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SECP issues Third Party Administrator for Health Insurance Regulations

KARACHI, March 13: The SECP has issued the Third Party Administrator (TPA) for Health Insurance Regulations, 2014, to develop the health insurance market in Pakistan. The TPA regulations provide a legal framework to address the registration, eligibility requirements, code of conduct and operational model for TPAs, fit and proper criteria for the senior management, and the written agreement between a TPA and an insurer.

The regulations have addressed consumer protection as well as market development aspects. The consumer protection aspects have been addressed through various requirements. For example, these regulations require that the compensation structure of TPA cannot be linked with the claim loss ratio. Similarly, introduction of a code of conduct for TPAs will ensure that TPAs will be functioning within the role envisioned in the new regulatory framework.

The market development aspects have been addressed through requiring an online health benefit system and not imposing a regulatory cap on the compensation of TPAs. The newly introduced regulations also clarify the role of TPA as an administrative service provider and not a risk carrier.

The health insurance market in Pakistan is in its infancy as compared with other subsectors within the insurance industry. The total health insurance premium stands at around Rs. 3.6 billion, which is 2.5% of the total insurance premium in 2012. Insurance companies in Pakistan are experiencing higher management expenses due to lack of necessary infrastructure and required business volume.

The TPAs are considered a cost-effective solution for the insurance companies enabling them to offer innovative health insurance products with significantly improved service. A TPA is an entity that processes medical insurance claims for insurance companies and self-funded pools, and can also be regarded as a form of ‘outsourcing’ for insurance companies for farming out certain tasks and administration activities which are not part of their core

Shakil Ahmad Chaudhary
Joint Director, Media and Corporate Communications Department
Securities and Exchange Commission of Pakistan
6th Floor, NIC Building, 63 Jinnah Avenue, Islamabad
Tel: 921-4005 or 921-4009 ext. 378
Cell: 0302-855-2254
shakil.chaudhary@secp.gov.pk

competencies. While the insured is benefited by quicker and better service, insurers benefit by reduction in their administrative costs, fraudulent claims and ultimately bringing down the claim ratio.

The concept of the TPA has been introduced around the world in the insurance industry for the benefit of both the policyholders and the insurer. For example, the Insurance Regulatory and Development Authority (IRDA), the Indian insurance regulator, had issued such regulations in 2001. In the US, the National Association of Insurance Commissioners (NAIC) adopted the Model Law for TPAs in 1977.

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