

GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Islamabad, the 14th June, 2021

NOTIFICATION

S.R.O. 755 (I)/2021. _ The following draft amendments to Insurance Rules, 2017 proposed to be made by the Securities and Exchange Commission of Pakistan in exercise of the powers conferred under Section 167 of the Insurance Ordinance, 2000 (XXXIX of 2000), are hereby published for information of all the persons likely to be affected thereby and notice is hereby given that objections or suggestions, if any, received within thirty days from the date of its publication, shall be taken into consideration by the Securities and Exchange Commission of Pakistan, namely:-

DRAFT AMENDMENTS

In the aforesaid Rules. –

1. in rule 2, in sub-rule (1),-

(a) after clause (c), the following new clauses will be inserted, namely: -

“(ca) “Digital insurance” for the purpose of these Rules means insurance which is distributed, serviced, and administered through digital or electronic means only;

(cb) “Digital-only insurer” means insurer as defined in the Ordinance which solely relies on technology for its insurance operations and does not use any other mode for distribution, administration, servicing or for performing any other aspect of its insurance operations;

(cc) “Microinsurance” means as defined in the SEC (Microinsurance) Rules, 2014;

(cd) “Microinsurer” means insurer as defined in the Ordinance which is allowed to transact the microinsurance only;

(ce) “protection products” means products as defined in the Corporate Insurance Agents Regulations, 2020;

(cf) “Saving products” means products as defined in the Corporate Insurance Agents Regulations, 2020;”

2. in rule 6, after the sub-rule (2), the following new sub-rules shall be inserted, namely:-

“(3) In addition to the information mentioned in sub-rule (1), the applicant desirous to obtain registration as digital-only insurer will provide the following additional information,-

- (a) description of business model of digital-only insurer, its vision, mission and strategic plan;
- (b) market analysis along with analysis of business and economic conditions and inherent opportunities;
- (c) description of target market or customer segment, along with relevant geographic or demographic factors and strategic plan to access that segment;
- (d) need analysis of targeted customer segment, products and services proposed to be offered and illustration of how these will address the customer needs;
- (e) distribution strategy, intended partnerships and alliances to be built, and product-wise proposed business volume and value from each distribution channel/ mode;
- (f) product-wise expected business volume, product-wise expected claim ratios along with comparison of claim ratios of similar products in Pakistan and in regional and international markets;
- (g) branding, marketing and go to market strategy;

- (h) details of payment platform(s) with which the applicant intends to integrate/ partner for premium collection and claim disbursements while considering the accessibility and outreach factor;
- (i) demonstration of adequacy of human resources capacity with core competencies particularly in the area of technology such as data sciences, artificial intelligence/ machine learning, among others;
- (j) risk assessment, with special focus on operational risk and mitigating measures to be taken by the applicant to materialize its strategic plan and achieve the business targets as per submitted financial projections;
- (k) action plan for conduct of pilot operations along with specific targets and timelines;
- (l) details of technology system architecture to be deployed for conduct of end-to-end digital-only operations in the areas of customer acquisition, underwriting, administration, claims processing, etc. along with implementation plan. Also include the details of vendors/ entities from whom technology systems will be procured or outsourced, technology implementation partners, use of cloud service, where cloud will be hosted, security/ encryption mechanism used by cloud service provider (CSP) and/ or any service level agreement between company and SLA;
- (m) results of Vulnerability Assessment and Penetration Testing performed by the Company, if any, and remedial actions taken by the company;
- (n) results of third-party independent audit conducted by the applicant on Information Technology and Information System operations, if any;
- (o) CV of sponsors/ shareholders and details of sources of capital;
- (p) any other information/ document as required by the Commission.

