State of Competition in the Key Markets with Significant SOE's Presence in Pakistan

Insurance Industry

(Research Department)
Competition Commission of Pakistan

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Kishwar Khan (DG, Research), kkhan@cc.gov.pk

COMPETITION COMMISSION OF PAKISTAN
55-B, ISE Tower, 7th Floor, Islamabad. Ph: 051-9100249

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Foreword

This comprehensive Competition Assessment Report delves into the intricate landscape of Pakistan's Insurance Industry, unveiling the structural, regulatory, and strategic barriers that impede fair competition, growth and efficiency.

This Report draws on the World Bank Group's Market and Competition Policy Assessment Toolkit (MCPAT). This framework provides for a review of market characteristics and regulatory frameworks and their effectiveness in promoting functioning markets that could deliver competitive outcomes and a more efficient resource allocation. In this report, we scrutinize the dominant role played by State-Owned Enterprises (SOEs), and the preferential treatment they receive from the government. Such favoritism distorts the competitive balance, creating an uneven playing field for private sector players and hinders innovation and consumer choice.

The insurance industry provides a safety net to the economy, accounting for more than 7 percent of the global economy Howeer, Pakistan's insurance penetration accounts for less than one percent of the GDP. The insurance industry is the only component of the financial sector, which is still dominated by the SOEs. The analysis presented here underscores the urgent need for regulatory reforms that foster a level playing field, ensuring that all market participants can compete on equal terms. By addressing these issues, we aim to pave the way for a more robust and dynamic insurance industry that can better serve the needs of Pakistan's citizens and businesses.

Our findings highlight the importance of dismantling structural barriers that restrict market entry and expansion, and of revisiting strategic policies that perpetuate inefficiencies. By promoting a fair and competitive environment, we can unlock the full potential of Pakistan's insurance industry, which is facing a myriad of competition-related challenges.

We extend our gratitude to all stakeholders, who contributed their insights and expertise to this study. Their valuable input has been instrumental in shaping a comprehensive understanding of the challenges and opportunities within the industry.

We hope this report serves as a catalyst for meaningful dialogue and actionable reforms, guiding policymakers, industry stakeholders, and regulatory bodies towards a more equitable and prosperous future for Pakistan's insurance industry.

Dr. Kabir Ahmed Sidhu
Chairman
Competition Commission of Pakistan

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List of Acronyms

Acronym	Description
AEC	ASEAN Economic Community
CCI	Competition Commission of India
CCP	Competition Commission of Pakistan
CIO	Council for Insurance Ombudsmen
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EU	European Union
EVFTA	European Union-Vietnam Free Trade Agreement
FCA	Financial Conduct Authority
FIO	Federal Insurance Ombudsman
FMC	Federal Ministry of Commerce
GIC	General Insurance Corporation
GPW	Gross Premium Written
HHI	Herfindahl Hirschman Index
IRDA	Insurance Regulatory and Development Authority
LOIB	Law on Insurance Business
MOF	Ministry of Finance
MTP	Market Third Party
NCS	National Coinsurance Scheme
NIC	National Insurance Corporation
NICL	National Insurance Company Limited
NIF	National Insurance Fund
PFRDA	Pension Fund Regulatory and Development Authority
PRA	Prudential Regulatory Authority
PRCL	Pakistan Reinsurance Company Limited
SEBI	Securities and Exchange Board of India
SECP	Securities & Exchange Commission of Pakistan
SLIC	State Life Insurance Corporation of Pakistan
SOEs	State Owned Enterprises
UK	United Kingdom
VCA	Vietnam Competition Authority
WTO	World Trade Organization

Executive Summary

The International Monetary Fund's (IMF) '*Public Investment Management Assessment (PIMA) Report',* 2023 *inter alia*, recommends implementing the *'State Owned Enterprises (SOEs) Triage: Reforms and Way Forward" Report*, 2021, which was prepared under an extensive collaboration and consultative work among the *Ministry of Finance, IMF, the World Bank and the Asian Development Bank (ADB).* The SOEs Triage Report refers to a comprehensive review of existing SOEs' portfolio for the purpose of their categorization for retention, privatization and liquidation initiated in November 2019, as a part of the IMF Extended Fund Facility 2019-22 structural benchmark. IMF's PIMA Report recommends preparing reports on the state of competition in the key markets with significant SOEs presence in Pakistan. These key markets include the Insurance Industry, as a sub-sector of the financial sector. This Report examines the state of competition in Pakistan's Insurance Industry, characterized by a significant presence of the State-Owned Enterprises (SOEs). The analysis covers the regulatory framework, market structure, and the barriers to competition, offering strategic recommendations to foster a more competitive environment in the industry.

Introduction: The insurance industry plays a crucial role in the economic and social development by reducing uncertainty and risk for economic agents, thus promotes investment and trade, and fosters long-term savings. The global insurance industry has seen rapid growth over the decades. However, the insurance industry in Pakistan is lagging far behind its regional counterparts. Multiple factors are hindering the growth of the industry in the country which, can be attributed to cultural, historical and regulatory elements. Nationalization of life insurance industry in 1972 led to monopolization in the life insurance. Despite liberalization of the industry in 1991, the market dynamics did not change substantially. The insurance industry is the only sub-sector of the financial sector, which is still heavily dominated by state owned entities. Additionally, the government's support to SOEs has resulted in non-level playing field for the private sector.

