Securities and Exchange Commission of Pakistan

Islamabad, March 1, 2010

NOTIFICATION

S.R.O.145/(I)/2010 - The following draft of amendments in the Securities and Exchange Commission (Insurance) Rules, 2002, which are proposed to be made by the Securities and Exchange Commission of Pakistan, after the approval of the Policy Board, in exercise of the powers conferred by sub-section (2) of section 167 of the Insurance Ordinance, 2000 (XXXIX of 2000) read with S.R.O No. 708(I)/2009 dated 27th July 2009, is hereby published, as required by sub-section (2) of section 167 of the said Ordinance, for information of all persons likely to be affected thereby and notice is hereby given that objections and suggestions thereon, if any, received within 30 days from the date of this publication will be taken into consideration.

In the aforesaid Rules,-

(1) in rule 10,-

(a) in sub-rule (1),-

(i) for the words "the prescribed percentages for an insurance company which was registered as at the commencement date of the Ordinance, the amount prescribed in the repealed Act shall be applicable until the 31st December, 2002, and thereafter for such companies, and for a company registered after the commencement date, the percentages specified in column (3) of the table below shall apply for the clauses of the said sub-section specified in column (1) of that table in respect of the assets described in column (2) thereof" the words "the percentages specified in column (3) of the table below shall apply for the clauses of the said sub-section specified in column (1) of that table in respect of the assets described in column (2) thereof" shall be substituted;

(ii) in clause (b), in column (3) for the words “Five per cent for life insurer” the words “For assets other than bank deposits - five per cent” shall be substituted;

(iii) in column (3), after amended as aforesaid, the following new limits shall be inserted, namely,-

“For total bank deposits – one hundred per cent; and

For deposits in a single bank – greater of Rs. 10 million or five per cent.”

(iv) in clause (f),-

(a) in column (2), sub-clauses (i) and (ii) shall be omitted, and

(b) in column (3), the words “Fifty percent for both life and non-life insurer” shall be omitted;

(v) in clause (n) in column (3),-

(a) the words “Fifty per cent in the case of non-life insurer and” shall be omitted, and

(b) in column (3) amended as aforesaid, the following shall be inserted at the end namely,-

“In the case of a non-life insurer –

	fifty percent	until 31 December 2010;
then	thirtyfive percent	until 31 December 2012;
then	fifteen percent	until 31 December 2014; and
	On or after	
then	ten percent	thereafter“;

(vi) in clause (o),-

(a) in column (3), the words “Sixty per cent in the case of non-life insurer and” shall be omitted; and

(b) in column (3) amended as aforesaid, the following shall be inserted at the end namely ,-

“In the case of a non-life insurer, –

	sixty percent	until 31 December 2010
then	forty five percent	until 31 December 2012
then	thirty percent	until 31 December 2014 and
then	twenty five percent	thereafter “;

(vii) in clause (p),-

(a) in column (3), for the words “Twenty-five per cent in the case of non-life insurer and” shall be omitted; and

(b) in column (3) amended as aforesaid, the following shall be inserted, namely,-

“In the case of a non-life insurer –

- until 30 December 2011 twenty-five per cent; and
- thereafter as per the following table

31 December 2011	twenty percent
31 December 2012	fifteen percent
31 December 2013	ten percent
31 December 2014	five percent”

(viii) in clause (q) in column (3), for the words "Seventy per cent in the case of non-life insurer and fifty per cent in case of life insurer" the following words and table shall be substituted, namely,-

"Unit linked funds of life insurers other than those to which policies with guaranteed maturity or surrender values are linked – one hundred per cent.

Other than the above, in case of both life and non-life insurers,–

Sixty percent	Until 31 December 2011; and
Fifty percent	thereafter"

(ix) in clause (r) in column (3), for the words "Ten per cent in the case of non-life insurer and two and half per cent in case of life insurer" the words "Five per cent in case of both life and non-life insurers" shall be substituted";

(x) in clause (s) in column (3), for the words "Eighty per cent in the case of non-life insurer and sixty per cent in case of life insurer" the following words shall be substituted;

"Unit linked funds of life insurers other than those to which policies with guaranteed maturity or surrender values are linked – one hundred per cent.

Other than the above – Sixty per cent for both life and non-life insurers."

(xi) in clause (t) in column (3), for the words “Two and half per cent for both life and non-life insurers” the following shall be substituted;

“To any one person – one per cent.

To a group of related persons – two per cent.”

(xii) after the amended clause (t), the following new clause shall be inserted, namely:-

“

(v) Assets prescribed by the Commission -	
Term Finance Certificates/Sukuk Bonds issued by any one company	To the extent they exceed five percent of the non-life insurer’s total investment, or, in case of a life insurer five percent of the total investment of the relevant statutory fund or shareholders’ fund.
Term Finance Certificates/Sukuk Bonds and Shares of the same issuer in aggregate	To the extent they exceed five percent of the non-life insurer’s total investment, or, in case of a life insurer five percent of the total investment of the relevant statutory fund or shareholders’ fund.
Units in any one open ended Mutual Fund.	To the extent they exceed five percent of the non-life insurer’s total investment, or, in case of a life insurer five percent of the total investment of the relevant statutory fund or shareholders’ fund.
Units in all open ended Mutual Funds managed by the same Asset Management Company	To the extent they exceed ten percent of the non-life insurer’s total investment, or, in case of a life insurer ten percent of the total investment of the relevant statutory fund or shareholders’ fund.
Investment in any single Real Estate Investment Trust	To the extent they exceed five percent of the non-life insurer’s total investment, or, in case of a life insurer five percent of the total investment of the relevant statutory fund or shareholders’ fund.
Listed Modaraba Certificates issued by any one company	To the extent they exceed five percent of the non-life insurer’s total investment, or, in case of a life insurer five percent of the total investment of the relevant statutory fund or shareholders’

	fund.

