

GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Islamabad, the 4th December, 2017

NOTIFICATION

S.R.O.1236(I)/2017.- In exercise of the powers conferred by section 40B of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997), read with clause (t) and clause (u) of subsection (4) of section 20 thereof, the Securities and Exchange Commission of Pakistan is pleased to issue the directive, namely 'the Securities and Exchange Commission (SEC) Directive for the Corporate Insurance Agents (excluding Banks) and Technology Based Distribution Channels, 2017', as enclosed.

File No.SY/SECP/8/13


(Bilal Rasul)
Secretary to the Commission

The Securities and Exchange Commission (SEC) Directive for the Corporate Insurance Agents (excluding Banks) and Technology Based Distribution Channels, 2017



SECURITIES AND
EXCHANGE
COMMISSION OF
PAKISTAN

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1. Application and scope. – (1) This directive is applicable to all corporate insurance agents, other than banks, of life and non-life insurers including the family and general takaful operators. The relevant provisions of this directive are also applicable to the distribution of insurance through technology based channels, with or without the involvement of corporate insurance agent.

(2) The provisions of this directive will apply to all new insurance business underwritten by insurers on or after March 31, 2018 under the agency agreements with the corporate insurance agents. However, the insurers and the corporate insurance agents shall make amendments to the existing agency agreements, wherever necessary, to comply with the provisions of this directive not later than April 1, 2018. The insurer shall send written confirmation, signed by the designated insurance executive, to the Commission, mentioning that the necessary changes have been made and the relationship with corporate insurance agent complies with the requirements of this directive.

2. Definitions. -(1) In this directive, unless there is anything repugnant in the subject or context, -

- (a) "agency agreement" called by whatsoever name or title, means a legal contract between the corporate insurance agent and the insurer, under which, the former acts as the corporate insurance agent of the latter, meeting all the requirements of the applicable provisions of the Ordinance and Rules and Regulations issued thereunder;
- (b) "certification" means the process by which a specified person is issued a certificate by the insurer entitling him to solicit and procure insurance business on behalf of the insurer under the agency agreement;
- (c) "corporate insurance agents" mean all persons excluding banks and individuals, who have entered into agency agreement with any life or non-life insurer registered under the Ordinance and facilitate insurance products distribution for the insurer with which they have entered into an agency agreement;
- (d) "group life insurance policies" means a life insurance contract having a term not exceeding one year, offered on yearly renewable term and group underwriting basis through a master policy document. The policyholder is a company, body corporate, registered association or any enterprise. It excludes group life policies with cash values and individual life policies which may be sold to a group of individuals;
- (e) "insurer" means an insurance company registered under the Ordinance to carry on insurance business;
- (f) "insurance executive" means an employee of the corporate insurance agent, by whatever name, title or designation called, directly or indirectly responsible for managing the agency arrangement for the corporate insurance agent who will comply with the provisions of section 96 and 97 of the Ordinance;

- (g) "loyalty insurance product" means the products which are complimentary with any product or service and which policyholder becomes automatically entitled to insurance coverage upon meeting certain pre-specified conditions and for which, premium is not paid by the policyholder;
- (h) "mobile network operators" are the corporate entities which are licensed by the Pakistan Telecommunication Authority (PTA) to provide cellular mobile communication service under the applicable laws.
- (i) "Ordinance" means the Insurance Ordinance, 2000 (XXXIX of 2000);
- (j) "voluntary insurance product" means the products which policyholder opts to purchase with his own will and also pays the premium.
- (k) "specialized training" includes orientation, particularly in the area of insurance sales, service and marketing, as per the relevant provisions of the Ordinance, the Rules and Regulations made thereunder and the directives issued by the Commission;
- (l) "specified person" means either an employee of the corporate insurance agent or an employee of the insurer who has undergone the required practical training, examination, certification in respect of agency arrangement/ product, and who is responsible for soliciting and procuring insurance business for the insurer under the agency agreement between insurer and corporate insurance agent;
- (m) "technology based distribution channels" means sale of insurance through channels involving technology including, but not limited to, mobile, internet, telephone etc. whether through involvement of corporate insurance agents or otherwise. The technology provider may or may not be working in the capacity of corporate insurance agent.

(2) All words and expressions used in this directive but not defined shall have the same meaning as assigned to them in the Insurance Ordinance, 2000 and the Rules and Regulations made thereunder.