(4) In addition to the information mentioned in sub-rule (1), the applicant desirous to obtain registration as microinsurer will provide the following information, namely:-

- (a) description of business model of microinsurer, its vision, mission, and strategic plan with special focus on serving the underprivileged societal segment;
- (b) market analysis along with analysis of business and economic conditions and inherent opportunities;
- (c) description of geographic and demographic segment in which it intends to operate and strategic plan to access that segment;
- (d) need analysis of targeted customer segment, target products and services and illustration of how these will address the customer needs;
- (e) distribution strategy, intended partnerships and alliances to be built, and product-wise proposed business volume and value from each distribution channel/ mode;
- (f) product-wise expected business volume, product-wise expected claim ratios along with comparison of claim ratios of similar products in Pakistan and in regional and international markets;
- (g) branding, marketing and go to market strategy;
- (h) risks and mitigating measures to be taken by the applicant to materialize its strategic plan and achieve the business targets as per submitted financial projections;
- (i) CV of sponsors/ shareholders and details of sources of capital;
- (j) any other information/ document as required by the Commission.”;

3. in rule 11, in sub-rule (1), for the table the following shall be substituted, namely:-

Minimum Paid up Capital Requirement	
Amount in PKR (million)	
Life insurers	700
Non-life insurers	500
Life microinsurers	150
Non-life microinsurers	80
Life digital-only insurers	150
Non-life digital-only insurers	80

4. in rule 14, in sub-rule (1), for clause (a), the following shall be substituted namely:-

“(a) A fixed amount which shall be as follows:-

- (i) for insurer, rupees one hundred and sixty-five million only; and
- (ii) for microinsurer and digital-only insurer, rupees seventy five million only;”;

5. in rule 15, in sub-rule (1), for clauses (a) and (b), the following shall be substituted, namely:-

“(a) for insurer, rupees one hundred and fifty million only;

(b) for microinsurer and digital-only insurer, rupees fifty million only.”; and

6. after rule 62, the following new rules shall be inserted, namely: -

“62A. Allowable classes of business for digital-only insurance. – (1) A life digital-only insurer may transact class 1 and class 4 as provided in sub-section (1) of section 4 of the Ordinance subject to the requirement that digital-only insurance will only cover the individuals and/or natural persons and not the legal persons or any person who is not a natural person.

(2) A non-life digital-only insurer may transact class 1, 2, 7, 8 and class 9 as provided in sub-section (3) of section 4 of the Ordinance subject to the requirement that digital-only insurance will only cover the individuals and/or natural persons and not the legal persons or any person which is not a natural person:

Provided that life and non-life digital-only insurer may sell insurance to legal person for covering the risks of individuals associated with it such as in case of group life insurance or group health insurance or such similar cases where beneficiary of the insurance policy is natural person and not the legal person.

(3) The life and non-life digital only insurance will be subject to the sum insured limits stipulated below;

- (a) for single life and personal accident, Rs.400,000/-;
- (b) for joint life, single life limit as above to be complied with for each covered person;
- (c) for individual health, Rs. 100,000/-;
- (d) for group health, individual health limit as above to be complied with for each covered person;
- (e) for miscellaneous insurance, Rs. 200,000/-;
- (f) for livestock and/ or crop, Rs. 600,000/-;
- (g) for motor insurance, Rs.1,500,000/-; and
- (h) for property and/ or assets insurance, Rs.1,500,000/-:

Provided that the Commission may, by notification, revise the above sum insured limits from time to time considering the inflation and depreciation in currency value.

(4) The life digital-only insurer will underwrite protection products only as per classes envisaged in sub-rule (1).

(5) The Commission may, upon application, grant approval to underwrite savings products to life digital-only insurer on case to case basis considering the

financial soundness, operational performance and strategic plan of the applicant, among other factors.

62B. Pilot to be conducted before full-scale launch of digital-only insurance operations.-

(1) The digital-only insurer, after obtaining registration under section 6 and section 7 of the Ordinance, will submit application to the Commission for commencement of operations on pilot basis.

(2) The Commission, after assessment of operational readiness, may issue letter of approval for commencement of pilot operations for the period of at least one year.

(3) The Commission may conduct onsite inspect of the digital-only insurer or may require it to produce such documents, information, or reports, verified by independent experts for assessment of its operational readiness, as it may deem fit.

(4) The Commission may levy certain conditions at the time of issuance of approval for commencement of pilot operations such as number or volume of transactions, number or nature of customers to be enrolled, limits on sum insured/ premium and / or overall business volume in a certain time period or such other elements, to be complied with during the conduct of pilot operations.

(5) After one year of pilot operations, the digital-only insurer may be allowed to commence operations on full scale basis or period of pilot may be extended, on the basis of performance during the pilot operations.