(b) sub-rule (2) shall be omitted.

(2) In rule 11,-

(i) the existing rule 11 shall be renumbered as sub-rule (1); and

(ii) after the re-numbered sub-rule (1) the following sub-rule shall be inserted, namely,-

"(2) For the purpose of sub-section (3) of Section 34 of the Ordinance the amounts determined under clauses (c) and (d) of sub-section (2) of section 34 of the Ordinance shall for Accident and Health Business written by a non-life insurer be based on the advice of an Actuary as defined in Rule 3.";

(3) Rule 12 shall be substituted with the following, namely,-

12. Net admissible assets of life insurers.- (1) For the purposes of sub-section (2) of section 35 of the Ordinance, the required minimum amount to be maintained in the Shareholders' Fund shall be the sum of the following:

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

- until 30 December 2010 – seventy five million rupees; and
- thereafter as per the following table;

On or After	**Rupees**
31 December 2010	One hundred and twenty million
31 December 2011	One hundred and thirty five million
31 December 2012	One hundred and fifty million

(b) If the company has been given written permission by the Commission under Rule 12(2) below, a solvency margin calculated in accordance with the principles set out in Annexure III.

(2) The Commission may grant written permission to a life insurer to maintain the solvency margin calculated in accordance with the principles set out in Annexure III in its shareholders' fund (this being in addition to the fixed amount prescribed in Rule 12(1)(a)) instead of in its statutory fund on the following conditions:

(a) The life insurer makes an application in writing, not less than three months before the date on which such permission is to come into effect, seeking permission to maintain the solvency margin calculated in accordance with the principles in Annexure III in its shareholders' fund instead of in its statutory funds, such margin being in addition to the fixed amount specified in Rule 12(1)(a); and

(b) The application in Rule (12)(2)(a) is supported by a non-revocable resolution of the Board of Directors of the life insurer to maintain the solvency margin calculated in accordance with the principles in Annexure III in its shareholders' fund for a period of not less than ten years from the date of the application, and, during this period, not to declare any dividend without the express written consent of the Appointed Actuary of the life insurer.

(3) For the purpose of sub-section (3) of section 35 of the Ordinance, the surplus of admissible assets in Pakistan over liabilities in Pakistan, other than policyholder

liabilities, which a life insurer shall maintain at all times in each statutory fund maintained by it for the conduct of business other than investment-linked business shall be the amount of policyholder liabilities plus, unless written permission has been granted to the life insurer under Rule 12(2) to maintain the solvency margin in its shareholders' fund, a solvency margin calculated in accordance with the principles set out in Annexure III.

(4) For the purpose of sub-section (4) of section 35 of the Ordinance, the surplus of admissible assets in Pakistan over liabilities in Pakistan, other than policyholder liabilities, which a life insurer shall maintain at all times in each statutory fund maintained by it for the conduct of investment-linked business shall be the amount of policyholder liabilities plus, unless written permission has been granted to the life insurer under Rule 12(2) to maintain the solvency margin in its shareholders' fund, a solvency margin calculated in accordance with the principles set out in Annexure III.

(5) For the purpose of sub-Section (5) of Section 35 of the Ordinance, the surplus of admissible assets denominated in each currency over liabilities including policyholder's liabilities denominated in such currency shall be a solvency margin calculated in accordance with the principles set out in Annexure III with respect to policies denominated in such currency.

(6) Where sub-section (6) of section 50 applies in respect of a statutory fund, policyholder liabilities for the purposes of the said sub-sections shall not be less than the amount determined by the appointed actuary under that sub-section.";

(4) in rule 13,

(i) in sub-rule (1), clauses (a) and (b) shall be substituted with the following, namely,-

“(a) until 31 December 2009, fifty million rupees; and

(b) thereafter as per the following table

On or After	**Rupees**
31 December 2010	Eighty million
31 December 2011	One hundred million
31 December 2012	One hundred and twenty five million
31 December 2013	One hundred and fifty million”

(5) For Rule 19 the following shall be substituted, namely:

“**19. Financial Condition Report. -** For the purposes of Section 50 of the Ordinance, the Financial Condition Report shall be prepared in accordance with the requirements prescribed in Annexure IV.”;

(6) For Rule 20 the following shall be substituted, namely:

“**20. Minimum valuation basis. -** For the purposes of sub-section (5) of section 50 of the Ordinance, the minimum valuation basis shall be such as is set out in Annexure V.”

(7) After Annexure II the following new Annexures and forms shall be inserted namely,-

"Annexure III

Principles for Calculation of Solvency Margin of Life Insurers

[See Rule 12]

1. Each life insurer is required to maintain an excess of admissible assets over liabilities, including policyholder liabilities, of :

   (a) a fixed amount as specified in Rule 12(1)(a); plus

   (b) a solvency margin calculated in accordance with this Annexure, to be maintained as prescribed in Rule 12.

2. For statutory funds of life insurers set up under sub-section (5) of section 14 of the Ordinance in which accident and health business is written, the solvency margin as at any date would be calculated as the higher of:

   (a) 20% of earned premium revenue in the preceding twelve months, net of reinsurance expense subject to a maximum deduction for reinsurance of 50% of the gross figure; or

   (b) 20% of sum of liability for unexpired risk and its liability for outstanding claims, net of reinsurance subject to a maximum deduction for reinsurance in each case of 50% of the gross figure.

3. For other statutory funds the solvency margin shall be calculated by carrying out two exercises as under, and to take the higher of the two figures:

   (a) Determination of the solvency margin to be maintained in each Statutory Fund on the basis as provided in paragraphs 5 to 9 below; and

(b) Requiring the appointed actuary to determine the policyholder liabilities on certain scenarios (to be prescribed by the Commission), with the margin being determined as the highest excess of the liabilities determined in any of the scenarios over those displayed in the financial statements.

