



Status of Motor Third Party
INSURANCE
in Pakistan



**SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN**

www.secp.gov.pk

Why this Study?

This study explores the landscape of existing motor third party insurance in Pakistan by drawing comparison with other countries. The objective of this report is to present a high level overview of the following information:



This study is intended to serve as a starting point for discussion and collaborative action planning on implementation of Motor third party insurance between SECP and key stakeholders including central and provincial authorities and insurance sector.

SECP Goals

Impacts: Availability of affordable MTP insurance, awareness among masses about significance of Insurance

Outcomes: Increase in number of insured vehicles on the roads, Improved motor insurance penetration in the country, Compensation to road accident victims

Contact SECP for Questions: If you wish to discuss the findings and recommendations of this report, reach out to:

Wazirzada@secp.gov.pk

sofia.bibi@secp.gov.pk

MOTOR INSURANCE STATUS



● **30 Million***

Registered Vehicles in Pakistan

● **12,557**** ●

Vehicles have MTP Insurance

● **23 Million**

Motorcycles

● **7 Million**

Motor Cars

● **900,437** ●

Vehicles have Comprehensive Motor Insurance

● **644,364****

Insurance Policies

● **912,994**

Insured Vehicles

● **3%**

Insured Vehicle percentage



● **10,379*** ●
Road Accidents

● **5,608** ●
Causalities

● **12,059** ●
Individuals

● **15,601** ●
Vehicles

ENABLING ENVIRONMENT

Legal Framework

1. Motor Vehicles Act, 1939 (Chapter VII, VIII, Section 125)
2. West Pakistan Motor Vehicles Ordinance, 1965
3. National Highway Safety Ordinance, 2000
4. Insurance Ordinance, 2000



Key Stakeholders

1. Provincial Motor Registration Authorities
2. Traffic Police
3. National Highway and Motorway Police
4. Insurance Companies
5. SECP
6. Ministry of Communication

* 2021 ** 2022

Table of Contents

Introduction	06
Importance of Motor Third-Party Insurance	07
Motor Third Party Insurance Legal Framework in Pakistan	08
MTP Insurance Trends in other Jurisdictions	11
Overview of Motor Insurance Sector in Pakistan	13
Need of MTP Insurance in Pakistan	15
Impediments in Motor-Third Party Insurance Compliance	16
Recent Initiatives w.r.t to Motor-Third Party Insurance	18
Way forward	20
Action Matrix	24



Message of the Commissioner

I am pleased to share this study on the Status of Motor Third-party (MTP) Insurance in Pakistan. This diagnostic study aims to highlight the significance of motor third-party insurance, its role in creating responsible driving, and providing relief to victims of road accidents. The study explores the legal framework, the current status of insurance penetration, impediments in the path of its compliance, recent initiatives by SECP, and the way forward.

An industry survey conducted for this study presents a worrying picture of Pakistan's motor insurance landscape, evident from a significant gap between the number of vehicles on the road and the low insurance penetration rate. With approximately 30 million vehicles, only 3% of them are insured, leaving a vast majority of population vulnerable to material risks, and has implications for road safety and the well-being of our citizens. In comparison to Pakistan's 3% penetration, other regional players have moved forward as Sri Lanka's penetration is 73%, India's penetration is 43% and Bangladesh's penetration is 36%.

Motor third-party insurance holds immense significance in terms of providing compensation for deaths and bodily injuries sustained by thousands of people every year in road accidents. In the absence of insurance coverage, victims and their families have to bear immense financial burden and, in some cases, government has to step up and compensate the victims of a road accidents. It is our collective responsibility to ensure that every individual on the road is protected through mandatory motor third-party insurance. MTPI can play an important role in promoting responsible driving, protecting accident victims, reducing financial burden on the government, and complying with sustainable development goals.

Recognizing the need for reform, the Securities and Exchange Commission of Pakistan (SECP) has been actively engaged in revising the Motor Vehicles Act of 1939 and bringing it to the requirements of today's era. SECP's focus remained on revising compensation limits for victims, introducing a no-fault option to deal with drawn-out court-led procedures, including government vehicles under mandatory insurance, and amending the Insurance law to prevent the issuance of bogus policies.

Furthermore, we must prioritize the creation of a digital database, which will serve as the foundation for a robust auto-insurance repository, and leveraging it to broad-basing MTPI and providing a hassle free digital online claim settlement process.

Lastly, the current status of motor-third party insurance in Pakistan demands immediate attention. A massive awareness drive by all stakeholders including SECP, the Insurance Association of Pakistan, the National Highway and Motorway Police, provincial traffic police, excise and taxation departments, motor registration authorities and the insurance industry is only way forward for ensuring a safer and insured Pakistan.

In the end I would like to commend the efforts of Insurance division, and the Chairman SECP for wholeheartedly supporting the progress of Insurance sector, with special thanks to the authors of this report, Wazirzada Yasir Almas Khan, Additional Joint Director and Sofia Bibi, Management Executive for a wholesome report.

Aamir Khan
Commissioner

Introduction:

Motor Third Party (MTP) insurance is a contract between the insured and the insurance company, wherein the insured pays a premium to the insurer to cover the cost of any damages caused to a third party in the event of a road traffic accident. The third party is someone who is not the insured or the insurer and may be the victim of the accident or their legal representative. This type of insurance is known as third-party insurance, which is a form of liability insurance. The insured is liable for any damages or losses incurred, if proven negligent. Automobile insurance is one of the most common forms of third-party insurance. Motor third-party insurance can help promote road safety, protect accident victims, and ensure fiscal responsibility on the part of vehicle owners. Motor third-party insurance can provide financial compensation for accident victims by covering the damages and injuries caused to third parties in case of an accident. This helps protect the interests of accident victims and provides them with financial compensation for their losses. The importance of third-party insurance lies in its ability to provide coverage to the insured for any injuries or damages that they may have caused.

In Pakistan the subject of MTP insurance falls under ambit of Federal Statute i.e. Motor Vehicles Act, 1939. The law provides compensation to third party in case of death and bodily injuries caused due to the negligence of the driver or the owner of the vehicle, which has been insured for the MTP insurance coverage. Section 94 of the Saved chapter VIII of the repealed Motor Vehicles Act 1939 stipulates that no person will be allowed the use of motor vehicles in a public place unless there is in force a policy of insurance complying with the requirements as laid down in section 95 of chapter VIII.