Market structure and SOEs: There are a total 42 insurance providers in Pakistan. Among these, there are 28 non-life insurance service providers, 2 provide general takaful, 8 provide life insurance, 3 provide family takaful, and there is one reinsurance service provider. From the aforementioned, there are four SOEs: two in life insurance i.e., State Life Insurance Corporation (SLIC) and Postal Life Insurance Company Ltd. In the general insurance category, the National Insurance Company Ltd. (NICL) is the only provider of insurance services. Whereas Pakistan Reinsurance Company Ltd. (PRCL) is the only incorporated reinsurance company in Pakistan. These SOEs possess significant market shares in their specific categories, for instance, SLIC has 55 percent share in life insurance, NICL occupies 100 percent share in the public property insurance, though it has 17.5 percent share in the general insurance. The PRCL has about 25-27 percent share in the reinsurance market. The SOEs have significant market shares in certain segments are indicative of the fact that the existence of the SOEs significantly affect the market competition.

Regulatory Framework: The Ministry of Commerce remains the line ministry for insurance as a subject. In 2000, the promulgation of the Insurance Ordinance 2000, led the foundation for the development of the insurance industry. Accordingly, the regulatory oversight of the industry was transferred to the Securities and Exchange Commission of Pakistan (SECP). The SECP introduced multiple regulations to improve the performance and profile of the industry and prescribed comprehensive regulations and rules for the industry.

Competition Concerns Emanating from the Regulatory Framework: The industry is marred with competition vulnerabilities, which erect barriers for new market entry. The main competition concerns and the relevant recommendations are described below.

Restriction on Procuring Facultative Reinsurance outside Pakistan: Rule 18(1) of the Insurance Rules, 2017 mandates that no insurer may purchase facultative reinsurance for any insurance business underwritten in Pakistan outside the country without obtaining permission from the SECP. All the insurers are thus required to procure facultative reinsurance from inside Pakistan. Once the local capacity is utilized then insurers are allowed to procure facultative reinsurance from outside Pakistan. The restriction on procuring facultative reinsurance from outside Pakistan creates a barrier for domestic insurers intending to procure facultative reinsurance from foreign players. Although, such a restriction helps in managing the outflow of foreign exchange but it distorts competition. The reason being that the domestic service providers operate in a restrictive environment, having less incentive to innovate and offer better services. Therefore, to improve competition and choices in the reinsurance market, it is recommended that Rule 18 of the Insurance Rules, 2017 may be amended by the SECP. This would allow the insurers to freely choose between domestic or foreign reinsurers.

PRCL Receives Statutory Reinsurance in Non-Life Treaty Insurance: Under Section 41 of the Insurance Ordinance 2000, all the insurers are required to cover their risk by reinsurance. Section 42 of the Insurance Ordinance, 2000, directs that every insurer shall offer to reinsure with PRCL a certain proportion of its direct non-life insurance business. Further, the SRO 771 (1)/2007 of the Ministry of Commerce grants PRCL to have at least 35% of the treaty reinsurance from insurance companies operating in Pakistan. Thus, PRCL benefits from the regulatory support of the Government of Pakistan. PRCL has the ‘exclusive first right of refusal' to acquire at least 35% of the reinsurance business from insurers operating in Pakistan. This policy gives PRCL the first option to select its preferred reinsurance business, and excludes other reinsurance providers from that 35% of the reinsurance market. Eliminating this requirement would increase competition in the reinsurance market, potentially boosting foreign investment and fostering innovation. Therefore, the government may consider amending the SRO 771 (1)/2007 of the Ministry of Commerce to promote competition.

Foreclosure of Public Property Insurance for Private Sector under the Insurance Ordinance 2000: Section 166 (3) of the Insurance Ordinance, 2000 grants NICL exclusive rights to underwrite and insure public sector firms, their assets, and properties. Therefore, no other entity can insure any public property unless granted permission by the government. These exclusive rights close the entry of other entities in this market segment, which hampers competition. Therefore, it is recommended to remove this barrier and open the market of public property insurance for free competition. This will enhance market efficiency.

Government-backed Monopoly of State Life Insurance in Life Insurance Market: The Federal government provides security to the policies issued by State Life Insurance. The government's guarantee is granted under Section 35 of the Life Insurance (Nationalization) Order 1972. Although, the life insurance market is liberalized, however SLIC continues to enjoy this guarantee. SLIC uses this guarantee as a marketing tool, which provides it a competitive edge over others. While such guarantee by the government can distort the level playing field for other players, having a monopoly in the industry, SLIC may also abuse its dominance Therefore, it is recommended that this preferential treatment to the SLIC be abolished to create a level playing field for all players, where they may compete based on their services. Instead of sovereign guarantee, the Pakistani insurance market may follow an international best practice for transition towards an Insurance Guarantee Scheme (IGS), as operational in several other countries. This will not only reduce the government's fiscal burden but also bring efficiency and innovation in the insurance industry.

Anticompetitive Behavior of Banks in Bancassurance (*Banca*): Insurance providers use banking channels to sell their products. Sometimes, banks impose additional internal limits on the amount of business, insurance companies can conduct through them. This practice hampers competition, as insurers, despite complying with the regulatory requirements of the SECP, are restricted from doing business beyond a certain point. This behavior by banks constitutes a refusal to deal and contradicts the spirit of competition. Therefore, it is recommended that appropriate guidelines to the banks may be issued by SBP to prevent the restrictive practice.

Mis-selling and Deceptive Sales Tactics under Bancassurance/ Bancatakaful: Banks usually have large clientage, which the insurance provider targets. The banks sell insurance products to its customers on behalf of the insurance company. The bank/insurer staff do not properly guide the customers about the details of the insurance products, and the terms and conditions applicable. At times the information is in fine print that misleads and exploits the vulnerable customer. A policy holder can lodge his/her complaint with the insurance company as prescribed under Rule 33 'Conduct of agents and insurer' of the Insurance Rules, 2017. However, in case the customer grievance is not addressed, he can then lodge a complaint with the Federal Insurance Ombudsman (FIO). Determining who should be held legally accountable in the cases of consumer complaints is a challenge. It is recommended that strict regulations are made to ensure bancassurance carry genuine benefits for the customer, and misleading sales practices are not used to sell insurance, and the insurance terms & conditions are clearly laid out in the insurance brochures. In cases of disputes, mis-selling, or breach of agreement, it is further recommended that the jurisdictional conflict between the Insurance Ombudsman and the Banking Ombudsman is resolved through better coordination and clear working boundaries.