4. The Commission shall prescribe the scenarios through a circular after consulting the Pakistan Society of Actuaries. Until the scenarios are prescribed only the first calculation shall be carried out.

5. The first calculation of the solvency margin for each Statutory Fund for business other than Accident and Health business would be determined in two parts (the margin being the sum of the two parts):

(a) A proportion of the policyholder liabilities determined by the Appointed Actuary, such proportion being referred to below as the “First Factor”; and

(b) A proportion of the Sum at Risk, such proportion being referred to below as the “Second Factor”.

6. The First and Second factors will depend upon the nature of underlying policies and will be as per Attachment 1 to this Annexure.

7. The first part for each line of business will be calculated as follows:

K1 x Policyholder Liabilities before Reinsurance x First Factor (per Attachment 1) where K1= 0.85* or (Mathematical Reserves after Reinsurance/ Mathematical Reserves before Reinsurance), whichever is higher. [* 0.50 in case of reinsurers, carrying on life insurance -business].

8. The second part for each line of business will be calculated as follows:

K2 x Total Sum at Risk before Reinsurance x Second Factor (per Attachment 1)

where K2= 0.5 or (Sum at Risk after reinsurance/Sum at risk before reinsurance), which ever is higher; where the Sum at Risk for an individual policy is negative it is to be ignored.

9. The solvency margins mentioned in paragraphs 5 to 8 shall be partially applicable until 31 December 2011, in that life insurers will be required to maintain at least the following proportion of the margins calculated:

On or before 31 December 2010	33%
On or before 31 December 2011	67%
On or before 31 December 2012	100%

The calculations set out in paragraphs 2 to 9 above shall be carried out for each statutory fund separately and shall be supported by a statement to be prepared in accordance with the form given in Attachment 2, such Attachment requiring to be submitted as a part of each Financial Condition Report being submitted under section 50 of the Ordinance. In case a life insurer applies for and is granted permission by the Commission to maintain the solvency margin in its shareholders' fund, than the statutory margin to be maintained in the shareholders' fund shall be the aggregate of the margin calculated for each statutory fund separately, and shall be in addition to the fixed amount prescribed under Rule 12 (1)(a).”

Attachment 1 to Annexure III

FACTORS FOR DETERMINATION OF SOLVENCY MARGIN FOR LIFE INSURERS

Code	Type of Business	Policy Types with Examples	Factor 1	Factor 2	
				Life Risk	Other
0	**Non-Linked Individual Life Business**				
01	Conventional non-linked policies	Includes both risk products (term assurances, decreasing term assurances, family income benefit, accident and disability riders [other than those written in a statutory fund in which only accident & health business is written] including waiver of premiums, and savings products (endowment assurances (participating and non-participating), whole life policies, etc.). Also includes all riders attached to these products.	4%	0.075%	0.0375%
02	Conventional riders attached to investment-linked policies	Includes all risk riders (as defined above) where the benefit payable under the rider is defined and not determined with reference to the underlying asset value and where the premium payable is in addition to the basic policy premium.	4%	0.075%	0.0375%
03	General Annuities	Both immediate or deferred annuities where the amount of annuity payable is defined, with the possible exception of the addition of bonuses to be declared by the life insurer	4%	0%	0%
04	Pension		4%	0%	0%
1	**Non-Linked Group Life Business**				
11	Group Risk Products with Premiums Guaranteed for up to a year	Group life policies and related riders where the premiums are guaranteed for one year or less.	1%	0.05%	0.025%
12	Group Risk Products with Premiums Guaranteed for more than a year	Group life policies and related riders where the premiums are guaranteed for more than a year.	3%	0.1%	0.05%
13	General Annuities	Both immediate or deferred annuities where the amount of annuity payable is defined, with the possible exception of the addition of bonuses to be declared by the life insurer	4%	0%	0%
14	Pension		4%	0%	0%
15	Group Savings Products	Conventional group savings policies (eg., endowment policies priced as individual life but sold as group policies	4%	0.075%	0.0375%
2	**Investment Linked Account Value Individual Life Business**				
21	Account Value policies with a capital guarantee	Universal life policies with a capital guarantee and possible interest rate guarantee with either part or all of the interest to be credited to the policy being linked to returns on investment. No right to write down the value of the investment.	4%	0.075%	0.0375%
22	Account Value policies with a right to write down capital values	Universal life policies with the interest to be credited to the policy being linked to returns on investment but with a right to write down the value of the investment.	2%	0.075%	0.0375%

Code	Type of Business	Policy Types with Examples	Factor 1	Factor 2	
				Life Risk	Other
3	**Investment Linked Account Value Group Life Business**				
31	Deposit Administration Contracts with a capital guarantee	Deposit Administration Contracts (typically for Group Pension Schemes) with a capital guarantee and possible interest rate guarantee with either part or all of the interest to be credited to the policy being linked to returns on investment. No right to write down the value of the investment.	4%	0.075%	0.0375%
32	Deposit Administration Contracts with a right to write down capital values	Deposit Administration Contracts (typically for Group Pension Schemes) with the interest to be credited to the policy being linked to returns on investment but with a right to write down the value of the investment.	2%	0.075%	0.0375%
4	**Investment Linked Unit Linked Individual Life Business**				
41	Unit Linked life policies with a maturity guarantee	Unit linked policies with the policy value being linked to the value of one or more underlying funds but with a guarantee at maturity based on parameters other than the value of the underlying funds.	2%	0.075%	0.0375%
42	Unit Linked life policies without a maturity guarantee	Unit linked policies with the policy value being linked to the value of one or more underlying funds and without any guarantee at maturity	1%	0.075%	0.0375%
43	Unit Linked annuities with guarantees	Unit linked annuities with the annuity value being based on the value of one or more underlying funds but with a guarantee of the minimum amount payable based on parameters other than the value of the underlying funds.	2%	0%	0%
44	Unit Linked policies without a guarantee	Unit linked annuities with the annuity value being based on the value of one or more underlying funds and without any guarantee of the amount of annuity to be paid.	1%	0%	0%
43	Unit Linked pensions with guarantees		2%	0%	0%
44	Unit Linked Pensions without guarantees		1%	0%	0%
5	**Investment Linked Unit Linked Group Life Business**				
31	Managed Fund Contracts	Managed Fund Contracts (typically for Group Pension Schemes) with the amount payable being linked to the value of one or more underlying funds and without any guarantee.	1%	0%	0%