Importance of Motor Third-Party Insurance:

In most parts of the world, including the United States, Canada, Australia, France, Malaysia, India, and Pakistan, insurance is a legal requirement for all motor vehicle owners, as it helps to ensure that victims of accidents caused by the insured driver are able to receive compensation for their losses and expenses. Without MTP insurance, the cost of compensating the third party in case of an accident could be substantial. MTP insurance helps to reduce the financial risk associated with driving a motor vehicle, and provides peace of mind to the driver, knowing that they are protected in case of an accident. Overall, MTP insurance plays a crucial role in promoting road safety and reducing the financial burden associated with motor vehicle accidents.

MTP insurance is particularly important for countries like Pakistan for the following reasons:



Protection for Accident Victims

In Pakistan, road accidents are unfortunately quite common and can result in significant financial losses and medical expenses for the victims. MTP insurance ensures that the victims of road accidents are compensated for their losses and injuries, which can help them recover and alleviate some of the financial burden associated with the accident.



Promotion of Responsible Driving

By providing coverage for damages inflicted by an insured driver onto third parties, MTP insurance fosters a sense of responsibility and caution among drivers, leading to a potential decrease in road accidents and an overall enhancement in road safety.



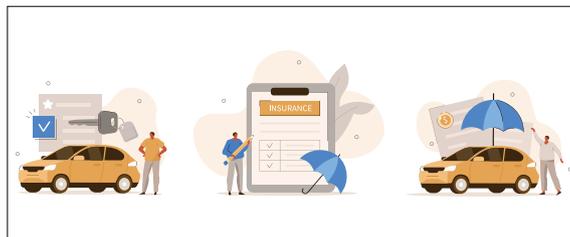
Reduction in the Financial Burden on the Government

In the absence of MTP insurance, accident victims may have to rely on government assistance for their medical expenses and other damages. By ensuring that all drivers have insurance, the burden on the government to provide assistance to road accident victims can be reduced.



Legal Compliance

MTP insurance is a legal requirement in Pakistan for all vehicles operating on public roads. This means that vehicle owners must have MTP insurance in order to legally operate their vehicles. Compliance with this requirement is essential to ensure road safety and to protect the interests of accident victims.



Fulfilment of SDGs

Compliance with motor third-party insurance in Pakistan contributes to SDGs 3, 8, and 9. It promotes good health and well-being by ensuring access to healthcare and financial protection for accident victims. It supports decent work and economic growth by providing financial stability and preventing individuals from falling into poverty. Additionally, it fosters industry, innovation, and infrastructure development in the insurance sector, leading to a larger market, increased investment, and improved resilience. Overall, compliance with motor third-party insurance aids in achieving sustainable development goals in Pakistan.



Market Development

MTP insurance can boost the development of insurance market in the country, with enhanced premiums and subsequently addition of billions of FED to national exchequer.

Motor Third Party Insurance Legal Framework in Pakistan:

A. Evolution of Motor Third Party Insurance Legal Framework:

In Pakistan under the Motor Vehicles Act, 1939, obtaining motor third-party insurance cover has been declared compulsory. Motor Vehicles Act, 1939 stipulates that no person shall use or cause or allow any other person to use a motor vehicle in a public place unless there is in force a policy of insurance in relation to use of that vehicle complying with requirements as stipulated.

In 1965, the Motor Vehicles Act, 1939 was repealed and replaced by West Pakistan Motor Vehicles Ordinance, 1965, but chapters VII, VIII, and Section 125 of the Motor Vehicle Act 1939 were saved. The provinces adopted the West Pakistan Motor Vehicles Ordinance, 1965 as it is, along with saved chapters VII & VIII of the Motor Vehicle Act, 1939 which remains applicable till date across Pakistan. The Ordinance has been amended in application by every province. West Pakistan Motor Vehicles Ordinance, 1965 deals with licensing, registration, control of transport vehicles, construction, equipment and maintenance of vehicles, control of traffic, offenses, penalties and procedure miscellaneous whereas the saved chapters of the Motor Vehicles Act, 1939 deals with insurance of motor vehicles against third party risks.

Moreover, in 2000, National Highway Safety Ordinance, was also introduced for the regulation of national Highways. National Highway Safety Ordinance, 2000 is applicable to the whole of Pakistan to the extent of National Highways. It provides guidance about licensing of drivers, age limit of driving, registration of road vehicles, construction, equipment and maintenance of road vehicles, control of traffic, offences, penalties and procedures, insurance of vehicles etc. National Highways Safety Ordinance, 2000 also deals with mandatory no-fault compensation insurance for vehicles running on national highways.





The Motor
Vehicles Act,
1939



West Pakistan
Motor Vehicles
Ordinance,
1965



National Highway
Safety Ordinance,
2000

B. Salient Features of Relevant Laws:

The Motor Vehicles Act, 1939

The Motor Vehicles Act, 1939 (the "Act") is the primary law which deals with motor MTP insurance in the country. Under this Act, obtaining motor third-party insurance coverage has been declared compulsory. The Act dealt with (i) Licensing, (ii) Registration, (iii) Control of transport vehicle, (iv) Construction, Equipment and Maintenance, (v) Control of Traffic, (vi) Motor Vehicles Temporarily leaving or visiting Pakistan, (vii) Insurance of Motor Vehicles against third party risks (viii) offences, penalties and procedure (ix) miscellaneous.

The Act was repealed and replaced by the West Pakistan Motor Vehicles Ordinance, 1965 but chapter (i) Motor Vehicles Temporarily leaving or visiting Pakistan, (ii) Insurance of Motor Vehicles against third party risks and Section 125 (related to MV insurance against TPL) were saved.

Essentially, Section 94 of the saved chapter VIII of the repealed Act stipulates that no person shall use or cause or allow any other person to use a motor vehicle in a public place unless there is in force a policy of insurance in relation to use of that vehicle complying with requirements as stipulated in section 95 of that chapter. It states:

"Insurance of Motor Vehicles Against Third Party Risks: Necessity for insurance against third party risk. —

(1) No person shall use except as a passenger cause or allow any other person to use a motor vehicle in a public place, unless there is in force in relation to the vehicle by that person or that other person, as the case may be, a policy of insurance complying with the requirements of this Chapter."