Limited Jurisdiction of Federal Insurance Ombudsman (FIO): The FIO is a specialized institution that aims to develop a sound oversight mechanism for the malpractices in the insurance industry, and to provide protection to the policy holders. While FIO is created under the Insurance Ordinance and it should have mandate over all life and non-life insurance companies (private or public) operating in Pakistan. However, the jurisdiction of the FIO has been restricted to only the private sector insurance companies, while the jurisdiction over the government owned insurance companies (SLIC and Postal Life) remains with the Wafaqi Mohtasib. While on the one hand this jurisdictional issue between FIO and Wafaqi Mohtasib leads to confusion among the policyholders about where to file a complaint regarding insurance. On the other hand, the vast jurisdiction of the later results in filing of huge number of complaints and long time for disposal of the cases creating a barrier for the insurance sector's growth and penetration. It is recommended that since FIO is created with the specialized mandate to resolve disputes between the insurance companies and the policyholders, therefore it may cover all insurance companies, whether public or private operating in Pakistan. A single ombudsman may streamline the complaint resolution process and ensure that there is a consistent approach to handling issues across the country.

Non-Implementation of Motor Third Party (MTP) Insurance: Section 94 of the Motor Vehicles Act, 1939 makes it obligatory for every motor coming on road in public place to have third party insurance. However, presently, the motor vehicle insurance is very low, as only 3% of the motors are insured. The reasons being a lack of awareness of the law, non-availability of a mechanism for verification of third-party insurance by the traffic police, lack of centralized database, and allegedly complicated procedure with low compensation. Implementation of MTP insurance can have significant benefits for both individuals and society as a whole. For Pakistan MTP insurance is of critical importance not only to reduce the number of road accidents, encourage responsible driving, protection for accident victims, but also to reduce government's financial burden, for market development of the auto insurance, increased insurance penetration and higher government revenue. While public awareness campaigns may be initiated to create awareness about MTP insurance, the law enforcement agencies may also be directed by the provincial governments to ensure compliance of said regulation. The SECP may also take concrete steps to encourage MTP insurance.

Issues in Applicable Sales Tax on Insurance and Reinsurance Services: The provincial governments levy sales tax on services in their respective jurisdictions. While the provincial sales tax on insurance premium is paid by the policy holder, the provincial sales tax on reinsurance premium is paid by the insurer, as excess risk is transferred to the reinsurer. At the reinsurance stage, the same insurance premium collected by the insurer is subject to sales tax for procuring reinsurance services. This creates a tax anomaly as sales tax is levied on already taxed premium. Further, sales tax is applicable on reinsurance even when exempted on life and health insurance and some general insurance. The taxation anomalies thus increase the cost of doing business, create a tax burden on the insurance industry at reinsurance stage, and act as an entry and efficiency barrier. It is, therefore, proposed that the provincial governments may consider amending the respective sales tax laws and may exempt reinsurance sector from sales tax. The SECP has also proposed the provincial governments to exempt reinsurance industry from the sales tax. It is noted that the Goods and Services Tax (GST) Council in India has also given exemption to coinsurance, reinsurance, life, health, crop, livestock insurance among others from sales tax. Pakistan may follow this example to enhance business and competition. However, in case the reinsurance premium is exempted from the sales tax, SECP will have to strictly monitor the insurance companies ensuring that the benefit is passed on to the end consumers in the form of lower premium.

Federal Insurance Fee on Non-Life Insurance: In 1989, the Government of Pakistan imposed a Federal Insurance Fee of 1% on the premium of non-life insurance policies. The industry was initially assured that this fee would be used to raise awareness about insurance in the country. However, the fee has not been used for this purpose, and instead adds an extra cost for non-life insurers. In 2019, the SECP proposed Ministry of Finance to withdraw this fee, but it remains in effect. It is recommended that the said fee may be withdrawn to reduce transaction cost.

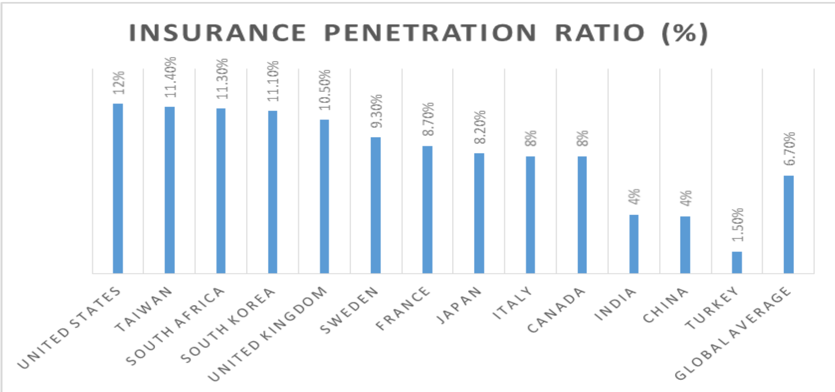
CHAPTER 1 - INTRODUCTION

1. The insurance industry plays an important role in economic and social development. It reduces uncertainty for economic agents, facilitates investment and trade and increases long term savings. Additionally, the insurance industry contributes to the development of other financial institutions and markets, thereby indirectly promoting economic progress. As financial intermediary, the insurance industry provides instruments to finance corporate investments.[1] From the perspective of businesses, insurance helps in investment related decision making and allows businesses to continue operating even amidst hardships. It also promotes social inclusion by covering the most vulnerable groups including the disabled, unemployed youth, women, and the elderly population.[2] To the households, insurance provides peace of mind during job or income loss. The households are protected in unforeseen incidence such as fire, illness, theft, accident, and death etc.3

2. The global insurance market stands at a premium volume of $7 trillion, with a growth rate of 1.1% in 2023.[4] The majority of the world's insurance businesses are located in North America and Europe. During 2021-22 period, the world's largest insurance markets by premium volumes include United States, with a global insurance market share of 40.3%, followed by China 10.3% and the UK 5.5%.[5]

3. Insurance sector development is measured through the net premiums, insurance penetration, and insurance density of a country. The Insurance Penetration Ratio is defined as the ratio of the total insurance premium to the GDP. Whereas the insurance density is the ratio of the total insurance premiums collected in a country by its population.