STATEMENT OF SOLVENCY MARGINS: LIFE INSURERS

TABLE I -
REQUIRED SOLVENCY MARGIN BASED ON MATHEMATICAL RESERVES AND SUM AT RISK

Code	Description	Mathematical Reserves before Reinsurance	Mathematical Reserves after Reinsurance	K1	Sum at Risk before Reinsurance	Sum at Risk after Reinsurance	K2	First Factor	Second Factor	Required Solvency Margin
(1)	(2).	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Totals									

Notes to Completion of Table

(1) K1= 0.85* or (Mathematical Reserves after Reinsurance/ Mathematical Reserves before reinsurance), whichever is higher. [* 0.50 in case of reinsurers, carrying on life insurance business];
(2) K2= 0.5 or (Sum at Risk after reinsurance/Sum at risk before reinsurance), which ever is higher;.
(3) Col.(11) = [Col.(3) x Col.(5) x Col. (9)] + [Col.(6) x Col.(8) x Col. (10)];
(4) In the computation of the total sum at risk, ignore the contracts for which the sum at risk is a negative figure or does not exist;
(5) Details of first and second factors:

“**Annexure IV**

[See Rule 19]

Financial Condition Report Requirements

1. Interpretation. – In this Annexure ---

(a) “extra premium” means a charge for any risk not provided for in the minimum contract premium;

(b) “individual business” means individual insurance contracts issued on single/joint lives;

(c) “inter valuation period” means, as respects any valuation, the period of the valuation date of that valuation from the valuation date of the preceding valuation in connection with which an abstract was prepared under the Ordinance or, in a case where no such valuation has been made in respect of the class of business in question, from the date on which the insurer began to carry on that class of business;

(d) “maturity date” means a fixed date on which benefit may become payable either absolutely or contingently;

(e) “office yearly premium” means regular premium (excluding extra premiums which are required to be shown separately) payable by the policyholder to secure the basic benefits under the policy in a policy year;

(f) “riders” or “rider benefits” means add-on benefits, which are in addition to basic benefits under a policy; and

(g) “valuation date” means as respects any valuation the date as at which the valuation is made.

2. Requirements Applicable to FCR. – (1) An insurer shall prepare the following statements which shall be annexed to the financial condition report separately for each statutory fund annually. Where financial condition report relates to a shorter period the forms may be adjusted accordingly:-

(a) in respect of Investment Linked Business:
  - (i) Form LB-1;
  - (ii) Form LB-2;
  - (iii) Form LB-3;
  - (iv) Form DD;
  - (v) Form DDD; and
  - (vi) Form DDDD;

(b) in respect of Non-Investment Linked Business:
  - (i) Form NLB-1;
  - (ii) Form DD;
  - (iii) Form DDD; and
  - (iv) Form DDDD;

(c) in respect of Universal Life and Universal Life Hybrid Business:
  - (i) Form ULB-1;
  - (ii) Form DD;
  - (iii) Form DDD; and
  - (iv) Form DDDD;

(d) in respect of Accident and Health Insurance Business, -
  - (i) Form NLB-1.

(e) Summary statements:
  - (i) Form H;
  - (ii) Form I; and
  - (iii) Statement of Composition and Distribution of surplus in respect of policyholders’ fund as specified under Clause 7.

(2) Each financial condition report shall state and, wherever applicable, provide written evidence with respect to the following-

(a) the date at which the valuation of policyholders liabilities was performed;

(b) the Statement required under sub-section (3) of section 50 of the Ordinance;

(c) a statement of any reservations or qualifications, including any material matters and reasons thereof in which the appointed actuary has been unable to comply with any relevant professional standards issued by the Pakistan Society of Actuaries;

(d) a brief description of –

(i) The total business underwritten by the life insurer and its respective share with respect to each statutory fund in which it is written;
(ii) the reinsurance arrangements of the life insurer;
(iii) the assets of the life insurer;
(iv) the investment policy of the life insurer;
(v) where applicable, the unit pricing policy of the life insurer ; and
(vi) Such other matters with respect to the business of the life insurer as the appointed actuary believes should be brought to the attention of the life insurer;

(e) a statement of the appointed actuary's opinion with respect to the adequacy of premium rates and charges in respect of policies underwritten by the life insurer. This shall relate to both policies in force at the valuation date and policies being underwritten after the valuation date. In the case of participating policies the appointed actuary shall state whether premium rates applicable to new business are capable of supporting bonus rates last declared and, if not, the steps taken to manage policyholders' reasonable expectations;

(f) a statement of the appointed actuary's valuation of policyholders' liabilities according to the minimum valuation basis prescribed under sub-section (5) of section 50 of the Ordinance including details of:

(i) the general principle adopted in the valuation of each class of business and group of policies in force at the valuation date and the reasons thereof;

(ii) the methods adopted in the valuation;

(iii) policies which under the valuation methods would be treated as an asset, and actions taken to identify and eliminate such assets from the valuation;

(v) bases adopted for mortality and morbidity; and

(vi) procedure adopted for currency exchange rates and justification thereof.