Under the Act, policy of insurance must be a policy which insures the person or classes of persons specified in the policy to the extent specified against any liability which may be incurred by him or them in respect of the death of or bodily injury to any person caused by or arising out of the use of the vehicle in a public place.

Under the Act, the claim payment process is court led with no payment by insurer unless before or after the commencement of the proceedings in which the judgement is given. Further, Limits of liability in respect of any one accident under the Act are as under;

1. Goods vehicle with over all limit of Rs. 20000/- to employees (upto 6 employees) in respect of death or bodily injury to employees other than driver.
2. Passenger vehicle with overall limit of liability Rs. 20000/-.
 - i. Rs. 4000/- for individual passenger for vehicle carrying 6 passengers.
 - ii. Rs.2000/- for individual passenger for vehicle carrying 6 plus passenger excluding driver.
 - iii. Vehicle of any other class the amount of liability incurred.

West Pakistan Motor Vehicles Ordinance 1965

West Pakistan Motor Vehicles Ordinance, 1965 (the "Ordinance") repealed the Motor Vehicles Act, 1939 but saved its Chapters VII and VIII. Now the Ordinance deals with (i) Licensing, (ii) Registration, (iii) Control of transport vehicles, (iv) Construction, Equipment and Maintenance, (v) Control of Traffic, (vi) offenses, penalties and procedure (vii) miscellaneous whereas the chapters VII and VIII of the Motor Vehicles Act, 1939 saved in Schedule 14 of the Ordinance deal with insurance of motor vehicles against third party risks.

Below mentioned are some important sections dealing with Motor Third party insurance in the ordinance:

- Section 34 authorizes registering authority to suspend the certificate of registration if the vehicle is not insured as required by law.
- Section 49 (1) requires the submission of group insurance to the registration authority with an application for a stage carriage permit.
- Section 49(3) required that the permit shall stand cancelled if the certificate of insurance in 49(1) is withdrawn.
- Section 61(3) (f) as a general condition that any law in force in the province relating to the motor vehicle will apply to the holder of the permit.
- Section 114 gives power to a police officer to seize documents if has reasons to believe that certificate of insurance produced before him is false.

National Highways Safety Ordinance, 2000

National Highways Safety Ordinance,2000 ("NHSO 2000") deals with the licensing of drivers, registration of road vehicles, construction, equipment and maintenance of road vehicles, control of traffic, offences and penalties. NHSO is only applicable for national highways. Under chapter V "control of traffic" NHSO provides guidance about insurance of vehicles. Section 41 of chapter V makes it mandatory to obtain no fault compensation insurance from an insurance company. However, the NHSO 2000 is silent on sum insured and features of no-fault compensation insurance

It states: "*41. No-fault accident compensation insurance:*

No owner of a road vehicle shall use or permit to be used, and no driver of such vehicle shall drive, or cause or permit to be driven, the vehicle on a national highway unless it is covered by an insurance of "No Fault Accident Compensation" by a registered insurance company. This will not apply to a road vehicle covered by the Pakistan Transporter's Mutual Assistance Co-operative Society, Pakistan Automobile Association, or any other road transport co-operative society so recognized by the prescribed authority on this behalf."

Moreover, NHSO 2000-Section 81 empowers a police officer to arrest the driver of a transport vehicle without a certificate of insurance and 12th schedule clause 33 imposes a fine of Rs. 1000/- on driving a motor vehicle without a certificate of "No fault insurance" coverage.

MTP Insurance Trends in other Jurisdictions:

Motor Third Party (MTP) insurance is the centre of focus for developing countries for risk management and road safety. Generally, across both the developing and developed world, motor insurance as a whole and third-party insurance, in particular, are mandated by law. Every country has set up special laws and regulatory authorities to ensure compliance with mandatory motor insurance.

For this study, six international jurisdictions are assessed for their compliance with motor insurance. The number of registered motor vehicles is compared against the number of motor insurance policies (both comprehensive motor insurance policies and motor third-party insurance policies) to analyse the insurance coverage in the country. The six jurisdictions covered under this study include India, Kingdom of Saudi Arabia, Bangladesh, Sri Lanka, Uganda, and Pakistan.

Among these six jurisdictions, Uganda has the highest insurance coverage percentage as 89% of its motor vehicles are insured (IRA, 2020). Similarly, Sri Lanka also has a remarkable 73% insurance coverage percentage in the motor sector as among its 8 million registered vehicles 5.8 million are insured (IRCSL, 2020). Followed by Sri Lanka, the Kingdom of Saudi Arabia has a 50% insurance cover (Argaam, 2022). In the South Asian region, India and Bangladesh have insurance coverage percentage of 43% and 36% respectively (Shetty, 2020) (Ahmed, 2019).

India had a lower insurance coverage percentage, however, in 2018, the Supreme Court of India created a Supreme Court Committee on Road Safety which issued directions to States and Union territories to periodically carry out checks to see whether the vehicle owners have third party insurance cover and in case they are not covered by third party insurance, the vehicle will be detained till such time, valid third-party insurance certificate is produced by the vehicle owner (Insurance Regulatory and Development Authority of India, 2018). Simultaneously, Insurers were instructed to make it easy for customers to obtain motor third-party policies by offering an online channel. Insurers were also advised to work with police authorities to facilitate the issuance and renewal of these policies. Additionally, insurers were instructed not to refuse requests for third-Party coverage under any circumstances. These measures helped increase insurance coverage in India.



A summary of data regarding insured vehicle in different countries is given below:



Pakistan

Total Number of Vehicles
30,000,000

Insured Vehicles
830,203

Insured Vehicle (%)
2.77%



India

Total Number of Vehicles
230,000,000

Insured Vehicles
98,000,000

Insured Vehicle (%)
43%



kingdom of Saudia Arabia (KSA)