Figure 1: Insurance Penetration Ratio in Selected Countries - 2022

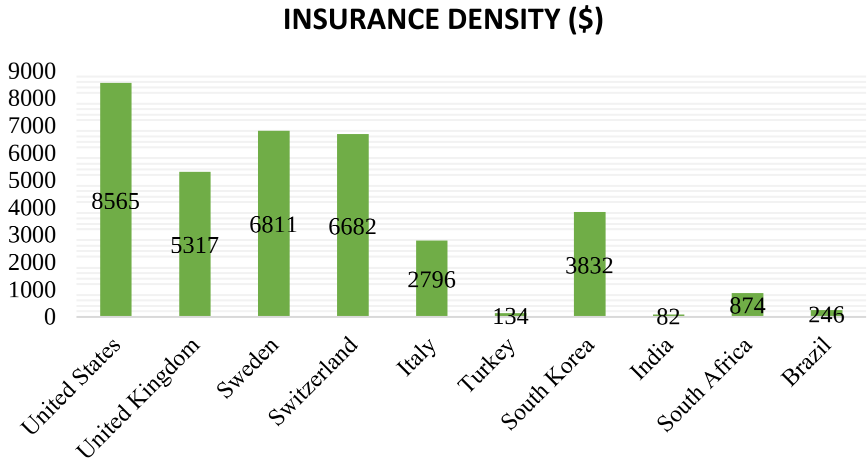


Source: Statista

[1] https://elibrary.worldbank.org/doi/epdf/10.1596/1813-9450-5572
[2] https://openknowledge.worldbank.org/entities/publication/900a24d2-74f0-5371-b224-995227e6f981
[3] The Islamic form of insurance is 'Takaful', see Annex-IV for details
[4] https://www.swissre.com/institute/research/sigma-research/sigma-2023-03/5-charts-wold-insurance-2023.html
[5] https://www.swissre.com/institute/research/sigma-research/sigma-2023-03/5-charts-wold-insurance-2023.html

4. The above figure shows the insurance penetration ratio of the top-ranking countries and a selected few other regional markets. According to the data, in 2022, the United States had the highest insurance penetration ratio of 12%, followed by Taiwan with 11.4% and South Africa with 11.3%.

Figure 2: Insurance Density in Selected Countries - 2021



Source: https://stats.oecd.org/Index.aspx?QueryId=25445

5. According to the data presented above, the United States tops in insurance density i.e. per capita expenditure on insurance with $8,565 followed by the European Union. Turkey has $134 and India has insurance density of $82.[6]

1.1 Overview of Insurance Industry in Pakistan

6. While, the insurance industry provides a safety net to the economy and accounts for more than 7 percent of the global economy, Pakistan's insurance penetration stood at 0.87% of the GDP in 2022. In comparison, the insurance penetration in regional countries such as India and China stood at 4% of the GDP. The insurance density also presents a similar picture as insurance density of Pakistan was Rs. 2,776 (US$14) in 2022[7], compared to India's insurance density of $82 and Turkey's $134. While the sector contributed a total of Rs. 34.3 billion to the GDP in 2022, this contribution was less than 1 percent of the country's GDP. In comparison, in 2022 India's insurance sector contributed 2.6 percent to the GDP. Among the population of over 240 million, only 7.8 million policies have been sold by insurers in the industry.[8]

[6] https://stats.oecd.org/Index.aspx?QueryId=25445

[7] SECP. (2022). Insurance Industry Statistics. https://www.secp.gov.pk/document/insurance-industry-statistics-2022/?wpdmdl=49286&refresh=663cb68216f6b1715254914

[8] https://www.secp.gov.pk/document/insurance-industry-statistics-2022/?wpdmdl=49286&refresh=667d135dc4f631719472989

7. Insurance is an important sub sector of the financial sector. In Pakistan, the financial sector comprises of banks, microfinance banks (MFBs), Development Finance Institutions (DFIs), Non-Bank Financial Institutions (NBFIs), Insurance companies and Central Directorate of National Savings (CDNS). The table below shows the percentage share of these sub sectors in the total financial sector assets.

Table 1: Assets Composition of the Financial Sector (% Share) CY2021-2023

Sub Sectors	2021	2022	2023
Banks	76.6	77.0	78.5
MFBs	1.5	1.6	1.3
DFIs	1.4	3.1	4.0
NBFIs	5.2	5.5	5.8
Insurance	5.5	5.5	5.0
CDNS	9.9	7.3	5.4

Source: SBP Financial Stability Review, 2023

8. From the table, it appears that banks (Conventional and Islamic) constitute the greatest share in the total financial sector assets. In CY2023, banks constituted 78.5% of the total financial sector assets, followed by NBFIs, which held a 5.8% share. The insurance sector held a 5% share, higher than DFIs, which held 4%, and MFBs, which held 1.3% share.

