



Insurance Division
Karachi

Circular No. 22/2013

Karachi, December 5, 2013

Manner of acceptance and placement of facultative reinsurance under Rule 7 of the Insurance Rules, 2002 read with Section 41(5) of the Insurance Ordinance, 2000

In exercise of the powers conferred to it under Section 40B of the Securities and Exchange Commission of Pakistan Act, 1997 (Act XLII of 1997) read with S.R.O.387(I)/2013 dated May 14, 2013 and for the purposes of the manner of acceptance and placement of facultative reinsurance under Rule 7 of the Insurance Rules, 2002 read with Section 41(5) of the Insurance Ordinance, 2000, the Securities and Exchange Commission of Pakistan (hereinafter referred as the "Commission") is hereby issuing this Circular as a step to further strengthen the insurance industry by providing an effective regulatory environment and maintain stability and transparency in the reinsurance system.

2. In the matter of facultative reinsurance placements as required under Rule 7 of the Insurance Rules, 2002 (hereinafter referred as the "Rule 7"), it is hereby mentioned that the Commission is introducing a standard facultative reinsurance acceptance/ decline slip format, which shall be effective from 1st day of January 2014. The format is attached with this Circular as Annexure-I. It is hereby specified that from the 1st day of January 2014, the requests for issuance of no-objection-certificate for the facultative reinsurance placements under Rule 7 shall be submitted to the Commission in a document form along with the completed information on the newly prescribed format. Submission of requests with incomplete information on the prescribed format shall be declined by the Commission.

3. For seeking the permission under Rule 7, while the Commission may seek any such document as it may deem necessary in the context of any particular request, the insurers shall present to the Commission the documents including, but not limited to:

- (a) the original form of facultative reinsurance acceptance/ decline slip of the offer made to local insurers/ reinsurer operating within the relevant class of insurance business whereby all such offers shall be made on the same terms and conditions as being offered to the foreign reinsurer(s);
- (b) copy of the facultative reinsurance acceptance slip of the offer made to the foreign reinsurer(s) whereby all such offers shall be made on the same terms and conditions as offered to the local insurers/ reinsurer;

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SECURITIES & EXCHANGE
COMMISSION OF PAKISTAN

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN INSURANCE DIVISION

Continuation Sheet 2

4. The offer made to local insurers/ reinsurer shall be an open-ended offer such that it shall not be bounded in terms of an absolute or relative basis of pre-allocation of the portion of sum insured. Further, an insurer shall ensure that the terms and conditions being offered to the local insurers/ reinsurer shall be identical as those being offered to the foreign reinsurer. In no way shall the offer be made with a voluntary intention on the part of the insurer making the offer to force the insurers/ reinsurer to whom the offer is being made, to preclude it from consideration.
5. The request for the issuance of permission for the facultative reinsurance placements under Rule 7 shall be submitted to the Commission by the insurers along with fulfilling all documentary requirements no later than 30 days from the date of inception of the original insurance policy.
6. Whereas it has been observed that certain insurers after the issuance of the permission by the Commission for the facultative reinsurance placements tend to make frequent amendments in the original insurance policy, *prima facie*, due to the subjective requirements from the policyholders, such as inclusion of additional perils coverage, change in the policy period, fluctuation of foreign currency rates (if applicable), etc. Also, it has been observed that short-period policies are being issued by certain insurers without complying with the requirements of the Rules. It is hereby specified that any revision in the original insurance policy seeking the supplementary issuance of the permission by the Commission for the facultative reinsurance placements shall be intimated to the Commission immediately and no later than 30 days from the date of issuance of the original permission by the Commission for the facultative reinsurance placements. Any revision intimated to the Commission after 30 days from the date of issuance of the original permission for the facultative reinsurance placements shall be required to disjointedly fulfil the requirements as laid down in Rule 7(2)(a) of the Insurance Rules, 2002.
7. All insurers shall ensure that where foreign reinsurer(s) are used, at least eighty per cent of the total facultative reinsurance for each risk shall be placed with reinsurer(s) having "A" or above rating by Standard & Poor's (hereinafter referred as the "S&P") or equivalent rating by any other reputed international rating agency while the remaining risk may be placed with reinsurer(s) having at least "BBB" rating by S&P or equivalent rating by any other reputed international rating agency. Any part of the reinsurance placed with reinsurer(s) having rating below "BBB" by S&P or an equivalent rating by any other reputed international agency shall not be acceptable to the Commission and for which no permission shall be granted by the Commission. However, in case of captive foreign reinsurers, exception may be granted by the Commission, on case to case basis, provided satisfactory documentary evidence demonstrating the financial strength of the reinsurer and its capacity to bear the risk under consideration is submitted to the Commission.