(3) In this directive, the word "takaful" may be used interchangeably with the word 'insurance', 'family takaful' with 'life insurance', 'general takaful' with 'general insurance', 'contribution' with 'premium', and 'insurer' with 'takaful operator'. Similarly, other terms used in the Takaful Rules, 2012 associated with the takaful business may be used interchangeably with their conventional counterpart words/ terms.

PART I

GENERAL REQUIREMENTS RELATING TO CORPORATE INSURANCE AGENTS

The provisions of this part will apply to all corporate insurance agents, which have entered into agency agreement with the insurers.

3. Agency arrangement between insurer and corporate insurance agent. – (1) All insurers are required to submit to the Commission the agency agreement entered into with the corporate insurance agent, or any subsequent change made thereto, within thirty (30) days of coming into effect of such agreement or such amendment, as the case may be.

(2) The insurer is required to submit the insurance agency agreement with clear roles and responsibilities of each party involved such as the insurer, insurance broker when working in the capacity of corporate insurance agent or administrative support provider, and, or Third Party Administrator (TPA), if any.

(3) The agency agreement shall, at the minimum, clearly state the roles and responsibilities of each party involved in the distribution arrangement in respect of following areas:

- (a) Policy acquisition/ enrollment;
- (b) Administration and servicing;
- (c) Claims processing and;
- (d) Complaint handling.

(4) The agency agreement shall contain the "termination of agreement" clause and rights and obligations of the corporate insurance agent and insurer subsequent to such termination and such clause shall also state the treatment to be given to existing policyholders and remuneration to the corporate insurance agent subsequent to the termination.

(5) The agency agreement shall clearly define the certification process which shall include a definition of the training required prior to certification.

4. Certification requirement for the corporate insurance agent. – Every corporate insurance agent will ensure that all the specified persons are properly trained and possess sound knowledge of the insurance products they would market, and have undergone the process of the certification.

5. Premium collection. - (1) The insurer may assign the responsibility of collecting premiums due on policies issued through the corporate insurance agent but before outsourcing, the insurer shall ensure that the corporate insurance agent has the necessary premium collection mechanism in place.

(2) The corporate insurance agent shall always pay the gross premium, inclusive of all applicable taxes and levies, to the insurer and shall not retain any part of the insurance premium received from the policyholders for payment to the insurer.

(3) Every corporate insurance agent is required to remit the premium collected from the policyholder to the insurer within fourteen (14) days of receipt of premium. For the purpose of policy inception, the premium paid to the corporate insurance agent will be considered premium paid to the insurer and any anomaly in transfer of premium from corporate insurance agent to the insurer will not affect the policyholder and the insurance coverage for which he has paid premium to the corporate insurance agent.

6. Marketing brochures and sales material. - (1) The insurer shall be primarily responsible for the accuracy of all contents of advertising and sales material.

(2) In all such sales material the roles of the corporate insurance agent and the insurer shall be clearly stated at a prominent place including, but not limited to, policy servicing, claims lodgment and claims processing. It must clearly state that the corporate insurance agent is acting on behalf of the insurer who is the risk bearer and name, address and contact details of the insurer shall also be mentioned at a prominent place.

7. Commission payable to corporate insurance agent. - (1) The level of commission payable to the corporate insurance agent for its role of soliciting and procuring insurance business may vary based on any performance criteria which the insurer and corporate insurance agent may agree and such criteria will be clearly mentioned in the agency agreement.

(2) Any commission to be paid by the insurer to the corporate insurance agent must be computed on premiums received by the insurer and under no circumstances the commission on premiums to be received in future, be paid.

(3) The corporate insurance agent shall not charge, to the policyholder, any service fee, processing fee, administration charge or any other charge unless such a charge has been included by the insurer in the premium and communicated to the policyholder in advance.

8. Conflict of interest. – Any insurer or its chief executive officer, or director, or key officer will not hold any direct or indirect ownership or management interest, whether pecuniary or otherwise, in any corporate insurance agent with whom it has entered into an agency agreement and vice versa.