9. The insurance industry in Pakistan is divided into two major categories: conventional insurance and Takaful. Both categories are further divided into two sub-categories: Life insurance, and Non-Life insurance. Health insurance, on the other hand, can be sub-classified under both life and non-life insurance. To spread the risk, reinsurance activities are also carried out in Pakistan. Insurance industry provides several types of coverage: fire, motor, marine, aviation, travel, health, life, personal accident and misc. Both individuals and corporate sector procure life and non-life insurance. Generally, the life insurance industry in Pakistan focuses more on personal lines of selling, whereas, the orientation of non-life insurance is more towards corporate lines of business. In the last five-years, the growth rate of the industry has remained between 15-20% annually.[9]

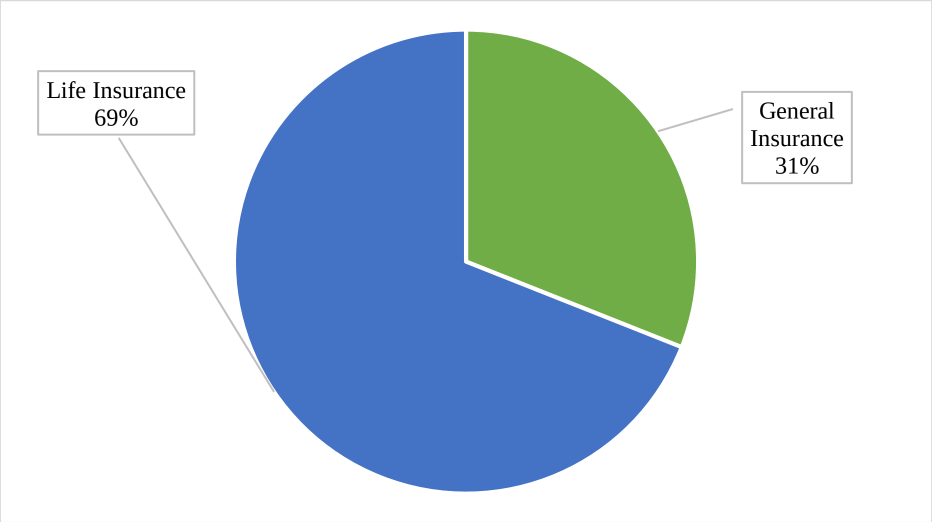
10. Pakistan has a total of 42 insurance providers. Among these, 28 offer non-life insurance services, 2 provide general takaful, 8 provide life insurance, 3 offer family takaful, and one public sector company provides reinsurance services.[10] In 2022, the total assets of these insurers amounted to Rs. 2,421 billion, with a gross premium of Rs. 553 billion. The industry also paid out claims totaling Rs. 276 billion during same period. Additionally, the insurance sector directly employs over 21,000 people, with around 199,000 sales agents working in the sector.

[9] https://www.qurtuba.edu.pk/jms/default_files/JMS/special_edition/EIM/05%20(AIC-EIM%202017)%2053-74%20Zubair%20Ali.pdf

[10] SECP. (2022). Insurance Industry Statistics. https://www.secp.gov.pk/document/insurance-industry-statistics-2022/?wpdmdl=49286&refresh=663cb68216f6b1715254914

11. The life insurance sector dominates the insurance industry. The share of life insurance in the total insurance industry (excluding reinsurance) in terms of Gross Written Premium (GPW) is 69 percent. However, when the GPW of reinsurance is also included, the shares of life insurance, non-life insurance, and reinsurance are 66 percent, 30 percent, and 4 percent respectively.[11]

Figure 3: Share of Life and Non-Life Insurance in Total Insurance, 2023



Source: Life Insurance Report, Non-Life Insurance Report PACRA

12. The size of the insurance industry is influenced by the nature of the insurance market, the regulatory framework, the level of financial sector development, the presence of state-owned enterprises (SOEs), the behavior of dominant players, and the government support available to certain players. In Pakistan, about 61 percent of the population lives[12] in rural areas, with low per capita income, which hindered the industry from generating demand for its services. Below is a brief historical background of the industry to provide a better understanding of its current dynamics.

1.2 Historical Background of Insurance in Pakistan

13. In the early years after independence, the insurance industry in Pakistan was dominated by the British insurance companies, which established operations during the colonial period. There were 5 domestic and 77 foreign insurance companies.[13] These companies provided insurance coverage for marine, fire, and life risks. The Insurance Act 1938 provided a regulatory environment for these companies. The Act subsequently underwent several amendments. In 1948, the government established the Department of Insurance in under the Ministry of Commerce to oversee the insurance sector and safeguard policy holders.

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[11] Excluding the GWP of NICL
[12] https://www.pbs.gov.pk/sites/default/files/population/2023/Pakistan.pdf
[13] https://www.sbp.org.pk/publications/FSA-2003/Chapter_5.pdf

14. As the demand for insurance grew, so did the necessity for a reinsurance entity. This served a dual purpose: it spread the risk for insurance companies and reduced the need for foreign exchange spent on reinsurance services abroad. The Pakistan Insurance Corporation was established in 1952 under the PIC Act of the same year.[14] In 1955, the National Coinsurance Scheme (NCS) was introduced to foster an insurance culture, provide financial support to smaller insurance firms, oversee government insurance expenditures, and streamline claims settlement involving governmental entities.[15] The economic boom of the 1960s catalyzed the expansion of the insurance industry, with the number of Pakistani insurance companies increasing from 26 in the early 1960s to 47 by 1971. Consequent to political upheaval and the separation of East Pakistan, the presence of foreign insurance companies declined from 77 in 1947 to 25 in 1972. Life Insurance Management Board was established to run the affairs of companies. When the business of life insurance was nationalized in 1972, the State Life Insurance Company (SLIC) was established by consolidating 32 nationalized companies.[16]

15. In 1973, NCS was replaced with National Insurance Fund (NIF) to oversee the insurance of government property.[17] Later in 1976, the NIF was converted into National Insurance Corporation (NIC), which became the sole insurer of public property. The status of NIC was changed to National Insurance Company Limited (NICL) in 2001 to operate under the Insurance Ordinance 2000.

