمہ دار ہوں۔ میں سرمایہ کاری میں موجود خطرات سے آگاہ و مطلع ہوں جو کہ میرے خطرہ لینے کے رجحان و استعداد سے مطابقت رکھتے ہیں اور مکمل تجزیہ و تفہیم کے بعد میں یہ پروڈکٹ [نام لکھیں] خریدنے کے لئے تیار ہوں۔

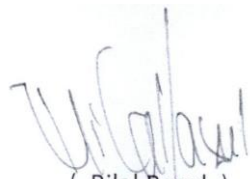
Name _____

نام _____

Signature _____

دستخط _____

[File No. Sy/SECP/8/13]


(Bilal Rasul)
Secretary to the Commission