Explanation: "key officer" includes, the persons discharging the following functional responsibilities,

- (a) chief operating officer, head of operation, by whatever name called;
- (b) chief financial officer, head of accounts, by whatever name called;
- (c) head of actuarial department;
- (d) head of law, company secretary or compliance officer;
- (e) chief investment officer, head of investments, by whatever name called;
- (f) head of internal audit;
- (g) heads of departments;
- (h) any other officer the Commission may specify.

9. Commission claw-back. – (1) This provision will apply to the life insurance policies and non-life insurance personal lines products, sold through the corporate insurance agent.

(2) Where a policyholder has intimated within specified timeperiod, to the insurer or the corporate insurance agent that the policy was missold and the insurer subsequently determines that the policy was missold in accordance with sub-clause (3) to (4), then the entire commission paid by the insurer to the corporate insurance agent will be clawed back and 100% of the premium paid by the policyholder will be returned to him. For the purposes of this sub-clause, the specified timeperiod will be as follows:

- (a) Within thirteen (13) months of policy issuance, in respect of life insurance policies with more than one year term
- (b) Within thirty (30) days of policy issuance in respect of life insurance policies with term equal to or less than one year and non-life insurance personal lines insurance policies
- (c) Before commencement of insurance coverage in respect of travel insurance policies

(3) Upon receipt of intimation from a policyholder regarding misselling, an insurer shall be responsible to investigate that the policy was actually missold within 30 days from the date of receipt of such intimation.

(4) For the purpose of this directive, an insurance policy shall be considered as missold if any of the regulatory requirements, where applicable, including but not limited to: training of specified person, disclosures in marketing and sales material, sales process, or after sales-call have not been complied with in letter and spirit.

(5) In case of regular premium individual life investment plans including endowment products, if during second policy year, the annual premium of a regular premium individual life insurance policy is reduced by more than 25% of the original annual premium, then the excessive reduction i.e. the difference between actual reduction and allowed reduction of 25% will be deemed to be an adhoc premium paid by the policyholder in the first policy year. The excessive reduction in the annual premium (after adjusting for the first year allocation of premium in respect of the aforementioned excessive reduction) will be transferred to the policyholder's investment account or unit value to give an effect that such differential premium is paid by the policyholder along with the most recent premium payment.

Explanation: For the purposes of this sub-section the term "adhoc premium" means the additional lump sum amount of premium (in addition to the regular premium) paid by the policy holder to increase the investment component (i.e. cash value) of the policy.

(6) The differential commission will be calculated by applying the difference in commission rate in the first year between a regular premium plan and single premium plan on the excessive reduction. The differential commission will be clawed back from the corporate insurance agent and retained by the insurer.

10. Sales process for sale of insurance through corporate insurance agent. – (1) This clause will apply to individual life, regular premium insurance policies with saving/ investment component.

(2) Following requirements are required to be complied by the insurers in respect of sale of saving/ investments products.

(a) Insurance need analysis document. – No life insurance policy will be sold through corporate insurance agent unless the specified person has carried out "insurance need analysis" of the prospective policyholder. A general format has been given as Annexure – I to this directive containing the minimum aspects to be covered by such document. An insurer may use a different format for additional information.

(b) Format of illustration. – The insurer and the corporate insurance agent shall ensure that no life insurance policy shall be sold unless the specified person has provided the illustration as per the format prescribed by the Commission from time to time.

(c) Illustration to be given as a stand-alone document. – The corporate insurance agent shall ensure that the illustration has been given to a prospect as a stand-alone document with appropriate time for review by the prospect.

Explanation: Clause (c) above is not intended to breakdown the sales process into two phases. The objective of this provision is to ensure that the specified person has properly explained the product illustration to a prospective policyholder.

(d) Minimum term of the regular premium individual life plans. – No insurer shall issue an individual life insurance regular premium saving/ investment plan, including endowment product, of a term shorter than 5 years through the corporate insurance agent.

(f) Recycling of life insurance policies. – (i) Where a regular premium individual life policy is lapsed or surrendered during the first three policy years, then unless that policy is reinstated (in case of lapsation), the corporate insurance agent will not sell **any** new individual life policy to the same policyholder through the same insurer or through a different insurer within a year from the effective date of the policy acquiring lapsed or surrendered status.

(ii) Where a regular premium individual life policy is lapsed or surrendered after the *third* policy year, then unless that policy is reinstated or revived or the policyholder has separately consented to that effect, a corporate insurance agent will not sell a **similar** new individual life policy to the same policyholder through the same insurer or through a different insurer within a year from the effective date of the policy acquiring lapsed or surrendered status.

