

PART II

Statutory Notification (S. R. O)

GOVERNMENT OF PAKISTAN

Securities and Exchange Commission of Pakistan

NOTIFICATION

Islamabad, the-----July, 2013

S.R.O 14(I)/2013: In exercise of the powers conferred by section 40 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997) read with clause (u) of sub-Section (4) of Section 20 thereof are hereby published for the information of all the person likely to be effected thereby and notice is hereby given that the draft will be taken into consideration after thirty days of its publication in the Official Gazette.

Any objections or suggestion which may be received from any person in respect of the said draft, before the expiry of the aforesaid period shall be taken into consideration by the Securities and Exchange Commission of Pakistan.

CHAPTER I

PRELIMINARY

1. Short Title and Commencement. 6

- (1) These regulations may be called the "CISSII Regulations, 2013".
- (2) These regulations shall come into force at once.

2. Definitions.- (1) In these regulations, unless there is anything repugnant in the subject or context, -

- (a) "Act" means Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997);
- (b) "CISSII Participant Agreement" means the written agreement between a life insurer and the CDC for the purpose of CISSII;

- (c) "CDC" means the Central Depository Company of Pakistan Limited, established under Central Depositories Act 1997(XIX of 1997);
- (d) "CISSIIö means the Centralized Information Sharing Solution for Life Insurance Industry developed and maintained by the CDC for the Commission for effective development of life insurance industry;
- (e) öCommissionö means the Securities & Exchange Commission of Pakistan constituted under Section 3 of the SECP, Act 1997 (XLII of 1997);
- (f) öAuthorized Accessö means the extent of authorization allowed to life insurer to the information under any register of the CISSII;
- (g) öRegister/componentö means set of inter-related information maintained by CDC on CISSII including but not limited to Centralized Agent Register including S-Register, Centralized Register for Postponed / Declined Life Risks, Centralized Claim Register and Centralized Group Life Claim Experience Register;
- (h) "Ordinanceö means the Insurance Ordinance, 2000 (XXXIX of 2000);
- (i) "Insurer" means an insurance company registered under the Ordinance to carryon insurance business;
- (j) öPostponed Life Riskö means the individual life risk in respect of which a life insurer has taken an underwriting decision to defer issuance/ reinstatement/alteration of an individual life insurance proposal/ policy for a defined period;.
- (k) öDeclined Life Riskö means the individual life risk in respect of which a life insurer has taken an underwriting decision to reject issuance/reinstatement/alteration of an individual life insurance policy for an indefinite period;
- (l) öGroup Life Insuranceö means a life insurance contract, excluding health insurance, having a term not exceeding one year, offered on yearly renewable term and group underwriting basis through a master policy document. The policyholder is a company, body corporate, bank, registered association or any enterprise having a separate legal entity. A natural person cannot be a policyholder under a group life insurance contract;
- (m) öNon-Declinature (ND) Policiesö means the individual life insurance policies issued by a life insurer to the customers who are either unwilling to go through detailed medical examination process or are unable to fulfill due to their present health status or after underwriting assessment by the insurer, present an uninsurable risk due to

their health/ occupational status. Such policies are generally characterized by a deferment of natural death benefit during early policy years;

- (n) "Gross Claim Liability" means the amount to be paid by an insurer in accordance with the provisions of a life insurance policy arising on the incidence of the covered event and such amount is to be calculated as sum of any lump sum benefit plus the present value of any regular income benefit calculated in accordance with the applicable reinsurance arrangement of the insurer;
- (2) All words and expressions used but not defined shall have the same meaning as assigned to it in the Ordinance and the Act.
- (3) In these regulations, the word "Takaful" may be used interchangeably with the word "insurance", 'Family Takaful' with 'Life Insurance', 'General Takaful' with 'General Insurance', 'contribution' with 'premium' and 'Company' & "Insurer" with 'Takaful Operator'. Similarly other terms used in the Takaful Rules, 2012 associated with the Takaful business may be used interchangeably with their conventional counterpart words/terms.

CHAPTER II

SCOPE AND OBJECTIVE OF CISSII

- 3. SCOPE.-** (1) These regulations shall apply to the functioning of the CISSII and the issues connected therewith and the detailed rights and obligations of the life insurers and the CDC shall be defined by the CISSII Participant Agreement:

Provided that in case of any conflict between these regulations and the CISSII Participant Agreement the regulations shall prevail.