(g) where sub-section (6) of section 50 applies, a statement of the appointed actuary's valuation of policyholders' liabilities under that sub-section;

(h) Where applicable a statement of the appointed actuary's determination of the surplus including surplus arising on participating life insurance business, surplus adjustment, and expense adjustment;

(i) a statement by the appointed actuary, expressing an opinion as to whether-

(i) the basis of distribution of revenues and expenses between the statutory and other funds of the life insurer and between classes of policyholder within statutory funds and appropriateness of such distribution;

(ii) the surplus attributed to participating policyholders has been determined in accordance with provisions of the Ordinance;

(iii) in relation to its each statutory fund, whether the life insurer has complied as of valuation date with the provisions of sub-sections (3), (4) and (5) of section 35 of the Ordinance, relying on the audited statements of admissible assets; and

(iv) the life insurer has adequate capital to continue its business at planned levels for a period of not less than five years.

(j) a statement by the appointed actuary to the effect that:-

(i) the data furnished by the principal officer has been included in conducting the valuation of liabilities for the purpose of investigation;

(ii) reasonable steps have been taken to ensure the accuracy and completeness of the data;

(iii) he has complied with the provisions of the Ordinance;

(iv) he has complied with guidance notes issued by the Pakistan Society of Actuaries; and

(v) in his opinion, the mathematical reserves are adequate to meet the insurer's future commitment under the contracts.

3. **Further information.** – In addition to the information required to be provided the following information shall also be appended:-

(i) return on assets as specified under clause 4;
(ii) distribution of surplus as specified under clause 5;
(iii) principles adopted in distribution of surplus as specified under clause 6; and
(iv) miscellaneous, if any.

4. **Returns on assets. – (**1) The average gross rates of return yielded by the assets may be determined expressing the investment income as percentage of the mean fund. [i = 2 x I / (A + B – I); where i is the gross yield; I = investment income; A = the assets at the beginning of the financial year, and B = the assets at the end of the financial year]. A more accurate determination may also be carried out in which case this should be supported by an explanation of the method used.

(2) The average gross rates of return, referred to under sub-clause (1), shall be furnished for each statutory fund maintained by a life insurer. In the case of investment linked funds the returns shall be provided separately for each fund and for non-linked assets.

5. **Distribution of surplus. –** The basis adopted in the distribution of surplus as between the shareholders and the policyholders, and whether such distribution was determined by the instruments constituting the company, or by its regulations or by-laws or how otherwise shall be mentioned.

6. **Principles adopted in distribution of profits. –** The general principles adopted in distribution of profits among policyholders, including statements on following points, shall be furnished:-

(i) whether the principles were determined by instruments constituting the life insurer, or by its regulations or by-laws or how otherwise;
(ii) the number of years for which premium is to be paid, period to elapse and other conditions to be fulfilled before a bonus is allocated;
(iii) whether the bonus is allocated in respect of each year's premium paid, or in respect of each calendar year or year of assurance or how otherwise; and
(iv) whether the bonus vests immediately on allocation, or, if not, conditions of vesting.

7. **Statement of composition of surplus and distribution of surplus in respect of policyholders' fund. –** (1) A statement showing total amount of surplus arising during the inter-valuation period and the allocation of such surplus, shall be furnished separately for each statutory fund as per Form L.

(2) A statement of Specimen of Bonuses allotted to policies for one thousand rupees together with the amounts apportioned under the various manners in which the bonus is receivable, for each type of participating products, shall be furnished.

FORM DD
(See Clause 2)

CLASSIFIED STATEMENT OF LIFE INSURANCE POLICIES FOR THE YEAR ENDED 31ST DECEMBER, 20__
(Direct Business plus reinsurance accepted, if any)

Name of Insurer:
Statutory Fund:

		New business transacted during the year					Total business in force at the end of the year					
Item No.	**Description**	**Number of policies**	**Sums Assured**	**Annuity pa**	**Annualized Premium**	**Single Premiums**	**Number of policies**	**Sum Assured**	**Annuity pa**	**Vested Bonus**	**Annualized Premium**	**Single Premium**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
A	**An Individual Life Business** (a) Regular Premium Contracts; (b) Single Premium Contracts; (c) Others											
B	**Group Business**											
	(a) Group Policies with Cash Value (b) Group Policies without Cash Values											
C	**Annuity Business**											
	(a) Immediate Annuities (b) Deferred Annuities											

Notes to Form DD-
1. All amounts must be furnished in thousands of Pak rupees;
2. In respect of Group Business, number of group schemes shall be furnished under the column: ‘number of policies’**;**
3. ‘Premium’ refers to Annualised Premium;
4. ‘Single Premium’ includes consideration for immediate or deferred annuities and all other premiums paid at the outset of the contracts and no subsequent premium is payable;
5. All amounts stated shall be total gross amounts without taking into account reinsurance ceded or accepted;
6. Column (2) Item A(c) “Others” includes paid-up contracts where no premium is payable in future.;
7. Annualized premiums shall be calculated as modal installment premium multiplied by the number of installments payable in a year. For policies which are subject to increase, the annualized premium shall reflect the premium amount at the date of the valuation.

FORM DDD
(See Clause 2)

ADDITIONS TO AND DELETIONS FROM POLICIES FOR THE YEAR ENDED 31st December, 20__

Name of Insurer:
Statutory Fund:

Item No.	Description	Number of policies (Individual Business)	Sum Assured (Individual Business)	Annuity pa	Reversionary bonus additions	Annualized Premiums	Single Premium
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
1	Policies at the beginning of the period						
	ADDITIONS during the period:						
2	New Policies issued						
3	Old policies revived/reinstated						
4	Old policies changed and increased						
5	Bonus additions allotted/increases						
6	Total additions (Sum of items 2 to 5)						
	DELETIONS during the period						
7	By death						
8	By survivance or the happening of contingencies insured against, other than death						
9	By expiry of term under temporary insurance						
10	By surrender of policy						
11	By surrender of bonus						
12	By forfeiture or lapse						
13	By change and decrease						
14	By being not taken up						
15	Total discontinued: (Sum of items 7 to 14)						
16	**Total existing at the end of the period:** [(1) + (6) – (15)]						

Notes to Form DDD-
1. All amounts must be furnished in thousands of Pak Rupees;
2. All amounts stated shall be total gross amounts without taking into account of re-insurances ceded or accepted;
3. Annualized premiums shall be calculated as a modal installment premium multiplied by the number of installments payable in a year. For policies which are subject to increase the Annualized Premium shall reflect the premium amount at the date of valuation, increases being reflected in row 5.