(g) After sale call by the insurer to all policyholders. – (i) The insurer shall make a structured telephonic call within the free look period to all policyholders to confirm their understanding of the product, appropriateness of the product considering the identified insurance needs and affordability of the product for the entire term.

The insurer will retain the record of such calls, preferably using interactive voice response system, for at least 5 years or maturity of the product whichever is earlier;

(ii) As an alternative to sub-clause (i) above, an insurer may integrate their after sale call scripts with the call back confirmation mechanism of the corporate insurance agent. However; the product specific scripts of such calls needs to be submitted to the Commission along with the agency agreement;

(iii) If a policyholder gives an adverse response, the insurer will return the premium to the policyholder within 30 days of such call.

11. Product-wise information of insurance business distributed through corporate insurance agent.–

The insurers are required to provide to the Commission on semi-annual basis product wise information for insurance business distributed through corporate insurance agent regarding following heads.

- (a) Gross written premium
- (b) Statement of premium for life insurance as given in financial statements
- (c) Premium net of reinsurance expense
- (d) No of lives covered
- (e) Total sum insured
- (f) Agent wise commission
- (g) Claims paid
- (h) Outstanding claims
- (i) Claims repudiated

PART II

SPECIAL REQUIREMENTS RELATING TO SALE OF INSURANCE THROUGH TECHNOLOGY BASED DISTRIBUTION CHANNELS

12. Provisions to be complied with when mobile network operator (MNO) or internet is involved in insurance distribution. – The distribution of insurance products through mobile network operator (MNO) or internet, will be governed by the provisions of this part. The MNO may, or may not be working in the capacity of agent.

13. Storage and safety of data. – The MNO or the broker may be entrusted with responsibility of data storage and management on behalf of the insurer. However, it is responsibility of insurer to ensure safety of policyholder data. The insurer will ensure that suitable mechanism, including the data backup system, is in place to store data and maintain its safety before delegation of this function to MNO or the broker.

14. File and use procedure for products distributed through mobile network operators (MNOs) and internet.

– (1) All life insurers are required to submit the details of the products as stipulated in sub-clause (2) which they intend to distribute through MNO, whether as loyalty or voluntary product, to the Commission at least thirty (30) days before the intended date of launch of that product as per “file and use” procedure.

(2) In addition to the existing product submission requirements for the life insurance products, the life insurers are required to submit the complete distribution plan with respective roles and responsibilities of each intermediary involved, the enrollment process and the premium payment mechanism. The information regarding responsibility of each party in respect of claim processing and complaints handling is also required to be submitted.

(3) The details of products which are already launched before the issuance of this directive are required to be submitted within 30 days of issuance of this directive. The life insurance products already approved by the Commission under existing “file and use” procedure are not required to be resubmitted.

15. Communication of all terms and conditions through mobile and internet. – (1) In addition to the product details submitted as required by clause 14 above, the life insurer is required to submit the manner and process to communicate all terms and conditions of policy to the policyholder through the chosen mode of communication whether through SMS, call or internet, or otherwise.

(2) The life and non-life insurer is required to ensure that the key facts such as sum assured/ policy benefits, premium amount, free look period, period of coverage and any other material fact, are communicated to the prospective policyholder before the offer to insurance contract is made. The detailed terms and conditions are required to be communicated to the policyholder after issuance of insurance policy and the onus of such communication as stated in this sub-clause lies on insurer.

(3) In case of loyalty products, insurer is required to ensure that mechanism is in place to make policyholder aware about coverage to which he is entitled, and manner of communicating complete terms and conditions to the policyholder is in place soon after he becomes entitled to the coverage.

16. Due Diligence requirements for policies sold through mobile network operators (MNOs) and internet. – (1) The non-life insurance, personal lines products and life insurance protection products sold through mobile and internet will be subject to Customer Due Diligence (CDD)/ Know Your Customer (KYC), for the purposes of compliance with the SRO 20(I)/ 2012 dated January 11, 2012, if the conditions given in sub-clause (a) and (b) are met.

(a) The products are simple with minimum exclusions and it is practically possible to communicate all policy terms to the policyholder through the chosen mode of communication, SMS, call, or internet.

(b) The premium is within the thresholds specified below.

