Press Release

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For immediate release

SECP increases minimum paid-up capital requirement for insurers

ISLAMABAD: August 25: The Securities and Exchange Commission of Pakistan (SECP), with the approval of its Policy Board, has increased the minimum paid up capital requirement for insurance companies.

The Policy Board has approved an amendment to the Securities and Exchange Commission (Insurance) Rules, 2002 whereby the minimum paid up capital for both non-life and life insurance companies has been increased by an amount of Rs200 million.

A new rule 9 has been inserted in the said rules under which the baseline paid-up capital requirement for non-life and life insurance companies have been prescribed as Rs500 million and Rs700 million respectively. Further, the amount of minimum paid up capital will be net off any discount offered on issue of shares. These new capital requirements would be applied in a phased manner and the existing insurance companies would be allowed a period of two years, i.e. till December 31, 2017 to meet the said requirement.

At the time of enactment of the Insurance Ordinance, 2000, the minimum paid-up capital requirements for non-life and life insurance companies were Rs80 million and Rs150 million respectively. In the year 2007, the paid-up capital requirements for non-life and life insurance companies were increased to Rs300 million and 500 million respectively in a phased manner.

In 2012, the SECP formed an “Insurance Industry Reforms Committee” (IIRC) to evaluate the challenges faced by the insurance industry of Pakistan and also to recommend appropriate regulatory reforms that best suit the growth of the industry. The said committee, in addition to recommending few other amendments to the regulatory framework, also recommended increasing the minimum paid-up capital requirements for the insurance companies.

The paid-up capital has been increased to improve capacity of the local insurers to underwrite larger risks and retain sizeable share thereof. This would indirectly help to check outflow of the precious foreign exchange of the country that is going abroad in the shape of reinsurance premium. Moreover, an increase in the insurers’ paid-up capital would ultimately contribute towards better solvency position of the insurers. Capital serves to reduce the likelihood of failure due to significantly adverse losses incurred by the insurer over a defined period, including decreases in the value of the assets and/or increases in the obligations of the insurer, and to reduce the magnitude of losses to policyholders in the event that the insurer fails. From macro-economic perspective, requiring insurers to maintain adequate and appropriate capital enhances the safety and soundness of the insurance sector and the financial system as a whole.