FORM DDDD

(See Clause 2)

PARTICULARS OF POLICIES FORFEITED OR LAPSED IN THE LAST YEAR UNDER REVIEW AND OF POLICES REVIVED AND REINSTATED FOR FULL BENEFITS CLASSIFIED ACCORDING TO THE YEAR IN WHICH THEY WERE ISSUED ---FOR THE YEAR ENDED 31ST December 20__.

Name of Insurer: Statutory Fund:

Item No	**Year in which policies were issued**	POLICES FORFEITED/LAPSED				**POLICIES REVIVED AND REINSTATED FOR FULL BENEFITS**			
		Number of polices	**Sum Assured**	**Annuity pa**	**Annualized Premium**	**Number of polices**	**Sum Assured**	**Annuity pa**	**Annualized Premium**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**
1	Year ending __ , being the year under review								
2	Year ending __ , being the year previous to that under review								
3	Year ending __ , being the year previous to that under review …								
4	Year ending __ , being the year previous to that under review								
5	Year ending __ , being the year previous to that under review								
6	Year ending __ , being the year and earlier								

Notes to Form DDDD-

1. This form shall be completed for all regular premium individual life policies.
2. All amounts must be furnished in thousand of Pak Rupee.
3. All amounts stated shall be total gross amounts without taking into account of re-insurance ceded or accepted.
4. For Col (2), for instance, valuation date is 31.12.2010. Item 01 should relate to the year ending on 31.12.2010. Item 02 should relate to the year ending on 31.12.2009. Item 03 should relate to the year ending on 31.3.2008, and so on. Item 06 should relate to the year ending on 31.12.2005 and earlier.

FORM LB-1

(See Clause 2)

PARTICULARS OF POLICIES AND VALUATION DETAILS AS AT 31st December, 20__.

(Direct Business plus reinsurance accepted less reinsurance ceded)

Name of Insurer:
Statutory Fund:

	PARTICULARS OF POLICES				*VALUATION DETAILS*		
Item No.	**Description**	**Number of policies**	**Sum Assured**	**Office yearly Premium**	**Unit Liabilities**	**Non Unit Liabilities**	**Mathematical Reserves**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
1	**(A) Insurance Product:**						
	i) Regular premium						
	ii) Single premium						
	iii)Fully paid up						
	iv) Reduced paid up						
	(B) Insurance Product:						
	i) Regular premium						
	ii) Single premium						
	iii)Fully paid up						
	iv) Reduced paid up						
2	Rider benefits, specify ………						
3	Other adjustments, specify						
4	Total before reinsurance						
5	Deduct reinsurance ceded						
6	Total after reinsurance						

Note to Form LB-1 -

1. All amounts should be in thousands of Pak Rupees;

2. Column (8) = Column (6) + Column (7)

FORM LB-2

(See Clause 2)

STATEMENT OF NET ASSET VALUES FOR THE UNIT LINKED FUNDS MAINTAINED BY THE INSURER FOR ITS LINKED BUSINESS FOR THE FINANCIAL YEAR ENDED

31ST DECEMBER 20____

Name of Insurer: Statutory Fund:

Item No.	**Description**	*Unit Linked Fund (1)*	*United Linked Fund (2)*	*Unit Linked Fund (3)*	**…**	*Total*
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
1	Fund brought forward					
2	Value of creation of units					
3	Increase (decrease) in value of investments in the financial year					
4	Other income					
5	**Total income** (Sum 1 to 4)					
6	Value of cancellation of units					
7	Management charges					
8	Tax paid					
9	Other expenditure					
10	Increase (decrease) in provisions					
11	**Total expenditure** (Sum 6 to 10)					
12	Fund carried forward					
13	Total Number of Units:					
14	Net Asset Value per Unit					

Notes to Form LB-2:

1) All amounts must be in thousands of Pak Rupees.

FORM LB-3

(See Clause2)

STATEMENT OF ANALYSIS OF UNITS IN UNIT LINKED FUNDS AS AT

31 DECEMBER 20___

Name of Insurer: **Statutory Fund:**

ITEM NO.	**DESCRIPTION**	*NUMBER OF UNITS IN*				
		Unit Linked Fund 1	*Unit Linked Fund 2*	*Unit Linked Fund 3*	……	*Total*
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
1	a) Insurance Product					
2	b)					
3	c)					
4	**Total**					

FORM NLB-1

(See Clause 2)

PARTICULARS OF POLICIES AND VALUATION DETAILS AS AT 31st December 20___.

(Direct Business plus reinsurance accepted less reinsurance ceded)

Name of Insurer:
Statutory Fund:

		PARTICULARS OF POLICIES							VALUATION				
Item No.	**Description**	**Number of policies**	**Sums Assured**	**Annuity pa**	**Vested Bonuses**	**Office Yearly Premium**	**Net Yearly Premium**	**Sum Assured**	**Vested Bonuses**	**Annuity pa**	**Office Yearly Premium**	**Net Yearly Premium**	**Mathematical Reserves excluding cost of bonuses allocated**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**
1	**(a) Insurance Product:**												
	i) Regular premium												
	ii) Single premium												
	iii) Fully paid up												
	iv) Reduced paid up												
	(b) Insurance Product:												
	i) Regular premium												
	ii) Single premium												
	iii) Fully Paid up												
	iv) Reduced paid up												
2	Rider benefits, specify												
3	Other adjustments, specify												
4	**Total before reinsurance**												
5	Reinsurance ceded												
6	**Total after Reinsurance**												

Note to Form NLB-1:

1. All amounts should be in thousands of Pak Rupees.
2. Information relating to insurance products shall be given in the following order of insurance products, wherever required:-
   - Whole Life Assurances,
   - Endowment Assurances,
   - Anticipated Endowment Plans (Money Back Plans),
   - Pure Endowments,
   - Term Insurance Contracts
   - Group Term Insurance Contracts
   - Group Endowment Contracts
   - Others (specifying each).