16. The financial sector was liberalized in the early 1990s and the life insurance industry also witnessed investment by private sector.[18] Till 2000, the insurance industry came under the regulation of Ministry of Commerce. During this period, the private sector insurers suffered from operational inefficiencies, lack of professionalism and low ethical standards. Whereas the public sector insurance companies enjoyed their privileged status and captive business. Afterwards, the Insurance Ordinance 2000 repealed the Insurance Act 1938.[19] The new ordinance provided a comprehensive regulatory framework for the insurance industry. The Securities and Exchange Commission of Pakistan (SECP) was made responsible to supervise the insurance industry in 2001.

17. SECP introduced multiple regulations to strengthen and maintain an effective regulatory environment for insurance industry. Though, the industry has been liberalized but there exist the traces of nationalization in the shape of existence of four SOEs that dominate the industry and enjoy the state support.

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[14] https://www.pakre.org.pk/ms/images/pdf/Accounts/Pak-Re%20(Annual%20Report%202009).pdf
[15] https://cc.gov.pk/assets/images/policy_notes/policy_note_statutory_monopoly_of_nicl_in_non_life_insurance_sector_18_may_2015.pdf
[16] https://www.statelife.com.pk/index.php/corporate-profile
[17] https://nicl.com.pk/our-heritage-2/.
[18] https://www.sbp.org.pk/publications/FSA/2005/Chapter_6.pdf
[19] https://www.secp.gov.pk/wp-content/uploads/2016/05/nl_nov_08.pdf

1.3 Rationale of the Study

18. The International Monetary Fund (IMF) 'Public Investment Management Assessment (PIMA) Report', 2023 *inter alia*, recommends implementing the 'State Owned Enterprises (SOEs) Triage: Reforms and Way Forward" Report, 2021 which was prepared under an extensive collaboration and consultative work among the Ministry of Finance, IMF, the World Bank and the Asian Development Bank (ADB). The SOEs Triage report refers to a comprehensive review of existing SOEs portfolio for the purpose of their categorization for retention, privatization and liquidation initiated in November 2019 as a part of IMF EFF 2019-22 structural benchmark. IMF's PIMA report recommends to prepare reports on the state of competition in key markets with significant SOEs presence in Pakistan. In line with IMF's PIMA Report, the Ministry of Finance identified the key markets as: Finance, Infrastructure, Transport & Communication, Oil & Gas, and Power. This Report covers the state of competition in the sub-sector of the financial sector i.e., insurance sector.

1.4 Objective of the Study

19. The main objective of this study is to evaluate the level of competition in Pakistan's insurance industry, paying special attention to the functions and impact of the SOEs. To conduct this analysis, the current regulatory framework will be examined to identify any competition concerns, barriers, or business practices that may prevent market competition. The study offers recommendations for legislative changes and regulatory reforms for a more open and competitive insurance market. The recommendations aim to streamline market entry, mitigate monopolistic tendencies, and harmonize Pakistan's insurance industry with the global best practices. Hence, improving the industry's efficiency and positive economic impact on the country, much in line with the objectives of the PIMA Report.

20. The insurance industry plays a key role in the financial sector of the economy. It provides cover from financial risk, generates capital, and serves as an institutional investor in the money market. However, Pakistan's insurance market has yet to achieve its potential. In this context, it is imperative to examine and identify any anti-competitive practices and the key barriers to competition faced by the industry. Given the above, the objectives of this study are:

    i. To present a profile of the industry in Pakistan, and to review the market dynamics while focusing on the SOEs and their potential impact on competition
    ii. Review the regulatory framework governing the industry
    iii. Review Insurance industry's performance/policies in other jurisdictions
    iv. Re-conceptualizing the insurance industry
    v. Examination and identification of the barriers to competition in the insurance market
    vi. To provide recommendations to promote competition in the insurance industry of Pakistan.

1.4.1 Research Design

21. The World Bank Group's Markets and Competition Policy Assessment Toolkit (MCPAT) helps identify reform areas that need attention to promote competition. To better understand the competition dynamics within Pakistan's insurance market, this study uses case study-based exploratory research design. Special emphasis will be placed on the functioning and the impact of SOEs on competition. Accordingly, a thorough examination of the regulatory framework and market structure has been conducted, for an assessment of the competitive environment in the industry.

1.4.2 Data Collection

22. *Documentary Research:* The secondary research has been conducted by reviewing the literature, including publications of the State Bank of Pakistan (SBP), SECP, and Pakistan Economic Survey. The data was also extracted from the published reports of Insurance Association of Pakistan, PACRA, VIS Credit Rating Company Limited, news reports, articles and research journals. Available literature on the best practices in other jurisdiction form an integral part of the analysis.

23. *Interaction with the Stakeholders:* The primary research was conducted by in depth interviews and discussions with the stakeholders and industry experts from the SECP, Privatization Commission, Federal Insurance Ombudsman (FIO), Insurance Association of Pakistan, and Pakistan Reinsurance Co. Limited (PRCL)/SOE. Meeting was also held to deliberate upon the state of SOEs, with the officials from the Central Monitoring Unit, working under the Finance Division. Besides the above, the Finance Division formed a Working Group, which held periodic meetings to review and give comments on the Report at its various stages (Annex-I). Furthermore, in-depth interviews of independent industry experts were also conducted. In all the meetings, consultative sessions and discussions, customized un-structured open ended questionnaires were used. Apart from the mentioned efforts, a sample survey was conducted covering consumers and a number of insurance companies operating in Pakistan, to get their views regarding the competition issues. The primary research aimed to gather mainly the undocumented information about the regulatory and competition concerns facing the insurance industry in Pakistan, as well as to be better informed about the state of the industry.

1.4.3 Ethical Considerations

24. The principle of confidentiality has been applied to every interview and questionnaires sent to the market players. This ethical consideration attempts to avoid any conflicts of interest, especially *involving* stakeholders such as the regulator, regulatees and market competitors. This confidentiality provided the necessary confidence to the stakeholders to share the practical issues more openly.