Total Number of Vehicles
15,900,000

Insured Vehicles
7,950,000

Insured Vehicle (%)
50%



Bangladesh

Total Number of Vehicles
6,000,000

Insured Vehicles
2,130,142

Insured Vehicle (%)
36%



Sri-Lanka

Total Number of Vehicles
8,000,000

Insured Vehicles
5,863,856

Insured Vehicle (%)
73%



Uganda

Total Number of Vehicles
1,542,021

Insured Vehicles
1,375,763

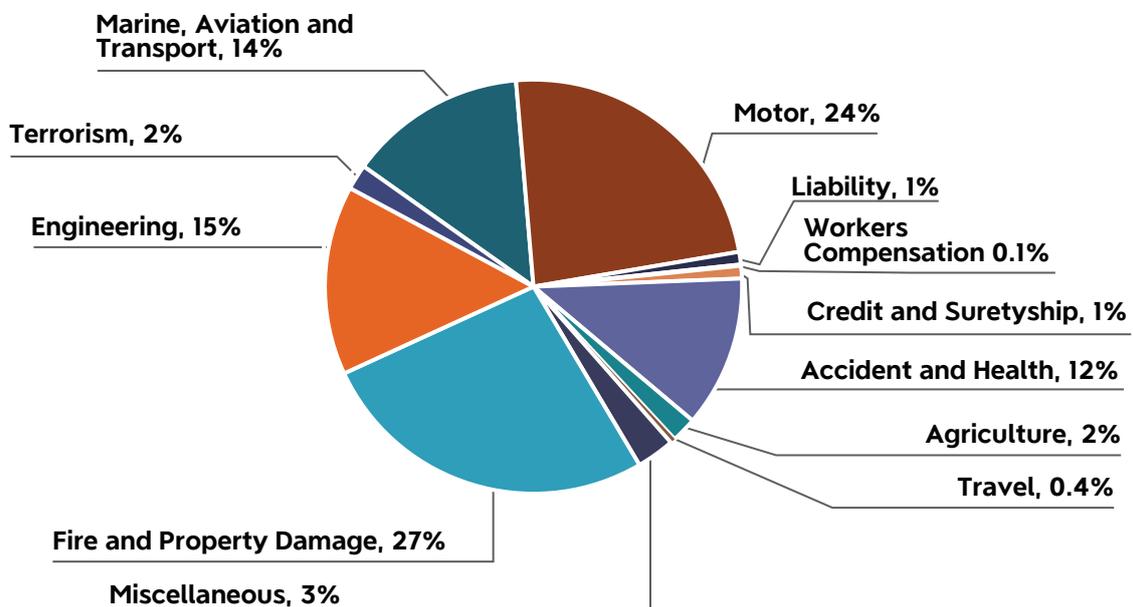
Insured Vehicle (%)
89%

Overview of Motor Insurance Sector in Pakistan:

The insurance sector in Pakistan is contributing to the economic and social progress by compensating for losses of different types and magnitudes. Additionally, insurance companies invest their resources in various markets in Pakistan, generating long-term financial benefits. By transferring risk, insurance enables both individuals and large industrial, commercial, and trade ventures to safeguard themselves against losses and continue their operations, even in the face of catastrophic events such as earthquakes, floods, severe weather conditions, etc. This has a positive impact on the economy.

The insurance sector in Pakistan is bifurcated into two distinct businesses based on significant difference in the nature of the two businesses i.e. life insurance/family takaful business and non-life insurance/general takaful business. Life insurance/family takaful is about insurance against death, sickness or disability of natural persons whereas non-life insurance is more inclined towards insurance of assets and liabilities. As 2021, there are 28 authorized non-life insurance providers in country.

By the end of December 2021, the insurance industry in Pakistan had total assets worth Rs 2,149 billion, an increase of 8 percent from Rs 1,987 billion recorded on December 31, 2020. On the revenue front, the industry underwrote a total direct Gross Written Premium (GWP) of Rs433 billion in 2021, which is a growth of around 24 percent from Rs 347 billion in 2020. A sector-wise analysis reveals that the life insurance industry in Pakistan owns assets worth Rs 1,845 billion, while the non-life insurance sector has assets worth Rs 304 billion. As for revenue, the life insurance sector underwrote premiums amounting to Rs 291 billion, while the non-life insurance sector recorded premiums of Rs 142 billion during the year 2021. The class share for Motor insurance was Rs 32 billion making 24% of whole non-life sector.



As per the Pakistan Bureau of Statistics, there are over 30 million registered vehicles in the country. Among this number, 23 million are motorcycles and 7 million are motorcars (Pakistan Bureau of Statistics, 2021). According to the data collected from authorized insurance companies, against the 30 million vehicles registered, there are only 621,183 insurance policies in 2021 and 650,282 policies in 2022 which insures 830,203 vehicles in 2021 and 912,994 vehicles in 2022. In accordance with this data, there are only 2.77% insured vehicles in the country in 2021 and 3.0% in 2022. Industry trends indicate that insurance policies are taken against motor cars only, this suggests that among 7 million cars 912,994 are insured making 13% of total motorcars in 2022. As evident from the above statistics, about 97% of the vehicles on the roads in Pakistan are not insured by registered insurers.

As per State Bank, in fiscal year 2021, 362,863 consumers and 45,843 bank employees secured bank loans for purchasing cars. This indicates that a total number of 408,706 motor vehicles were financed by bank loans which get a mandatory insurance. In other words, in the year 2021, among the 830,203 vehicles insured in whole country, 408,706 motor vehicles were insured because of bank finances. This is almost half of total insured cars. Summary of registered vehicles and number of vehicles insured in Pakistan in 2021 and 2022 is given below:

Motor Third Party Insurance



Motor Comprehensive Insurance



Need of MTP Insurance in Pakistan:

