SECP

SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN

CONCEPT PAPER

Review of Minimum Paid-up Capital Requirements

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1. Introduction & Background

1.1 Capital serves to reduce the likelihood of failure due to significantly adverse losses incurred by the insurer over a defined period, including decrease(s) in the value of the assets and/or increase(s) in the obligations of the insurer, and to reduce the magnitude of losses to policyholders in the event that the insurer fails, ultimately contributing towards better solvency position of the insurers. From macroeconomic perspective, mandating insurers to hold sufficient and appropriate capital strengthens the stability and soundness of the insurance sector and the financial system as a whole.

1.2 The optimization of minimum Paid-up Capital ('PuC') requirements for insurers serves several functions including enabling companies to accurately quantify risks and amount of capital to mitigate such risk; reinforcing the capital foundation and promoting the growth of insurance services nationwide. It also supports crucial decisions such as dividend distributions, participation in capital-intensive projects, and managing unforeseen challenges while ensuring stability for policyholders and boosting financial resilience. Additionally, an increase in PuC requirements enhances local insurers' capacity to underwrite larger risks and retain a significant portion, thereby indirectly reducing the outflow of valuable foreign exchange that would otherwise be spent on reinsurance premiums abroad.

2. Overview of Existing Framework

2.1 In Pakistan, the current regulatory framework i.e. the Insurance Ordinance, 2000 (the "Ordinance") and the Insurance Rules, 2017 (the "Rules"), prescribe PuC requirements for life and non-life insurers. Section 28 of the Ordinance states that an insurer, having a share capital, shall be required to have a PuC of not less than the required minimum amount which is:

(a) One hundred and fifty million rupees - for life insurers; and eighty million rupees - for non-life insurers; or

(b) Such higher amount as may be prescribed.

2.2 With the Ministry of Commerce, in exercise of powers conferred by sub-section (2) of section 167 of the Ordinance, delegating its rule making powers through S.R.O. 708(1)/2009 dated 27th July in respect of matters expressly required in the Ordinance to the Securities and Exchange Commission of Pakistan (the 'Commission'), the Commission vide Rules has kept on prescribing the revised minimum PuC requirements for insurers, as discussed in the following section.

3. Historical Perspective and Current PuC Requirements

3.1 Acknowledging the importance of increased PuC requirements in strengthening the risk management capabilities of insurers, enabling them to conduct more insurance business with improved retention levels, the Commission has consistently taken steps to optimize such requirements through bringing amendments to the existing Rules.

3.2 At the time of enactment of the Ordinance, the minimum PuC requirements for non-life and life insurance companies were Rs. 80 million and Rs. 150 million respectively. In the year 2007, the PuC requirements for non-life and life insurance companies were increased to Rs. 300 million and Rs. 500 million respectively in a phased manner. The latest increase came in the year 2015, where the PuC requirements for non-life and life insurance companies were increased to Rs. 500 million and Rs. 700 million, being currently applicable. This phase wise increase in the PuC requirements has been summarized in the table below:

Years	Life Insurer	Non-Life Insurer
Initial Requirements (2000-2004)		
2002	Rs. 100 million	Rs. 50 million
2004	Rs. 150 million	Rs. 80 million
1st Revision in Requirements (2027-20011)		
2007	Rs. 350 million	Rs. 120 million
2008	Rs. 400 million	Rs. 160 million
2009	Rs. 450 million	Rs. 200 million
2010	Rs. 500 million	Rs. 250 million
2011	Rs. 500 million	Rs. 300 million
2nd Revision in Requirements (2015-2017)		
2016	Rs. 600 million	Rs. 400 million
2017 (currently applicable)	Rs. 700 million	Rs. 500 million

4. Review of International Jurisdictions

4.1 A review of the minimum PuC requirements imposed by insurance regulators in related international jurisdictions was carried out, which revealed that almost all minimum PuC thresholds exceed those stipulated in Pakistan. The following summary outlines the minimum PuC requirements in some of the relevant countries for their respective insurance industries:

Rs. In million

Country	Life Insurer	Non-Life Insurer	Life Reinsurer	Non - Life Reinsurer
India	3,320	3,320	6,640	6,640
Bangladesh	699	932	-	-
Sri Lanka	465	465	-	-
*Indonesia	18,000	18,000	36,000	36,000
*Indonesia (Shariah compliant)	9,000	9,000	18,000	18,000
Malaysia	6,396	6,396	3,198	6,396
Nepal	10,350	5,175	41,400	41,400

Note: FCY into PKR rates are taken as on September 10, 2024.
** Requirements will be effective from the year 2028.*

5. Why to Increase PuC Baseline

5.1 Presently, the industry's risk absorption capacity, when translated in local retention levels, remains below 50%, despite the presence of a considerable number of players, illustrating a rather bleak situation. The current PuC requirements, in dollar terms, at the time of initial applicability equate to $ 6.7 million and $ 4.7 million against the present state at $ 2.5 million and $ 1.8 million, for life and non-life business respectively, which aggravate the situation further.

5.2 Moreover, with certain players dominating the market by having major share in industry premium, the insurance sector of Pakistan also seems much segregated. In life sector, out of 12 players, 6 players have a share of 98% in the total life industry premium. In non-life sector, similar fragmentation is observed, where out of 30 players, 15 players have 95% share in the total non-life industry premium.

5.3 Maintenance of current equity levels in light of the drastic macroeconomic changes from last increase, coupled with the fragmentation of the sector and lower local retention levels of the industry i.e. less than 50%, presents an ongoing potential risk in addressing policyholders' needs during unexpected events.