(6) The digital-only insurer will share periodic performance reports with the Commission as specified in writing at the time of starting the pilot operations or thereafter. The Commission may conduct onsite/ offsite inspection of the digital-only insurer at any time at the start of, during or after the pilot stage.

(7) The Commission may make modifications in the conditions under which pilot operations were allowed on the basis of performance of digital-only insurer during the pilot operations.

62C. Competence and Capability of Digital-only Insurer.- (1) Without prejudice to anything stated in the Insurance Companies (Sound and Prudent Management) Regulations, 2012, the digital-only insurer should have at least two

directors on its Board with at least five years' experience in digital financial services, or Insurtech or fintech or such other relevant field preferably at senior level.

(2) The digital-only insurer will ensure the availability of technology proficient human resource necessary for the conduct of business operations on digital basis with least involvement of non-tech mode for any aspect of core business.

62D. Digital-only insurer to file products with Commission before launch.- (1)

The digital only insurer is required to file with the Commission the products it intends to launch envisaging all product features, rates, break-up of profit margins and expenses, associated terms and conditions, benefits, exclusions, expected claim ratios, with special focus on communication of terms and conditions to the policyholders through digital mode, offer and acceptance mechanism, customer enrolment process, premium collection mode, claim lodgment options available to policyholder, claim payment mechanism, and any other aspect related to the insurance policy.

(2) The submission made under sub-rule (1) will be accompanied by the assessment of whether the proposed insurance product is likely to provide value to the policyholders for whom it is designed, whether the product is sustainable, and whether the terms of the contract are fair to insured persons along with the basis on which it has assessed the proposed insurance product as meeting the criteria.

(3) The insurer will also submit the holistic distribution plan in respect of proposed product (s) along with details of all distribution partners involved, role of each partner therein, the remuneration for each partner, and any marketing material that may be used for product promotion.

(4) The Commission may, as it may deem fit, require the digital only insurer to make such changes in the particulars submitted as per sub-rule (1) and (2), before giving formal approval for offering that product to the market.

62E. Technological Capability of Digital-only insurer.- (1) The digital-only insurer will develop adequate technological capability to conduct the operations digitally in the areas of customer engagement, customer enrolment, distribution, administration, servicing, claim processing and/ or any other aspect of core operations. This may include *inter alia* the necessary resources to carry out the business operations, the availability of back-up system for business continuity planning and disaster recovery and arrangements to protect the confidentiality of policyholder data.

(2) The digital-only insurer will make available its technology systems/ platforms along with the details of applications and/ or algorithms used in its business operations, whether proprietary or outsourced, for review or inspection of the Commission, as may be required by the Commission.

(3) The digital-only insurer will comply with the SEC Guidelines on Cybersecurity for Insurance Sector, 2020, and will formulate cybersecurity framework in accordance with the guidance given in the said Guidelines and align its risk management framework with the cybersecurity framework.

62F. Customer onboarding through Digital User Interface.- (1) The digital-only insurer will ensure that the key facts relating to insurance policy such as risk insured, sum insured, policy benefits, premium, free look period, period of coverage and any other material fact, are communicated to the prospective policyholder while making the sales pitch before the offer to insurance contract is made. The detailed terms and conditions may be communicated to the policyholder after issuance of insurance policy and the onus of such communication as stated in this sub-rule lies on digital-only insurer.

(2) The digital-only insurer will provide evidence of insurance cover promptly after inception of insurance policy.

(3) The digital-only insurer will obtain necessary information that forms part of proposal form and the beneficiary information including name, CNIC/ passport number or another national identity number and relationship of policyholder with the beneficiary. The insurer will disclose the risk of refusal of claim payment due to non-disclosure of medical or other material information in the proposal form.

(4) In case of loyalty insurance products where policyholders are automatically enrolled, the insurance policy summary envisaging benefits, period of coverage, and claim notifying process will be communicated to the policyholder/ insured person.

(5) The digital-only insurer will take all reasonable steps possible to ensure that potential policyholder is able to take informed decision about the proposed insurance policy. Where intermediaries' services are used, the digital-only will ensure that intermediaries are taking such steps which enable the potential policyholder to take informed decision about the proposed insurance policy.

(6) The premium may be collected through digital payment platforms, as per details submitted during product filing under Rule 62D of these Rules.

(7) The digital-only insurer will provide the policyholder with a copy of the insurance policy in electronic form that enables reproduction and storing.