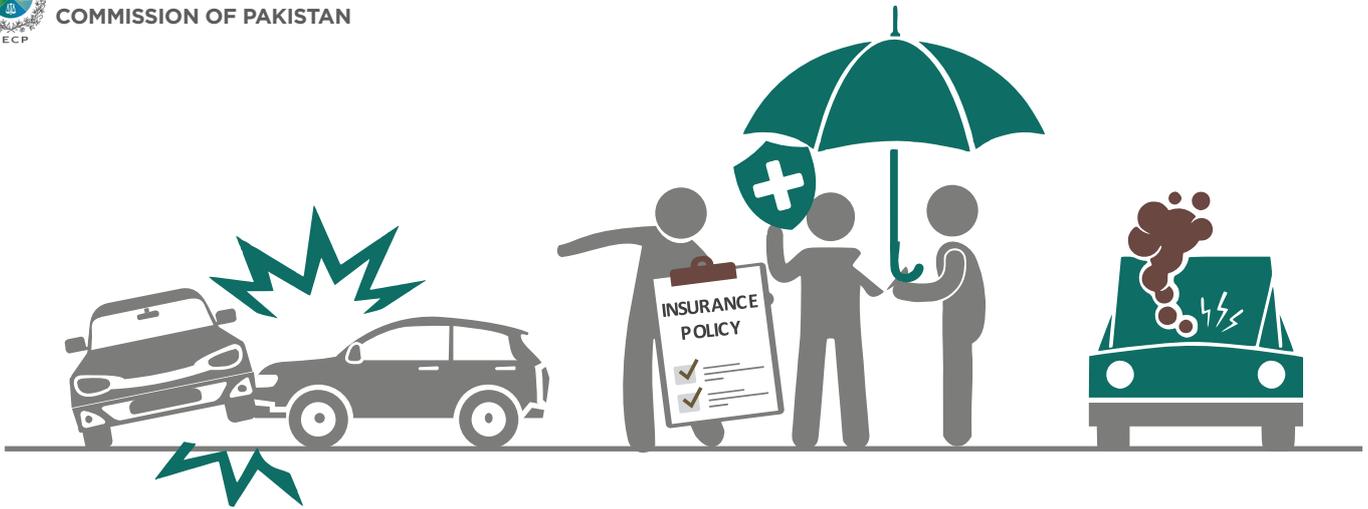
As per the statistics published by the Federal Bureau of Statistics–Government of Pakistan relating to road traffic accidents in 2021, a total of 10,379 reported road accidents occurred all over Pakistan, out of which 4,567 were fatal resulting in 5,609 casualties and injuring 12,059 people (PBS, 2021).

	2021	2020	2019	2018
Number of Road accidents	10,379	10,429	9,701	10,779
Fatal Accidents	4566	4721	4403	4878
Causalities	5608	5816	5436	5932
Injured people	12,059	12886	12317	13219
Vehicles Involved	15,601	15,351	12,894	12,908

Apparently, data of road accidents reported by Pakistan Bureau of Statistics is underreported as evident by a comparison between data published by PBS and World Health Organization in 2016. Data published by World Health Organization in 2016 showed that there were 27,582 deaths in the country in road accidents whereas PBS reported road accident fatalities as 4,448 in that year. For the same year, global burden of disease (GBD) reported fatalities number to be 52,708 for Pakistan. International studies show that number of fatalities in road accidents in Pakistan is way higher than reported by PBS. As per the data available on World Health Expectancy Website, in 2020, 28,170 people died in road accidents which makes 1.93% of total deaths in the year. This illustrates the death rate of 15.18 per 100,000 of population.

It is evident from the data above that every year thousands of road accidents lead to a large number of causalities and an even larger number of injured people. In the aftermath of road accidents, the damage is done to not only vehicles but also to human life and human health. The objective of motor third party Insurance is to provide some relief to victims. In other words, for instance, in 2021, 12,059 people were injured and 5,608 people lost their lives to road accidents: collectively, 17,667 victims were affected by road accidents, which means that 17,667 families were affected by road accidents. Hence, it is essential that every motor vehicle must have motor third-party insurance so that these affectees could be compensated in their hard times.

The above data shows that there is need of a comprehensive framework for implementation of existing MTP insurance in Pakistan. However, currently due to absence of effective enforcement of MTP insurance in the country, no compensation is paid to these people through insurance. Moreover, the potential market for insurance also remain untapped. It is also causing potential loss to the national exchequer due to non-collection of taxes and other levies which should be applied if the insurance coverage is issued through a legal source.



Impediments in Motor-Third Party Insurance Compliance:

1 Absence of Effective Mechanism for Verification of MTP Insurance Policies at the Time of Registration

Currently there is no effective mechanism available for verification of MTP insurance policies by relevant departments at the time of registration of vehicles. West Pakistan Motor Vehicles Ordinance, 1965 does not provide any enabling provision for checking and verification of MTP insurance at the time of registration of vehicles either. Implementation of MTP can be carried out by excise and taxation department while registration of vehicle, re-sale or ownership transfer or payment of annual taxes.

2 Issuance of MTP Certificates by Cooperative Societies

Reportedly provincial cooperative societies are also issuing motor third party insurance policies. Issuance of these policies by entities not registered as insurer under Insurance Ordinance 2000 is not in line with the requirement of Insurance Ordinance 2000. Resultantly, these cooperative societies contribute to the issuance of bogus policies. These policies do not provide any material help to victims of road accidents. The circulation of bogus certificates is a serious issue because it puts other drivers and pedestrians at risk. If an uninsured driver is involved in an accident, they may not be able to pay for the damages they caused, leaving the victim with no recourse for compensation.

3 Insufficient Awareness Among the Masses

Insufficient awareness among the masses is one of the key reasons for non-compliance of motor third-party insurance. Despite being a mandatory requirement, there is only an 3% compliance rate. There could be two possible scenarios: either the masses do not know the mandatory nature of MTP insurance or they are unaware of its significance. The lack of awareness also leads to misconceptions about the policy. Faction of society believe that this policy is not required for personal vehicles and is only necessary for commercial vehicles which is not correct. Another reason for non-compliance is the cost of the policy. Vehicle owners consider it an unnecessary expense, especially if they have never been involved in an accident before. They fail to recognize the potential financial and legal consequences of not having insurance policy in place.

4 Dragged-out Court Procedure

Long and extended court procedure is another influencer for the implementation of low compliance of the Motor Vehicles Act 1939. As the law states that after any road accident, the victims will reach out to the court for determination of the consequent amount to be paid.

5 Low Compensation Limits in Motor Vehicle Act 1939

Unattractive limits of compensation in case of road accident is one of the key factors contributing to low compliance with motor third party insurance. Currently, where the vehicle is a goods vehicle, a limit of twenty thousand rupees has been set up in respect of the death or bodily injury to employees other than the driver being carried in the vehicle. Similarly, in the case of passenger-carrying vehicles, a total of Rs. 20,000 has been defined with a further division of Rs.4,000 per person for vehicles carrying up to six persons and Rs.2,000 per person for vehicles carrying more than six persons.

Furthermore, a shortcoming in the existing law of the Motor Vehicles Act 1939 is the absence of separate compensation limits for bodily injuries. The Act only specifies a minimum amount of compensation to be paid to victims of accidents caused by motor vehicles. This amount is usually paid in case of deaths and even in that case, the compensatory amounts are very lower. These amounts need to be revised with respect to bodily injuries along with the compensatory amount in case of death.