1.4.4 Limitations

25. The study does not cover the role of the market intermediaries such as the brokers and agents in the insurance and reinsurance segments, although the regulatory aspect of both has been covered. Also, the reinsurance of the life and non-life insurance segments, outside of Pakistan has not been covered. Additionally, the study does not discuss targeted insurance schemes.[20] Though a sample survey was conducted but due to limited resources and time constraint, a thorough survey of the market players and consumers could not be conducted.

[20] These include Universal Health Insurance Program in the country, government led insurance schemes such as the Crop Loan Insurance Scheme, Livestock Insurance Scheme for Borrowers, and the Punjab Fasal Beema Scheme.

CHAPTER 2 – REVIEW OF INSURANCE INDUSTRY IN SELECTED INTERNATIONAL JURISDICTIONS

26. Reviewing the insurance sectors of international jurisdictions offers valuable insights into how various markets operate, the challenges they face, and the opportunities for growth and improvement. Three diverse insurance industries: the United Kingdom (UK), India, and Vietnam are reviewed. Each of the three jurisdictions discussed below have their own set of regulatory framework, market dynamics and competition challenges. This comparative analysis is to help identify best practices, potential areas for improvement, and growth opportunities for the Pakistani insurance industry. The lessons learnt can help in proposing recommendations for a more competitive and efficient insurance industry.

2.1 Insurance Industry in International Jurisdictions and Anti-Competition Cases

2.1.1 Insurance Market of the United Kingdom

27. The UK's insurance market is the largest in the Europe and the third largest in the world. The total value of gross insurance premiums covered by the UK life and non-life insurers has reached US$ 248 billion in 2022.[21] Currently, the London market is the global center for commercial and specialty insurance risks. The three largest life and health insurance companies in the Europe (by market value) are the UK firms.[22]

28. Solvency II is the prudential regime for insurance and reinsurance undertakings in the EU. It entered into force in January 2016.[23] Solvency II sets out requirements applicable to insurance and reinsurance companies in the EU with the aim to ensure adequate protection of policyholders and beneficiaries. The Prudential Regulatory Authority (PRA) implements Solvency II.[24] The PRA is part of the 'twin-peaks' regulatory system set up by the Government in 2013 in response to the financial crisis. It has a prudential supervision duty, and requires the insurers to operate under the principles of safety and soundness. The other pillar is the Financial Conduct Authority (FCA) which is responsible for regulating the market conduct. It regulates the behavior of agents competing in the insurance market and the general integrity of the industry.

29. As of April 2023, there are 434 authorized insurers in the UK. Among these, 282 entities (65%) are providing non-life insurance and 152 entities (35%) are providing life insurance services.[25] Firms not subject to Solvency II regulation are known as 'non-directive' firms, which account for 25 percent of the authorized insurers but have a very small share of the

[21] https://www.iii.org/article/world-insurance-marketplace
[22] https://assets-eu-01.kc-usercontent.com/99102f2b-dbd8-0186-f681-303b06237bb2/aea69812-042e-4271-953a-240bf3d3219f/The%20UK%20insurance%20market-%20Overview%20and%20potential%20impacts%20of%20IFRS%2017%20-%20FINAL%20REPORT.pdf
[23] https://www.eiopa.europa.eu/browse/regulation-and-policy/solvency-ii_en
[24] https://www.imf.org/-/media/Files/Publications/CR/2022/English/1GBREA2022010.ashx
[25] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/which-firms-does-the-pra-regulate/2023/list%20of%20authorised%20insurers/list-of-uk-insurers-april-2023.pdf

UK's overall market.[26] According to a study conducted by Bank Underground, the life insurance market in UK is more concentrated while the non-life insurance market has less concentration.[27]

2.1.2 Actions of Office of Fair Trading in the Insurance Market

30. In 2011, the Office of Fair Trading (OFT) carried out a market study on the UK's health insurance sector. The study highlighted that the earlier literature on Private Healthcare defined the relevant market in the UK's roader term. Such broader definition allowed mergers that lead to increase the market power.[28] It emphasized that the assessment of geographic market definition needs to account heterogeneity of patients and hospitals, lack of patient price sensitivity and competition among hospital chains. The study recommends the following:

- measures to ensure availability of data for merger simulations and advance analysis,
- critical loss assessment for private healthcare providers where there are fewer Private Medical Insurance-funded patients,
- in cases involving merger analysis, it may be appropriate to focus directly on the likely competitive effects of the transaction rather than precisely defining the relevant market and calculating market shares.
- in cases of market investigation, a market definition is less essential, However, for cases involving abuse of dominance or anti-competitive agreements, it may be more relevant to define the relevant market more precisely.

2.1.3 Insurance Market of India

31. India has the tenth largest insurance market in the world with life and nonlife direct premiums written in 2022 reaching US$ 99,503 million. India is the fifth largest life insurance market in the world's emerging insurance markets, growing at a rate of 32-34% each year. In 2022, India's insurance penetration remained 4.2 percent, with 3.2% coming from the life insurance sector.[29]

32. India's insurance industry has both the public and private sector companies. There are seven public sector insurers, owned by the Indian government that are in operation for several decades. The private sector companies were allowed to operate in India since 2000, resulting in increased competition and innovation. There are 57 insurance companies in India; 24 are providing life insurance, and 34 non-life insurance service providers. There is a sole national re-insurer, the General Insurance Corporation of India (GIC Re).