(8) The digital-only insurer will provide post sale servicing to the policyholder through electronic means, in respect of insurance policies issued by it.

(9) The information about claim lodging process and complaint filing forums will be provided to the policyholder along with the insurance terms and conditions. The digital-only insurer will be first resort for complaint resolution.

(10) The digital-only insurer will seek to enhance inclusive insurance with special focus on section 87 of the Ordinance so as to not create undue discrimination against certain individuals.

62F. Requirements related to AML/ CFT for digital-only insurance.- (1) The digital-only insurer will comply with the requirements of SEC (AML/ CFT) Regulations, 2020, and as amended from time to time, including but not limited to Customer Due Diligence (CDD), Enhanced Due Diligence (EDD) where applicable, ongoing transaction monitoring, filing of Suspicious Transactions Report (STR), screening of customer database against proscribed persons in accordance with TFS obligations under the United Nations (Security Council) Act 1948 and/or Anti-Terrorism Act 1997, as stated in the SEC (AML & CFT) Regulations, 2020.

(2) The digital-only insurer may obtain and store the documents and information as required in the SEC (AML/ CFT) Regulations, 2020 digitally.

(3) The digital-only insurer may conduct simplified due diligence of the customer/ policyholder as per Regulation 17 of the SEC (AML/ CFT) Regulations, 2020 if it is able to rate the customer/ policyholder as low risk, and justify the decision to rate the customer/ policyholder as low risk in writing.

62G. Digital-only Insurer to be responsible for Policyholder Data Security and Confidentiality.-

(1) The digital-only insurer will ensure fair usage of policyholder information, which it has acquired during the course of its business and may include identity information, financial information, medical/ health related details, among others, and will be responsible for accuracy, safety and confidentiality of policyholder data.

(2) The policyholder information will only be used for the purpose of provision of insurance services to the policyholders and the data will not be shared with any other party except in instances where the applicable regulatory requirements so require.

(3) The insurers will only collect and share the information which is necessary to provide insurance to the policyholder or potential policyholder through the

technology-based platforms and not any additional information without the express and informed consent of the policyholder or potential policyholder.

62H. Free look period and accuracy of information.- (1) All life and non-life insurance policies offered by digital-only insurer, except the group insurance policies, will be subject to free look period of at least fourteen (14) days starting from date of issuance of policy provided and where the policy is cancelled by the policyholder within the free look period, the premium will be refunded to the policyholder in the manner as stipulated in Rule 62 of these Rules.

(2) The disclosure about free look period will be part of key facts required to be communicated to the potential policyholder before the sale of insurance and will also be communicated to the policyholder after the issuance of policy as part of policy terms and conditions and any other medium which is most likely to be viewed by policyholder such as in-app notifications or pop-up messages on opening application/ website/ email.

(3) The digital-only insurer will be responsible for accuracy of information presented to the policyholders or potential policyholders through its customer interface and will liable be for any loss caused to the policyholders due to incorrect, inconsistent or incomplete information through its digital customer interface.

(4) The digital-only insurer will ensure that the promotional/ marketing material it uses, whether on its own or through intermediaries or third parties, is accurate, clear, fair and not misleading.

62I. Use of intermediaries or third parties' services in Distribution and Insurance Policy Administration.- (1) The digital-only insurer will only use services of insurance intermediaries, or third parties through written agreements, to the extent of digital distribution and/ or policy administration through digital means and will not use non-digital modes of insurance distribution through any intermediary, third party or otherwise.

62J. Place of business and Customer Support. – (1) The digital-only insurer will establish a physical place of business in Pakistan and will keep the Commission updated about the address of its place of business.

(2) The digital-only insurer will maintain a round-the-clock customer support mechanism, preferably through voice-call/ telephonic helpline and will communicate the details of such helpline to policyholders along with insurance policy.

62K. Electronic Communication.- (1) The digital-only insurer may make all communication with the policyholder using electronic/ digital means while ensuring that the policyholder has received the same.

(2) The communication between the digital-only insurer and the Commission, including submission of documents, reporting and filing as required under the applicable provisions of the Ordinance and Rules and Regulations issued thereunder, may be made electronically/ digitally unless otherwise specified explicitly on case to case basis.”.

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