6 Lack of Provision for Effective Implementation/ Verification of MTP in NHSO 2000

The NHS Ordinance, 2000 under its section 41 states that every vehicle entering national highway must have no-fault accident compensation motor third-party insurance. However, currently no effective mechanism is available to ensure the implementation of this requirement of mandatory insurance. The absence of any clear and precise implementation strategy has rendered the law ineffective in ensuring MTP compliance. Further, NHSO Ordinance 2000 is silent about on sum assured and features of non-fault compensation for MTP insurance.

7 Lack of centralized data base

Currently, there is no centralized data base available from where issuance and genuineness of motor insurance policies can be verified. Further, without a central database, it is difficult for authorities to verify whether a driver has valid insurance coverage, which makes it easier for uninsured drivers to operate on the roads. The absence of a centralized database makes it easier for fraudulent insurance policies to be issued and go undetected. This contributes to a lack of trust in the insurance industry and a further decrease in compliance with MTP insurance.

Recent Initiatives w.r.t to Motor-Third Party Insurance

01 Proposed Amendments in Motor Vehicles Act 1939

SECP in 2015 started the work on amendments in Motor Vehicle Act, 1939 and initial draft was submitted to the Ministry of Finance. Subsequently, on the advice of the Ministry, SECP re-drafted the amendment and arranged consultative session with the stakeholders for feedback on the proposed amendments. In light of the stakeholders' consultation, the proposed amendments were revised and submitted to the Ministry in 2019.

The key areas of proposed amendments are as follows:

1. To introduce the "No Fault Option" whereby the claim for death or bodily injury shall be payable to the victims of the road accidents or their legal heirs without obtaining any court's order and irrespective of the fact as to whether or not the insured was at fault.
2. The definition of the insurer was replaced such that only insurers registered under the insurance ordinance, 2000 will be authorized to issue such policies.
3. To increase the compensation limit in case of death from Rs. 20,000 to Rs. 500,000.
4. To introduce compensation limits separately for bodily injuries.
5. Prescription of minimum premium tariff.
6. To introduce compensation limits separately for bodily injuries.
7. Motor registration authorities will ensure availability of effective insurance policy at the time of registration of vehicle.
8. The limit of liability for any one person under the proposed scheme of admission of liability on a "no-fault basis" will be as per the schedule of benefits of the Workmen's Compensation Act 1923 (prevalent capital benefits are Rs. 200,000 per life), subject to an overall aggregate limit on any one accident of Rs.10 million.
9. Elaborations of penalty amounts and power to alter the schedule of compensation limits.
10. Penalizing companies, intermediaries, printing houses or any other individuals involved in issuance and spread of bogus motor third party insurance certificate with fine and/or imprisonment.

The draft amendments are duly vetted by the Ministry of Law and Justices in February, 2023 and onward submitted to the Ministry of Finance for further legislative process.

02 Draft Road Safety Act 2022

Draft Road Safety Act, 2022 (RSA) has been presented by the National Transport Research Center (NTRC), Ministry of Communications, on February 21, 2022. RSA incorporates the provisions relating to MTP Insurance and proposes to repeal the Motor Vehicle Act, 1939, West Pakistan Motor Vehicle Ordinance, 1965, and the National Highway Safety Ordinance, 2000.

Features of Draft Road Safety Act, 2022

- i. Section 17 (l) (b) registration authority to refuse registration if not satisfied that vehicle or trailer is covered by the third-party insurance
- ii. Section 46 (a) makes it the general obligation of the driver to carry valid third-party insurance document
- iii. Section 56(l) makes it an offense if the vehicle on road is without prescribed policy of insurance

03 Auto-Insurance Repository

Currently SECP is engaged with insurance industry to initiate work on Auto Insurance Repository. Insurance association of Pakistan and Central Depository Company (CDC), has started preliminary discussion on the concept and finalization of scope and coverage of the Auto Insurance Repository.

The concept of the Auto Insurance Repository aims to provide access to material information for underwriting such as driver's past record, territory, etc. which are used globally, to facilitate the Insurers to make intelligent business decisions prior to binding a customer and allows the industry to:

- a. Enhance risk mitigation efforts
- b. Select quality risks
- c. Weed out poor drivers
- d. Improve the overall quality of driving behavior if instituted and enforced appropriately across the industry.
- e. Provide asset-related information to third parties
- f. Centralized database for checking of MTP insurance policies
- g. Facilitate enforcement of MTP insurance in country



Way Forward:

Considering the current status of motor third party insurance in country, impediments in the current law and lack of its implementation, and inadequate role of stakeholders, it is need of the hour to take few steps, which are as follows:

01 **Role of Enforcement Agencies for Effective Implementation**

For eventual success of the implementation of MTP insurance, role of enforcement agencies is of primary importance. Provincial excise and taxation departments can initiate verification of valid MTP cover at the time of registration of vehicle, renewal of registration, filling of taxes and transfer of ownership and it can act as a catalyst for increasing compliance of motor third party insurance. For assistance of law enforcement agencies in this regard, a provision may be added in the regulations guiding road tax collection where the tax receipt ought to show the name of the insurer/takaful operator and the insurance certificate number for immediate verification.

02 **Finalize the Amendments in Motor Vehicles Act 1939**

As discussed in the preceding sections, Motor Vehicles Act 1939 (MVA) clearly states that every vehicle must have mandatory motor third party (MTP) insurance. However, on account of inefficient process for execution of law, victims have to go through a laborious court process in order to get some relief in the aftermath of any accident. Such provisions in the existing MVA are causing major hindrance in the development of MTP insurance. Through implementation of the proposed amendments in MVA, process of relief along with other administrative processes will smoothen and result in enhanced penetration of MTP insurance.

03 **Implementation of MTP under National Highways Safety Ordinance, 2000**

A mechanism for verification of no-fault option insurance as per requirements of the National Highways Safety Ordinance, 2000, at the time of entering of vehicles at National Highway and Motorways, may be devised by the National Highway and Motorway police and other enforcement agencies. This will help enhance the compliance rate of compulsory insurance. NHSO already entails all the pre-requisite ingredients for implementation of motor third party insurance however, with effective implementation, the compliance rate can be enhanced.

