



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN INSURANCE DIVISION

Karachi, 6 July 2010

Circular No.15/2010

Related Party Assets

According to Section 32(2)(g) of the Insurance Ordinance 2000, "balances with, shares in, loans to or other amounts due from any body that is related to the insurer or to any director of the insurer" are inadmissible for the purpose of solvency requirements.

Section 32(7) defines the related party as "two or more persons who are under common control or if they are connected by an ownership interest of more than 49% or if they are natural persons, they are members of the same family". Section 32(1)(d) empowers SECP to declare any of the assets provided under Section 32(2)(g) as admissible for the purpose of solvency requirement.

As a result of recommendations of a committee formed by the Commission to review the solvency regulations and after consultation with the insurance companies, it has been decided as follows:

- a) Two companies will be deemed to be "under common control" for the purpose of the definition of related parties contained in Section 32(7) if the majority of the Boards of Directors of the two companies are common. This provision shall not, however, apply to directors who are nominees of the Government of Pakistan.
- b) If the related party of an insurer is a scheduled bank registered under Banking Companies Ordinance, then cash deposited in current accounts, savings accounts and term deposits of that bank shall not be inadmissible only because the bank is a related party of the insurer. Other provisions of the Insurance Ordinance 2000 and Securities and Exchange Commission (Insurance) Rules, 2002 shall, however, apply.
- c) If an insurer has some outstanding premium which is receivable from a related party, the same shall not be inadmissible only because it is receivable from a related party provided the premium has been due and payable to the insurer for less than or equal to three months. Similarly if an insurer has any balances due from a related party in the normal course of business (including amounts receivable under coinsurance/ reinsurance arrangements) these will not be inadmissible only because such amounts are receivable from a related party.
- d) Investments in listed securities of a company which is a related party shall not become inadmissible only because the company is a related party but will be subject to other provisions relating to admissibility under the Insurance Ordinance 2000 and the Securities and Exchange Commission (Insurance) Rules, 2002.
- e) Investments in mutual funds managed by an asset management company which is a related party shall not become inadmissible only because the company is a related party but will be subject to other provisions relating to admissibility under the Insurance Ordinance 2000 and the Securities and Exchange Commission (Insurance) Rules, 2002.

All other assets as provided in section 32(2)(g) shall remain inadmissible for the purpose of solvency requirement.


Nasreen Rashid
Executive Director (Insurance)

Distribution:

Chief Executives of Insurance Companies / Takaful Operators
Chairman (Insurance Association of Pakistan)
President (Institute of Chartered Accountants of Pakistan)
President (Institute of Cost & Management Accountants of Pakistan)
President (Pakistan Society of Actuaries)
President, Institute of Corporate Secretaries of Pakistan
SC: Final Circular – Related Party