FORM ULB 1

(See Clause 2)

PARTICULARS OF POLICIES AND VALUATION DETAILS AS AT 31 DECEMBER 20___

(Direct Business plus reinsurance acceptance less reinsurance ceded)

Name of Insurer:
Statutory Fund:

	PARTICULARS OF POLICES				***VALUATION DETAILS***		
Item No.	**Description**	**Number of polices**	**Sum Assured**	**Office yearly Premium**	**Fund Liabilities**	**Non Fund Liabilities**	**Mathematical Reserves**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
1	**(A) Insurance Product:** i) Regular premium ii) Single premium iii)Fully paid up iv) Reduced Paid up						
2	**(B) Insurance Product:** i) Regular premium ii) Single premium iii)Fully paid up iv) Reduced paid up						
3	Rider Benefits, specify ………						
4	Other adjustments, specify						
5	Total before reinsurance						
6	Deduct reinsurance ceded						
7	Total after reinsurance						

Note to Form ULB-1 -
1. All amounts should be in thousands of Pak Rupees;

2. Column (8) = Column (6) + Column (7)

FORM H

(See Clause 2)

SUMMARY OF VALUATION AS AT 31^{ST} December, 20____.

Name of Insurer:

ITEM NO.	CATEGORY OF BUSINESS	COST OF BONUSES ALLOCATED (if applicable)	MATHEMATICAL RESERVES (INCLUSIVE OF COST OF BONUSES ALLOCATED)
(1)	**(2)**	**(3)**	**(4)**
1	Statutory Fund 1		
2	Statutory Fund 2		
3	Statutory Fund 3		
4	**TOTAL**		

Note to Form H -

1. All amounts should be in thousands of Pak Rupees.

FORM I

(See Clause 2)

VALUATION RESULTS AS AT 31st December, 20___

Name of Insurer:

ITEM NO	DESCRIPTION	BALANCE OF FUND SHOWN IN BALANCE SHEET BEFORE TRANSFER TO/FROM SHAREHOLDERS FUND	MATHEMATICAL RESERVES (EXCLUDING COST OF BONUSES ALLOCATED)	SURPLUS/ DEFICIT
(1)	(2)	(3)	(4)	(5)
1	Statutory Fund 1			
2	Statutory Fund 2			
3	Statutory Fund 3			
4	Total			

Note to Form I -

1. All amounts should be in thousands of Pak Rupees.
2. Col (5) = Col (3) - Col (4).

FORM L

(See Clause 7)

STATEMENT OF COMPOSITION OF SURPLUS AND DISTRIBUTION OF SURPLUS IN RESPECT OF POLICYHOLDERS' FUND

Name of Insurer:	

	Statutory Fund 1	**Statutory Fund 2**	**Statutory Fund 3**	**Aggregate**
1. Policyholders' Liabilities				
a. Balance at beginning of year				
b. Increase/(decrease) during the year				
c. Balance at end of year				
2. Retained Earnings attributable to policyholders (Ledger Account A)				
a. Balance at beginning of year				
b. Surplus allocated at beginning of year				
c. Surplus adjustments (if any)				
d. Bonus allocated during the year				
e. Other movements (if any)				
f. Balance at end of year				
3. Retained Earnings on par business attributable to shareholders – undistributable (Ledger Account B)				
a. Balance at beginning of year				
b. Surplus allocated at beginning of year				
c. Surplus adjustments (if any)				
d. Bonus allocated during the year				
e. Other movements (if any)				
f. Balance at end of year				
4. Retained Earnings on par business attributable to shareholders – distributable (Ledger Account C)				
a. Balance at beginning of year				
b. Surplus adjustments (if any)				
c. Transfer from undistributed profits				
d. Surplus apportioned to shareholders' fund				
e. Other movements (if any)				
f. Balance at end of year				
5. Retained Earnings on other than participating business (Ledger Account D)				
a. Balance at beginning of year				
b. Surplus allocated in respect of the year				
c. Expense adjustment (if any)				
d. Surplus apportioned to shareholders fund				
e. Other movements (if any)				
f. Balance at end of year				
6. Capital contributed by shareholders' fund				
a. Balance at beginning of year				
b. Capital contributed during the year				
c. Capital withdrawn (returned) during the period				
d. Capital apportioned as bonus during the period				
e. Other increase/(decrease)				
f. Balance at end of year				
7. Accumulated Deficits (if any)				
a. Balance at the beginning of year				
b. Deficit arising during the year				
c. Less: amount set off against surpluses arising				
d. Balance at end of year				
8. Capital contributed less any accumulated deficits				

Note to Form L -
1. All amounts shall be in thousands of Pak Rupees.
"

ANNEXURE V
[See Rule 20]
Minimum valuation basis

1. Valuation of Assets.--Every life insurer shall prepare a statement of assets in accordance with the requirements of Form LI and LJ of these Rules.

2. Determination of Amount of Liabilities.--Every life insurer shall prepare a statement with respect to its liabilities in accordance with the requirement of this annexure.

3. Interpretation.--In this annexure, --

"Valuation date", in relation to an actuarial investigation, means the date to which the investigation relates; and

"Actuarial Reserve" means the "minimum actuarial reserve for policyholder liabilities" as referred to in Section (50), sub section (5) of the Ordinance.