04 **Only Authorized Insurance Companies Issue MTP Insurance Policies**

To ensure authenticity of the insurer issuing MTP insurance, access to an updated list of authorized insurers is a prerequisite. This may be achieved by forwarding list of authorized insurers to the law enforcement agencies, district offices of excise and taxation, designated branches of NBP etc, to verify validity of cover at the time of issuance of tax registration book or road tax receipt. IAP may also step up to display the updated list on its website and through standees in the public places such as district offices of excise and taxation, designated branches of NBP, office of traffic police etc.

05 **Engagement with Relevant Provincial Authorities**

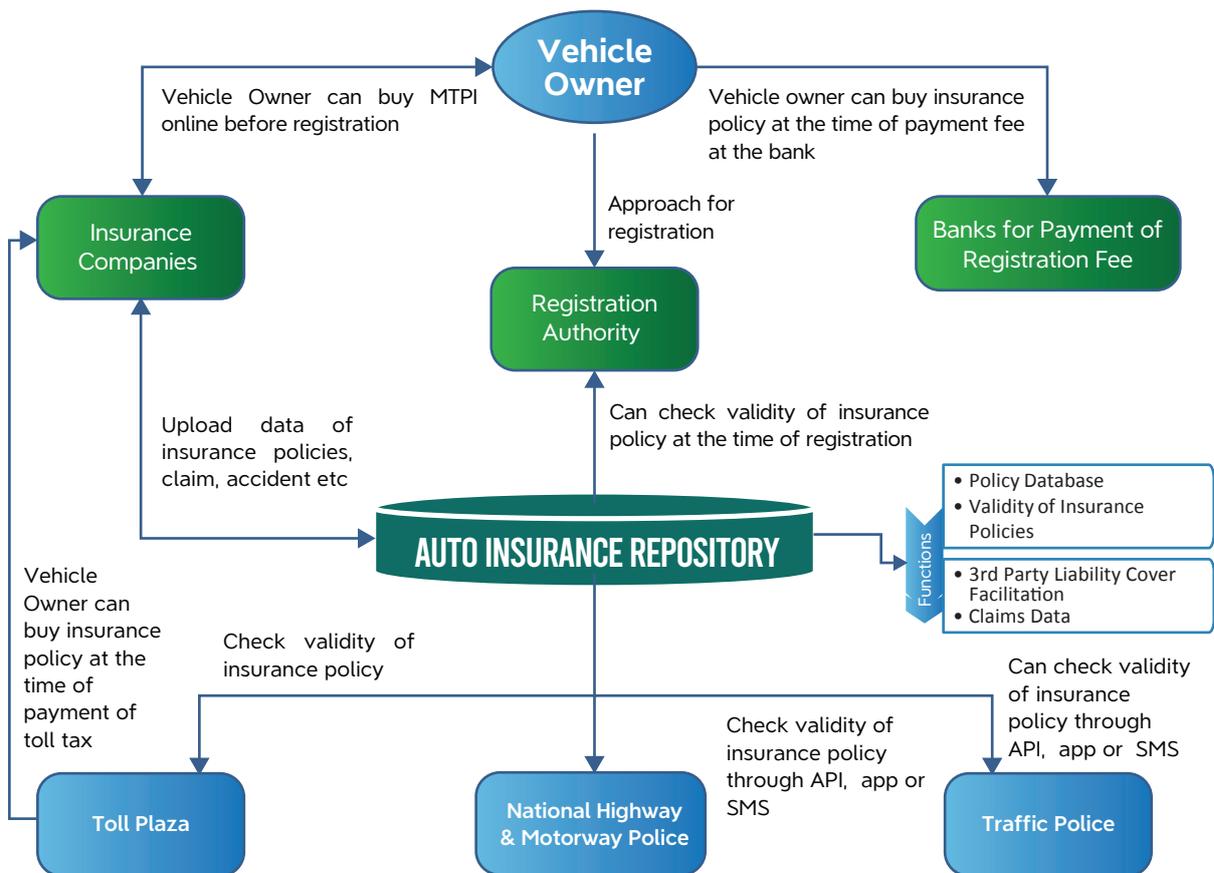
SECP will approach all relevant excise and taxation authorities to guide them about the significance of MTP insurance and the repercussions of the ineffective execution of these laws in the past. It is imperative to reach out to the provincial governments seeking assistance in the effective implementation of existing laws relating to MTP Insurance. SECP and IAP may also consider consistent engagement with the provincial motor vehicle registration authorities for effective implementation of requirement of MTP insurance at the time of registration of vehicles.

06 **Availability of Affordable and Valued Products**

To improve the availability and affordability of MTP insurance, IAP in consultation with SECP can work towards availability of standardized products with standardized premium rates, and enhanced product value. Another way to ensure availability of affordable products, is risk-based pricing and capacity-enhancement of insurers, an option of creating co-insurance pool can be considered. Risk will be diversified at overall level, capacity will be increased as well. This pool will improve engagement of companies can participate as per their capacity. This will cut unhealthy competition while at the same time unifying the resources of insurance sector for enhanced insurance coverage. These factors are crucial in improving availability of MTP insurance products and ultimately in enhanced compliance with mandatory MTP insurance requirements ensuring road safety for all.

07 Auto-Insurance Repository

In order to increase transparency, accountability and address issues of genuineness of MTP insurance certificates, presence of centralized database of MTP insurance covers issued is essential. This database may include information relating to validity of insurance cover certificates issued by a registered non-life insurance / general takaful company along with details of the motor vehicle registration number, name of the insurer etc. This can only be achieved through establishment of centralized repository for MTP insurance through collaboration of all insurers with Central Depository Company of Pakistan (CDC).



08 Inimitable and Distinctive Insurance Certificates via QR code and Bar codes

Risk of forgery of the insurance cover certificates issued by an insurer is inherent in the overall ecosystem. Through the implementation of measures such as mandatory use of QR codes on policy cover can help verify the genuineness and legitimacy of policy issued. QR code will help in creation of insurance databases and its usage by the law enforcement agencies, district offices of Excise and Taxation. The policy holder will no longer be required to carry physical copy of the policy papers thus enhancing convenience. Fraud detection will also get fillip, as it will get difficult to get away with fake papers as the same can be verified by scanning the QR codes instantly.

09 **Awareness Among Masses**

To raise awareness among the masses about the benefits of MTP insurance in financial terms for road accident victims (or their heirs) and the legal implications of breaking the law by not taking MTP insurance, all key stakeholders such as SECP, IAP, National and Motorway police etc. should chalk out a joint strategy, which may include use of print media, social media or electronic media including leveraging of FM Radio station of Motor way police, Islamabad traffic police.