Type of product	Annual Premium
Life insurance protection products (with no saving component)	up to Rs.50,000/-
Non-life insurance – personal lines	
Health insurance	

The premium limit will be revised on January 1 of each year based on the percentage increase in Consumer Price Index (CPI) for the immediately preceding calendar year. The aforementioned limit will apply on per policyholder and type of insurance coverage that has been obtained by the policyholder.

(2) For products which do not meet the aforementioned conditions stated in 1(a) and 1(b), the Enhanced Due Diligence requirements will apply as per clause 4(viii) of SRO 20(I)/ 2012 dated January 11, 2012.

(3) The Commission may revise the aforementioned conditions and thresholds from time to time.

17. Manner of exiting the agency agreement. – (1) In case of involvement of MNO in the distribution arrangement, whether in capacity of corporate insurance agent or otherwise, the insurer is required to clearly stipulate the roles and responsibilities of each party involved such as the insurer, insurance broker, MNO and Third Party Administrator (TPA), if any, in the agency agreement required to be submitted to the Commission under clause 3 of this directive.

(2) In case the MNO or broker intends to exit the agency agreement, it will continue to perform its role in policy administration cycle for the policies distributed during the time when he was part of distribution arrangement under the valid agency agreement.

(3) If MNO or insurance broker cannot continue to play its role due to an unavoidable reason, it is required to obtain approval of the Commission for exit of such MNO or insurance broker from policy administration cycle while submitting to the Commission the mechanism through which the existing policyholder will be informed about change of roles between the parties involved.

(4) If there's a change in roles of any of the parties involved, the policyholder will be communicated through effective and utmost effort will be made to ensure that this information has been effectively communicated to the policyholder.

Insurance Need Analysis of Mr. _____

Basic Information					
Name					
Address					
Telephone (Landline / Mobile)					
E-mail id					
Date of birth					
Marital status					
State of health	Excellent/Very good/Good/Moderate/Poor				
Smoker	Yes/No				
Family Details					
Number of dependents					
Details of dependents	1	2	3	4	5
Name					
Relationship					
Age					
State of Health (Excellent/Very Good/ Good/Moderate/Poor)					
Occupation					
Income if any					
Whether financially dependent					
Any scope of expansion of family	Yes/No				
Employment Details					
Occupation					
Length of service					
Annual Income					
Covered under pension scheme?					
Normal retirement age					
Financial Details					
Value of Savings and Assets					
Details of Liabilities/ Outstanding Loan					
Expected Inheritance					
Pension Details					
Employer's Scheme/Insurance					
Personal Contribution/Premium					
Retirement Age					
Anticipated Value					

Future Saving Needs						
For Education for Children						
For Wedding						
For House Purchase						
Others						
Existing Life Assurance Plans						
Company	Policy No.	Sum Assured	Premium	Start Date	Maturity Date	Purpose

Financial Priorities and Objectives	
What is more important for you? (Please number in order of priority)	
Financial Security for family in the event of death	
Financial Security in the event of Critical Illness	
Providing Retirement Income	
Planning for your children's education	
Planning for your children's wedding	
Building capital through regular saving	
Investing existing capital for better return	
Identified Insurance Needs	
Life Insurance (Death/Maturity)	
Desirable Sum Assured	
Health Insurance	
Desirable limit of coverage per annum	
Savings and Investment Planning	
Desirable returns per annum	
Pension planning	
Desirable pension per annum	
Any Additional Information	
Recommendation	
Life stage	Childhood/Young unmarried/Young married/ Young married with children/married with older children/post-family or pre-retirement/ retirement
Protection needs	Life & Health/Savings and Investment/Pension
Appetite for risk	Low/Medium/High
Policy recommended, including name of Insurer	
Commitment for the current/future years	
Whether all risk elements and details of charges to be incurred and all other obligations have been explained	
Why you think this policy is most suited prospect	

Agent's Certification

I/ We hereby certify that I/ we believe that the product/s recommended by me/ us is suitable for the prospect, based on the information submitted by him/ her, as recorded above.

Dated: _____

(Name and signature of agent)

Prospect's Acknowledgment

The above recommendation is based on the information provided by me. I have been explained about the features of the product and believe it would be suitable for me based on my insurance needs and financial objectives.

Dated: _____

(Signature of prospect)