4. Method of Determination of Actuarial Reserves (for policies other than those covered by Clauses 8 and 9) —(1) Actuarial Reserves shall be determined separately for each contract by a prospective method of valuation in accordance with sub-clauses (2) to (5):

(2) For a whole life policy, the actuarial reserve shall not be less than the mathematical reserve of a policy calculated on the following assumptions:

(i) The policy takes effect one year later than the actual date of commencement;
(ii) Total number of years' premium paid is reduced by one year;
(iii)The interest rate is at the rate of interest in accordance with clause 6; and
(iv)The mortality in respect of the life assured under the contract is in accordance with clause 6.

(3) For an endowment policy or a whole life policy where the premium paying period is not less than twenty years the actuarial reserve shall not be less than the mathematical reserve of a policy calculated on the following assumptions:

(i) The policy takes effect one year later than the actual date of commencement;
(ii) Total number of years' premium paid is reduced by one year;
(iii)The interest rate is at the rate of interest in accordance with clause 6; and

(iv) The mortality in respect of the life assured under the contract is in accordance with clause 6.

(4) For an endowment policy or a whole life policy where the premium paying period is less than twenty years the actuarial reserve shall not be less than the mathematical reserve of a policy calculated on the assumptions in sub-clause (2), and to the reserve so obtained shall be added one twentieth the number of years by which the premium paying period falls short of twenty years of the difference between the reserve obtained on the assumptions in sub-clause (2) and the reserve obtained as follows:

(i) The policy takes effect on the date it commenced and for the premium paying period mentioned therein;
(ii) Total number of years' premium paid is unadjusted
(iii) The interest rate is at the rate of interest in accordance with clause 6; and
(iv) The mortality in respect of the life assured under the contract is in accordance with clause 6.

(5) For a single premium policy the actuarial reserve shall not be less than the mathematical reserve calculated on the following assumptions:

(i) The interest rate is at the rate of interest in accordance with clause 6; and
(ii) The mortality in respect of the life assured under the contract is in accordance with clause 6.

5. Considerations in determination of Actuarial Reserves under Clause 4:

(1) The valuation method shall take into account all prospective liabilities as determined by the policy conditions for each existing contract taking credit for premiums payable after the valuation date.

(2) The appointed actuary shall take appropriate steps to ensure that the amount of actuarial reserve for any policy is not "negative"

(3) The valuation method shall be the "Net Premium Method'.

(4) If in the opinion of the appointed actuary, a method of valuation other than the Net Premium Method of valuation is to be adopted, then, other approximations (e.g. retrospective method) may be used.

Provided that where the appointed actuary is satisfied that the amount of calculated reserve is expected to be at least equal to the amount that shall be produced by the application of the Net Premium Method.

(5) The method of calculation of the amount of liabilities and the assumptions for the valuation parameters shall not be subject to arbitrary discontinuities from one year to the next.

6. Valuation Parameters (applicable to clauses 4 & 5) —

(1) The valuation parameters shall constitute the bases on which actuarial reserves have to be computed.

(2) **Mortality rates** to be used shall be in accordance with the table of mortality rates prescribed by the Pakistan Society of Actuaries.

(3) **Morbidity rates** to be used shall be by reference to a table, the use of which can be justified by the appointed actuary.

(4) **Valuation rates of interest**, to be used by appointed actuary, subject to the following, shall be an effective rate of 3.75% per annum.

> (a) this rate shall be subject to review by the Pakistan Society of Actuaries from time to time; and
>
> (b) other parameters**,** may be taken into account, depending on the type of policy. In establishing the values of such parameters, the considerations set out in this Annexure shall be taken into account.

7. Applicability to Reinsurance.—(1) This annexure shall be applicable on both Gross of reinsurance and Net of reinsurance valuation of business.

8. Requirements for Linked Business.—(1) Reserves in respect of linked business shall consist of two components, namely, unit reserves and non-unit reserves.

(2) Unit reserves shall be calculated in respect of the units allocated to the policies in force at the valuation date using unit values at the valuation date.

(3) Non-unit reserves shall be determined by the Appointed Actuary using generally accepted actuarial principles. These reserves shall also take into account guarantees, if any, relating to surrender values or minimum death and maturity benefits.

9. Requirements for Universal Life and Universal Life Hybrid Business. – (1) Reserves in respect of universal life and universal life hybrid business shall consist of two components, namely, fund reserves and non-fund reserves.

(2) Fund reserves shall be the account value at the valuation date of the policies in force at the valuation date.

(3) Non-fund reserves shall be determined by the Appointed Actuary using generally accepted actuarial principles. These reserves shall also take into account guarantees, if any, relating to surrender values or minimum death and maturity benefits.

10. Requirements for other business. – Reserves in respect of business not mentioned in these regulations shall be determined by the Appointed Actuary using generally accepted actuarial principles and provisions of Guidance Notes issued by the Pakistan Society Actuaries.

11. Additional Requirements for Provisions.--- The appointed actuary shall make aggregate provisions in respect of the following, where it is not possible to calculate mathematical reserves for each policy, in the determination of mathematical reserves:-

a) policies in respect of which extra premiums have been charged on account of underwriting of under-average lives that are subject to extra risks such as occupational hazard, over-weight, under-weight, smoking history, health, climatic or geographical conditions;
b) lapsed policies not included in the valuation but under which a liability exists or may arise;
c) options available under individual and group insurance policies;
d) guarantees available to individual and group insurance policies;
e) the rates of exchange at which benefits in respect of policies issued in foreign currencies have been converted into Pakistan Rupees and what provision has been made for possible increase of mathematical reserves arising from future variations in rates of exchange;
f) expenses reserves where the expected future expenses exceed the margins built in the pricing of products; and
g) Other, if any.

12. Statement of Liabilities-- An insurer shall furnish a statement of liabilities in accordance with this Annexure."

F.No. ID-Solvency Rules / 2010

(Abdul Rehman Qureshi)
Advisor/Secretary