- (2) The primary objective of the CISSII is to enhance the policy holder's protection and sound development of the life insurance industry through promotion of a formal information sharing mechanism among the life insurer to reduce systematic risk in life insurance industry.

- 4. COMPULSORY PARTICIPATION IN CISSII.-** (1) All life insurers (including family takaful operators) are required to share information in respect of their individual life and group life business through any distribution channel with the CDC in accordance with the CISSII participation Agreement:

Provided that all life insurance companies carrying out only health insurance business are not required to participate in CISSII:

Provided further that Commission may extend the scope of these regulations to include health and/or non-life insurance business in future.

(2) Any life insurer registered after the final publication of these regulations in official Gazette shall participate in CISSII as per the terms of the CISSII Participation Agreement.

- 5. CDC to assist the Commission in CISSII.-** (1) The CDC will assist the Commission in developing and functioning of CISSII as and when required by the Commission in accordance with section 23 of the CDC Act.

CHAPTER III FUNCTIONING OF CISSII

- 6. CISSII PARTICIPATION AGREEMENT.-** The CISSII Participation Agreement shall, at the minimum, includes the following aspects,-

- (a) The *authorized access* of a life insurer to the information contained under various Register/components of CISSII;
- (b) Each life insurer's responsibility to:
 - (i) cooperate with the CDC and other life insurers during the development and maintenance of the system;
 - (ii) update various registers in accordance with the agreed frequency;
 - (iii) ensure the truthfulness, completeness and accuracy of the information uploaded;
 - (iv) ensure the protection of user rights from unauthorized use;
 - (v) use the system in accordance with the objectives of CISSII;

- (vi) use the system in a manner enabling the other participants to use the system objectively; and
 - (vii) pay the agreed remuneration to the CDC within agreed time.
- (c) Each life insurer's right to:
- (i) have uninterrupted access to the system in accordance with authorized access;
 - (ii) use the information for its insurance business; and
- (d) The responsibility of the CDC to:
- (i) cooperate with life insurers during the development and maintenance of the system;
 - (ii) inform the life insurer in case of a delay has been occurred in updating any information;
 - (iii) develop and maintain the system in accordance with the objectives of CISSII;
 - (iv) ensure the confidentiality of the information from unauthorized access;
 - (v) not to use the information for any other purpose except for the development and maintenance of the system;
 - (vi) ensure that the information accessed by any life insurer is in accordance with the authorized access;
 - (vii) take utmost effort ensuring the availability of the system to users in an uninterrupted manner; and
 - (viii) ensure that information uploaded is updated on real-time basis.
- (e) The CDC shall have a right to receive its agreed remuneration within agreed time; and
- (f) The standard operating procedures between a life insurer and the CDC.

7. Register or components of CISSII and its Objectives.- CISSII will comprises of following types of Registers/components,

- (a) ***Centralized Agent Register including S-Register*** to facilitate the insurance industry and the Commission for effective monitoring and regulation of agents. It will facilitate each life insurer to control the misconduct of agents through ensuring the availability of history of agents' market conduct to each insurer and the record of regulatory criteria

relating to eligibility, qualification, and training of agents etc. are being observed;

- (b) ***Centralized Register for Postponed / Declined Life Risks*** to minimize an operational risk for the insurer that a prospective customer rejected by an insurer might be able to purchase a life insurance policy from another insurer by willfully withholding material medical/non-medical information;
- (c) ***Centralized Claim Register*** to minimize the possibility of exploitation by an individual from making multiple fraudulent claims within the life insurance industry;
- (d) ***Centralized Group Life Claim Experience Register*** to minimize the pricing risk for a life insurer that a prospective group life policyholder might be able to purchase a group life insurance policy on lower than justifiable premium rates by manipulation of its own claim experience;
- (e) Any other component or Register a may be agreed by mutual consent of the life insurance industry and the CDC with the prior approval of the Commission.

8. Minimum information requirement for various Register or components of CISSII.-All insurers shall, at the minimum, are required to provide information for the various components of the CISSII as described below for the purpose of meeting the objectives of CISSII:

Provided that the life insurers and the CDC, with the prior approval of the Commission, may mutually agree to enhance the scope and extent of information to be shared or add another Register/component in CISSII.