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN INSURANCE DIVISION

Continuation Sheet 3

8. The local insurers/ reinsurer accepting the share in the local facultative reinsurance offer and where such respective share of acceptance is ten per cent or less of the sum insured, such insurer/ reinsurer shall strictly observe the doctrine of "follow-the-fortunes" whereby the local insurers/ reinsurer shall follow the underwriting fortunes of its reinsured or the leader and, therefore, shall be bound by the claims-handling decisions of its reinsured and for the acceptance of liability as well as quantum of liability.

9. It has been found that certain insurers are placing the reinsurance arrangements with foreign reinsurers without seeking prior permission from the Commission which is a clear violation of Rule 7(1) of the Rules. Under Rule 7(1) it is required that an insurer shall seek permission of the Commission before reinsuring facultatively outside Pakistan for any insurance business or any part thereof underwritten by it in Pakistan, and unless a permission is granted by the Commission in writing, no risk placement shall be done with the foreign reinsurer(s).

10. The non-compliance and any failure on part of an insurer to comply with the above provisions of this Circular shall be liable to be penalized under section 156 of the Insurance Ordinance, 2000.

Mohammed Asif Arif
Commissioner (Insurance)

Distribution:

- All insurers.
- Pakistan Reinsurance Company Limited (PRCL)
- Insurance Association of Pakistan (IAP)

FACULTATIVE REQUEST NOTE

(Risk Acceptance/ Decline Slip as specified under Circular 22/2013)

Note: As laid down in Rule 7(3) of the Insurance Rules, 2002, no insurer shall accept reinsurance on facultative basis in excess of its net retention, if the insurer seeking such reinsurance so indicates in the reinsurance slip/ request note in writing.

The list of insurance companies given in this form is indicative and names can be added as required.

General Information					
Date (dd-mm-yyyy)		Request Note No.			
Ceding Insurer's Name		Policy No.			
Name of Insured		Period from		Period to	
Type		Property Covered			
Reinsurance Arrangements					
	%age	Amount		%age	Amount
A. Sum Insured	100%		B. Company Share		
C. Company Net Retention			D. Treaty Share of local insurer(s)		
E. Treaty Share of PRCL			F. Treaty Share of foreign reinsurer(s)		
G. Leftover share of which is being offered as facultative G = B-(C+D+E+F)					
Other Information					
	%age	Amount		%age	Amount
Reinsurance Rate being offered			Deductible(s)		
Commission			Maximum Probable Loss (if applicable)		
Loss History (if any)					
Other Information (if any)					

S.No.	Name of insurers/ reinsurer	Signature and Stamp indicating Acceptance (with terms & condition)/ Decline (with reason(s))
1	Ace Insurance Limited	
2	Adamjee Insurance Company Limited	
3	Alfalah Insurance Company Limited	
4	Alpha Insurance Company Limited	
5	Asia Insurance Company Limited	
6	Askari General Insurance	

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Loss History (if any)					
Other Information (if any)					

7	Atlas Insurance Limited	
8	Capital Insurance Company Limited	
9	Century Insurance Company Ltd.	
10	Continental Insurance Company Ltd	
11	East West Insurance Company Ltd	
12	EFU General Insurance Ltd	

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Loss History (if any)					
Other Information (if any)					

13	Excel Insurance Company Ltd	
14	Habib Insurance Company Ltd	
15	IGI Insurance Ltd	
16	Jubilee Insurance Company Ltd	
17	New Hampshire Insurance Company Ltd.	
18	PICIC Insurance Company Ltd.	

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19	Premier Insurance Company Ltd.	
20	Reliance Insurance Company Ltd.	
21	Sahara Insurance Company Ltd.	
22	Saudi Pak Insurance Company Ltd.	
23	Security General Insurance Company Ltd.	
24	Shaheen Insurance Company Ltd.	

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25	Silver Star Insurance Company Ltd.	
26	The Crescent Star Insurance Company Ltd	
27	The United Insurance Company of Pakistan Ltd	
28	The Universal Insurance Company Ltd	
29	UBL Insurers Ltd	
30	Pakistan Reinsurance Company Ltd	

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