SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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Circular No. 2 of 2006

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Sub: <u>Life Insurance Policies through withdrawal from Recognized Provident Funds</u>

Life Insurers in Pakistan have been selling insurance policies through withdrawals from the recognized provident funds since these withdrawals are permitted under the Income Tax Rules. The insurance policy is assigned to the trustees of the provident fund in such cases.

2. While marketing this kind of policies, the policyholder is generally given the illustration of only the proposed life insurance policy without any illustration of existing provident fund. Due to this, the policyholder is unable to compare the proposed life policy with his existing provident fund. This can deceive the policyholder, which is in contravention to section 76(1) of the Insurance Ordinance, 2000. The policyholder must be given a full picture so that he can take an informed decision.

3. It is therefore advised to all the Life Insurers that with effect from July 1, 2006 an illustration shall be given to the prospective policyholder, clearly comparing the proposed policy with the situation if the premiums are not withdrawn but left to accumulate in the provident fund. A copy of the illustration shall be delivered, by registered post, courier, or other method which provides proof of delivery, to the Trustees of the provident fund prior to completion of the policy sale. If the policy sale is completed, a copy of the illustration shall be placed on the policy file maintained by the insurer.

4. Further, in any policy year the annual premium shall not exceed the annual contributions to the provident fund from the employee plus the employer for that year.

5. The illustration shall be based on the following principles:

(a) The illustration shall show how much the full gross premiums under the proposed policy, without any deduction for the life insurance or other component of the premiums, and without any other deductions whatsoever, would accumulate to if left in the provident fund. For this purpose, it shall be assumed that the Provident Fund would earn 8% per annum compound. This rate for the Provident Fund shall be used irrespective of whether the proposed policy is “investment-linked” or "conventional".

(b) The results illustrated under the proposed policy shall be in accordance with the SECP's Circular No 22 of 2005 on Market Conduct.

(c) The durations illustrated shall be 1 to 10 years inclusive, followed by durations 15, 20 and so on at 5 yearly intervals, up to policy maturity.

(d) In a clear and simple tabulation, the illustration shall compare the accumulation in the provident fund at each illustrated duration before policy maturity with the amount payable on surrender or encashment of the proposed policy at that duration, net of surrender and other charges. At policy maturity, the illustration shall compare the accumulation in the provident fund with the maturity proceeds of the proposed policy.

(e) The illustration shall also compare the amount payable on death at the illustrated durations under the provident fund, with the amount payable on death under the proposed policy.

(f) The illustration shall clearly mention that the values given are illustrated based on assumptions and actual values both under the proposed life insurance policy and the provident fund can be higher or lower than the illustrated values depending upon various factors such as actual rate of return, mortality experience and expenses.

(g) A signed acknowledgment of the prospective policyholder shall be obtained on the illustration that he has received and understood the illustration and that he has not received any other verbal or written presentation which contradicts with the illustration.

6. In case such illustration is not made, this shall be taken as deceiving the policyholder according to section 76(1) of the Insurance Ordinance, 2000 and the policyholder shall be entitled to obtain compensation from the Insurer for any loss suffered in accordance with section 76(4) of the ordinance. Further, SECP can also levy fine in accordance with section 76(5) of the ordinance which can go up to Rs. 10 million.

7. The Life Insurers are advised to send the formats of the above-mentioned illustration to the SECP and incorporate any amendment advised by the SECP before start using them.

8. However, for policies which provide benefit only in case of death, disability or illness without any surrender value, maturity or survival benefits or other savings components whatsoever, proposed policies need not compare with the situation if the premiums are not withdrawn but left to accumulate in the provident fund.

Sd/-
(Shoaib Soofi)
Director

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