10 **Accessibility of MTP Insurance**

For the convenience of the public and better business prospects, members of IAP may consider making available their sales teams / offices in the vicinity of motor vehicle registration offices for easy availability of insurance policy. Innovative distribution channels, such as mobile technology, may also be explored to reach a wider customer base and simplify the insurance distribution process.

11 **Waiver of FED for Motor Insurance Premium**

To make motor third part-insurance more affordable for general public and to increase the compliance, concerned revenue authorities (federal and provincial) should provide a waiver on the Federal Excise duty / Sales tax on Motor Third Party Insurance Premiums which subsequently will provide coverage to millions of people in case of road accidents for both causalities and bodily injuries and will also reduce the financial burden on the government for compensation to victims and heirs of victims of road accidents. Even if the waiver cannot be considered on permanent basis, it must be extended in the beginning to help grow this segment as over time, it has potential to contribute significantly the nation exchequer.

12 **Efficiency and Ease in Claim Lodgement**

Claim lodgement process can be made efficient via end to end digitalization. Efficiency in claim processing is the best and the cheapest way of marketing any insurance product as one claim creates awareness in over a couple of dozen members of the community. Alongside the implementation of the amendment in the MVA through the introduction of a "no-fault option" clause whereby the claim for death or bodily injury is payable without obtaining any court's order, IAP members should work on streamlining / simplifying the claims process including elimination of unnecessary steps, reduction of paperwork, digitizing the claims process etc. Catching up with the technological pace by allowing customers to file claims online, through mobile apps, or through other digital channels and enhancing the process of claims management in order to pay valid claims efficiently and swiftly, can also catalyse the improvement in satisfaction and building trust of the policyholder.

13 **Launch of Pilot Project**

IAP and SECP may consider engagement with Islamabad Traffic Police and Motor way Police to initiate a pilot project regarding awareness and implementation of MTP insurance in limited jurisdictions. Key findings of the pilot launch may then be analysed for ultimate implementation of the MTP Insurance.

Action	Primary Responsibility/ Stakeholders	Secondary Responsibility/ Stakeholders
Verification of valid MTP insurance cover at the time of registration / renewal of registration	Motor registration authorities	
Addition of provision in the road tax receipt showing name of insurer and MTP insurance certificate number	Motor registration authorities	Law enforcement agencies
Finalizing proposed amendments to Motor Vehicles Act, 1939	Ministry of Finance	SECP
Approaching provincial governments to seek assistance in the implementation of MTP insurance	SECP	IAP
Implementation of no-fault option insurance under NHSO 2000	National and Motorway Police	IAP
Development of Auto Insurance Repository for formation of central database of insurance policies for accountability and transparency.	IAP / CDC	SECP (to facilitate IAP and CDC for development of Auto-Insurance Repository)
Provision of up-to-date list of authorized insurance companies to Motor Tax Collection Agencies	SECP	IAP
Development of affordable and valued products	Insurance companies	SECP
Industry engagement for a co-insurance pool for motor third-party Insurance	Insurance companies	SECP
Use of QR Code and Bar code for each policy to ensure inimitableness and distinctiveness	Insurance companies	IAP
Educating the public about the benefits of MTP insurance and the consequences of non-compliance	IAP / SECP	Enforcement agencies
Availability of sales offices and team adjacent to or near motor vehicle registration offices.	Insurance companies	Motor registration authorities
Use of technology in distribution of MTP insurance. Product should be digitally available, complete with verification provision.	Insurance companies	Insurance brokers / Telco's / web aggregators
Waiver of FED/Sales Tax on Motor third-party Insurance Premium	FBR/ Provincial Revenue Authorities	MOF and SECP
Efficiency in claim lodgement and processing via digital process.	Insurance companies	IAP
Initiate a pilot project regarding awareness and implementation of MTP insurance.	IAP / SECP	Islamabad Traffic Police / Motorway police

References

Ahmed, K. (2019).

Analysis of Non-Life Insurance Business Performance in Bangladesh Based on 2017, 2018 and 1st Quarter of 2019 Data. Insurance Development and Regulatory Authority. Retrieved from

http://www.idra.org.bd/sites/default/files/files/idra.portal.gov.bd/miscellaneous_info/0b922b92_32b2_44da_963b_a597c4e99200/2020-10-13-17-05-01fdf00ac039bb92c8b65ad6cf126133.pdf

Argaam. (2022, March 18).

Insured vehicles in Saudi Arabia account for 50% of total, says official. Retrieved from Argaam:

<https://www.argaam.com/en/article/articledetail/id/1544332>

Insurance Regulatory and Development Authority of India, (2018).

Motor Third Party Insurance Coverage. IRDA.

IRA, Uganda. (2020).

Status of Motor Vehicle Insurance In Uganda. Insurance Regulatory Authority of Uganda. Retrieved from

[https://ira.go.ug/cp/uploads/STATUS%20OF%20MOTOR%20VEHICLE%20INSURANCE%20IN%20UGANDA%20\(1\).pdf](https://ira.go.ug/cp/uploads/STATUS%20OF%20MOTOR%20VEHICLE%20INSURANCE%20IN%20UGANDA%20(1).pdf)

IRCSSL, I. R. (2020).

Policy Holder's Protection Competitive Industry Prudent Regulations. Insurance Regulatory Commission of Sri Lanka. Retrieved from

<https://ircsl.gov.lk/wp-content/uploads/2021/07/annual-report-v1-en-2020.pdf>

Pakistan Bureau of Statistics, P. (2021).

1. Pakistan Statistical Year Book 2020. Islamabad: Government of Pakistan.

doi:https://www.pbs.gov.pk/sites/default/files/other/yearbooks/Pakistan_Statistical_Year_Book_2022.pdf

2. Report of Traffic Accidents.

doi: <https://www.pbs.gov.pk/node/1107>

Shetty, M. (2020, December 10).

Around 57% of vehicles in India uninsured. Retrieved from Times of India:

[https://timesofindia.indiatimes.com/business/india-business/57-vehicles-in-india-uninsured/articleshow/79652274.c ms](https://timesofindia.indiatimes.com/business/india-business/57-vehicles-in-india-uninsured/articleshow/79652274.cms)



SECP

**SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN**

www.secp.gov.pk