5.4 It was for these reasons that facilitation towards access to capital and reinsurance was identified as a key priority area in the 5-year strategic plan, with the review of existing PuC requirements as an operational approach to address this area, only after extensive deliberations with the key stakeholders in the form of meetings, roundtable discussions and conference.

5.5 Higher PuC requirements would strengthen the ability of local insurers to underwrite larger risks and retain a significant portion of the market, locally and efficiently, thereby reducing the outflow of foreign exchange in the form of reinsurance premiums. It would also safeguard the stability and soundness of the insurance sector, including that of the broader financial system, while enhancing the overall net worth of the companies. This would, indirectly, mandate the insurers to either raise their PuC or pursue mergers and acquisitions as a strategic approach to mitigate insurance risk, thereby promoting the need for consolidation within the sector.

5.6 It may be noted that although the Commission is dedicated to transitioning from the current solvency regime to a Risk Based Capital Regime which will align the overall capital of the insurers with the underlying risks, such a regime will, however, not eliminate the need for having PuC to enhance risk absorption capacity of the industry and higher minimum PuC requirements at entry level.

6. Proposed PuC Requirements

6.1 In light of above, it is proposed that the existing PuC requirements be revised as follows (Draft amendments to the Rules are attached as Annexure A to this concept paper):

(a) For new insurers, following PuC requirements be made applicable forthwith:
   (i) Life insurer = Rs. 3,000 million
   (ii) Non-life insurer = Rs. 2,000 million

(b) For existing insurers and life digital-only insurers underwriting life insurance saving products, PuC requirements be enhanced in the following phase wise manner:

Years	Life Insurer	Non - Life Insurer
2025	Rs. 1,000 million	Rs. 800 million
2026	Rs. 1,500 million	Rs. 1,100 million
2027	Rs. 2,000 million	Rs. 1,400 million
2028	Rs. 3,000 million	Rs. 2,000 million

(c) For a microinsurer and digital-only insurer, mainly involved in offering personal line products, the existing PuC requirements are proposed to continue, as mentioned below:

Minimum Paid-Up Capital Requirement	Amount in PKR (million)
Life microinsurer	150
Non-life microinsurer	80
Life digital-only insurer	250
Non-life digital - only insurer	100

(d) However, for life digital-only insurers underwriting life insurance saving products, the revised PuC requirements mentioned against (a) and (b) above, as applicable, are proposed to apply.

7. Conclusion and Feedback

7.1 The proposed revised requirements related to minimum PuC are intended to better align with international standards and emerging local dynamics, increase underwriting capacity to retain more business domestically rather than relying heavily on reinsurance, reduce the likelihood of failures, promote stability within the insurance sector and move in the direction of shaping a consolidated sector.

7.2 SECP invites the interested parties to provide their feedback and comments on the proposed amendments to the Rules attached an Annexure A to the paper. SECP hopes to work closely with the industry on the development of the insurance sector and continue its journey towards an insured Pakistan. Stakeholders can provide their comments within 30 days at talal.usmani@secp.gov.pk or jaffar.awan@secp.gov.pk.

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GOVERNMENT OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Islamabad, the 1st October, 2024

NOTIFICATION

S.R.O.1588(I)/2024.- The following draft of amendments to the Insurance Rules, 2017 proposed to be made by the Securities and Exchange Commission of Pakistan in exercise of the powers conferred by sub-section (2) of section 28 and subsection (2) of section 167 of the Insurance Ordinance (XXXIX of 2000) read with S.R.O. 708(I)/2009 dated July 27, 2009, is hereby published by the Securities and Exchange Commission of Pakistan for information of all persons likely to be affected thereby and notice is hereby given that objections and suggestions, if any received to the Securities and Exchange Commission of Pakistan within the thirty days of this notification will be taken into considerations, namely:-

DRAFT AMENDMENTS

In the aforesaid Rules,

1. For rule 11, the following shall be substituted:

"(1) For the purposes of sub-section (2) of section 28 of the Ordinance, the amount given in the table below shall be the minimum required amount of paid-up capital for an existing life insurer and non-life insurer registered under the Ordinance to carry on insurance business:

Type of Insurer	**Minimum Paid-Up Capital Requirement Amount in PKR (million)**				
	Applicable prior to 31^{s} December, 2025	**Year 2025 31st December**	**Year 2026 31st December**	**Year 2027 31st December**	**Year 2028 31st December**
(1)	(2)	(3)	(4)	(5)	(6)
Life Insurer	700	1,000	1,500	2,000	3,000
Non-Life Insurer	500	800	1,100	1,400	2,000

(2) For the purposes of sub-section (2) of section 28 of the Ordinance, the minimum paid up capital requirement for an insurer who, after the insertion of this rule, desires to register itself under the Ordinance, shall be Rs. 3,000 million for life insurance business and Rs. 2,000 million for non-life insurance business.

(3) For the purposes of sub-section (2) of section 28 of the Ordinance, the amount given in the table below shall be the minimum required amount of paid-up capital for a microinsurer and digital-only insurer, registered under the Ordinance to carry on insurance business:

Minimum Paid-Up Capital Requirement	Amount in PKR (million)
Life microinsurer	150
Non-life microinsurer	80
Life digital-only insurer	250
Non-life digital-only insurer	100

(4) For the purposes of sub-rule (1), (2) and (3), the amount of minimum paid up capital will be net off any discount offered on issue of shares."

2. For clause (a) of sub-rule (5) of rule 62A, the following shall be substituted:

"(a) The life digital-only insurer shall have minimum paid up capital in accordance with the requirement of sub-rule (2) of rule 11;

Provided that where any life digital-only insurer is underwriting life insurance saving products, before the insertion of this clause, the minimum paid up capital shall be in accordance with the requirement of sub-rule (1) of rule 11."

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(Bilal Rasul)
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