- (a) ***Centralized Agent Register including S-Register:*** This register shall contain the minimum information described below in respect of all codified agents in the direct sales force of the insurer and the sales force distributing products through bancassurance under referral model;
 - (i) Information required as per Rule 11 of Insurance Rules 2002;
 - (ii) For banks working as corporate agents, under the referral model, details relating to the staff whose compensation is significantly linked with sales volume; and

- (iii) The S-Register which is a sub-component of the Centralized Agent Register shall contain codified adverse information relating to the misconduct of agents and the details relating to the administrative decision taken by the Company and such Register shall contain the details relating to each agent under direct sales model of the bancassurance business at a later stage to be mutually agreed by the insurers and the CDC;
- (b) The centralized agent register shall be updated on monthly basis. The S-Component will be updated on weekly basis. The life insurers and CDC may mutually agree to update these registers more frequently.
- (c) The S-Register shall contain the information under (iii) above with effect from such date as the Commission deems appropriate.
- (d) ***Centralized Register for Postponed / Declined Life Risks:*** This register shall contain the minimum information described below in respects of all risks declined or postponed by a life insurer.
 - (i) Name and CNIC of the individual life customer;
 - (ii) Proposal date;
 - (iii) Codified medical / non-medical information;
 - (iv) Source of the medical information;
 - (v) effective date of underwriting decision.
- (e) The centralized register for postponed/ declined risk shall be updated on the next day of the effective date of the underwriting decision. However, due to unusual operational issues, an insurer may update this register on weekly basis. This register will also be updated if a risk is subsequently accepted by a life insurer based on a change in underwriting decision.
- (f) The register under (6) above shall not contain information relating to non-declinature (ND) policies. However, the life insurers and CDC may mutually agree to include such policies in CISSII with prior approval of the Commission.

(g) Centralized Claim Register: This Register shall contain the minimum information described below in respect of all early claims incurred during the first 3 policy years and having a gross claim liability exceeding Rs 1,000,000.

- (i) Name and CNIC of the policyholder;
- (ii) Date of incidence;
- (iii) Cause of incidence;
- (iv) Date of reporting;
- (v) Gross claim liability;
- (vi) Claim status.

(h) The centralized claim register shall be updated on weekly basis. However, the insurers are encouraged to update this register more frequently.

(i) Centralized Group Life Claim Experience Register: This Register shall contain the minimum information described below in respect of all group life policyholders having a loss ratio of 80% or more in a policy year and number of covered lives of at least 1,000.

- (i) Identification details of the corporate client;
- (ii) Policy year;
- (iii) Effective date of inception of coverage; and
- (iv) Claim Loss Ratio.

Explanation:- for the purposes of clause (iv) the claim loss ratio shall be calculated as a ratio of gross incurred claims to the gross earned premium for a minimum period of latest 11 months and such claim loss ratio shall be calculated at the end of a calendar month in respect of policies whose renewal date falls in the immediately following month.

CHAPTER IV

OBLIGATION OF CDC AND INSURER

9. Obligations of Insurer,-

- (1) All life insurers are required to update each register of CISSII in a timely manner in accordance with the minimum information requirement prescribed in regulation 8.

- (2) If a new component/ register is added to CISSII then all life insurers shall update that register in a timely manner in accordance with minimum information requirement that may be prescribed by the Commission.
- (3) All life insurers are required to follow the CISSII Participant Agreement in letter and spirit.

10. Obligations of the CDC,-

- (1) The CDC is required to ensure the availability of the system to users in an uninterrupted manner enabling the life insurers to update and access the information on real-time basis.
- (2) The CDC is required to maintain the confidentiality of the information contained under various registers of CISSII and protect it from unauthorized use.
- (3) The CDC is required to follow the CISSII Participant Agreement in letter and spirit.

11. Relaxation of Regulations.- If any difficulty arises in giving effect to any of the provisions of these regulations in a particular cases, or class of cases, or if it would be in the interest of insurance sector so to do, the Commission may, for reason to be recorded in writing relax such requirements subject to such conditions as it may deem fit.

12. Penalty.- whoever fails or refuses to comply with, or contravenes any provisions of these regulations, or knowingly and willfully authorizes or permits such failure, refusal or contravention, shall be shall be punishable with a fine not exceeding ten million rupees and where the contravention is continuing one with a further fine which may extend to one hundred thousand rupees for every day after the first during which such contravention continues.