

Mar 12, 2002

SEC Issues Show-cause Notices to 19 Insurance Companies Failing to Implement Provisions of the Insurance Ordinance 2000 Pertaining to Adequate and Sound Reinsurance Arrangements

The Securities and Exchange Commission of Pakistan (SEC) has issued show-cause notices to 19 insurance companies operating in Pakistan, who have failed to implement the statutory provisions of the Insurance Ordinance, 2000 for ensuring adequate and sound reinsurance arrangements despite repeated reminders from the SEC. The Commission will, in light of their response, finally decide whether to revoke their registration certificate or to direct them to cease underwriting new insurance business in the country.

Out of 48 insurance companies operating in Pakistan, 29 have fulfilled the requirement. Twenty-four companies have succeeded in making reinsurance arrangements with international re-insurers who are rated “A” and above, and 5 insurance companies with those who are rated “BBB” by the international rating agencies. Almost 83% of the insurance business in the country is with these 29 companies and the Commission feels that these can largely and satisfactorily serve the interest of the clients in Pakistan. Out of the remaining 19 insurance companies, 6 have failed to obtain/make reinsurance arrangements for the current year while 13 have provided evidence of the reinsurance arrangements made by them but their re-insurers are neither of sound financial standing nor have they been awarded any rating by the international rating agencies.

As a regulator, the SEC has taken several measures to protect the interest of the insured.

Whenever there is a complaint against an insurer by the insured for non payment of claim, the investigations have revealed that the company’s unwillingness or inability to pay the claim, has been due to lack of sufficient/sound reinsurance arrangements. Thus to ensure protection of interests of policyholders and to enhance the capacity of the local industry to honour claims made on it, SEC issued a directive in October 2001 to all the insurance companies operating in Pakistan to make adequate and sound reinsurance arrangements and to furnish proofs thereof to the Commission. In this connection, the insurance companies were further advised that only those reinsurance arrangements would be acceptable to the Commission which have been made with the foreign re-insurers of sound financial standing, duly rated “A” Class by reputable international rating agencies.