[26] https://www.imf.org/-/media/Files/Publications/CR/2022/English/1GBREA2022010.ashx
[27] https://bankunderground.co.uk/2021/01/21/how-competitive-are-uk-insurance-markets/
[28] https://assets.publishing.service.gov.uk/media/53315caded915d0e5d0003a5/Oxera_Market_definition.pdf
[29] https://www.statista.com/statistics/655395/life-and-non-life-insurance-penetration-india/

33. The insurance industry in India is regulated by various entities to ensure transparency, fair practices, and protection of policyholders' interests. The Insurance Regulatory and Development Authority (IRDA) is the primary regulator of the insurance sector. It was established under the Insurance Regulatory Development Authority Act, 1999. IRDA oversees the insurance industry. It grants licenses, registers insurance companies, sets guidelines for product development, and guidelines for the pricing of products.

34. The Securities and Exchange Board of India (SEBI) regulates the securities market in India. It does not directly regulate the insurance sector. However, there is a high chance that an insurance company will fall under the jurisdiction of IRDA and SEBI if it is publicly listed in the securities market of India. The Pension Fund Regulatory and Development Authority (PFRDA) regulates the insurance companies providing pension products. Whereas, the Insurance Ombudsman works under the Council for Insurance Ombudsmen (CIO). It was established under the Insurance Ombudsman Rules 2017. It resolves issues between insurance companies and insurance holders.

2.1.4 Competition Case in the Insurance Industry of India

35. In a complaint related to alleged 'bid rigging' by the Insurance Companies, in the tender floated by the Kerala Government in 2009 for selecting the insurance service provider. The Insurance Companies argued that each of them was wholly owned by the Government of India and controlled and managed through the Department of Financial Services in the Ministry of Finance. Therefore, they constituted a single economic entity, and hence the allegation of cartelization was unsustainable against them. However, the Competition Commission of India (CCI) held that the insurance companies did not constitute a single economic entity because the regulatory intent of the Government of India about the insurance companies was for them to act independently and to compete with the private operators in the insurance sector to offer better services to consumers. Furthermore, each of the companies had placed separate bids in response to the tender and all decisions concerning the bids were taken internally at company level without any ex-ante approval of or ex-post notification to the Ministry of Finance.

36. In 2015, the CCI investigated a complaint against four public sector insurance companies. The investigation revealed an agreement to share business thus making a cartel. The Commission imposed a penalty at the rate of 2 per cent of their average turnover of the last 3 financial years.

2.1.5 Insurance Market of Vietnam

37. The insurance sector in Vietnam experienced a significant transformation during 2022, reflecting the country's overall economic development and increasing awareness about insurance. The insurance industry posted an insurance premium income of VND 245,877 billion (US$10.4 billion) in 2022, when the total number of insurance providers reached to 82 companies. There were 32 non-life insurers, 19 life insurers, 2 reinsurers and 29

insurance brokers. The non-life insurance sector has a share of 28% and the life insurance sector accounted for a share of 72%.

38. Multiple international agreements provided Vietnamese insurance companies access to other countries and vice versa. The World Trade Organization (WTO) membership, the ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), The European Union (EU)-Vietnam Free Trade Agreement (EVFTA), Investment Protection Agreement (EVIPA) and several other significant free trade agreements, and membership in the ASEAN Economic Community (AEC) are among such agreements.

39. The Vietnam, Insurance Supervisory Authority (ISA), working under the Ministry of Finance (MOF) supervises the insurance business. The ISA inspects the activities of insurance entities, settles complaints, and handles administrative violations in the area of insurance. The MOF is the regulatory body that performs State management of insurance businesses nationwide and is responsible before the government for the general administration of insurance businesses.

40. Decree No. 100/CP dated 18th December 1993 set the basic rules for private sector insurance. The Law on Insurance Business was introduced in 2000. However, in June 2022, the National Assembly adopted a new Law on Insurance Business, which became effective from January 2023.

2.1.6 Anti-Competition cases in Vietnamese Insurance Industry

41. In 2008, the Ministry investigated cartel practices, and discovered insurance company executives having an agreement on the level of motor vehicle insurance to be charged. The penalties imposed were relatively low, given the lack of awareness on Competition Laws at that time. In 2010, The Vietnam Competition Authority (VCA) fined 19 insurance companies a total of VND1.7 billion (approx. USD 73,200) for being involved in unlawful price-fixing activities

42. In 2011, the VCA fined 12 companies that held a combined market share of 99.81%. The investigation revealed that the companies fixed the student insurance fees in May 2011. Although, they voluntarily terminated the agreement in September 2011 on discovering that it was illegal. Nevertheless, each of them was required to pay administrative fees of VND 100 million (approx. USD 4,300).

43. The comparative analysis of the three insurance markets discussed above reveals that while the UK insurance market is the most mature, offering a wide range of sophisticated products and services. In contrast, India and Vietnam have emerging markets with significant growth potential. The UK has a developed regulatory framework, while India and Vietnam are in the process of strengthening their regulations for market development. The UK continues to lead in technological advancements and market innovation.

2.2 Insurance Guarantee Scheme (IGS)

44. A number of countries have adopted the IGS to strengthen their insurance sectors. IGS provides a last-resort protection to consumers when insurance companies are unable to fulfil their contractual commitments. They protect against the risk that claims will not be met if an insurer becomes insolvent. IGS reduces the government's burden to provide for the insurance guarantee, and recognizes the role of the industry participants.[30] Table 2 provides a list of countries having established IGS in place for life and non-life insurance sectors.

Table 2: Countries from Different Regions having IGS

Continent	Life Insurance Guarantee Scheme	Non-Life Insurance Guarantee Scheme	Life & Non-Life Guarantee Scheme
Europe	Greece, Isle of Man, France, Germany	Denmark, Norway, France, Germany,	Poland, Romania, Spain, United Kingdom, Kazakhstan
Asia/Pacific	Thailand	Australia, Thailand,	Korea, Malaysia, Singapore, Taiwan
Americas	Canada, United States	Canada, United States	Ecuador
Africa	Kenya		
Associated Members (in the process of establishing an IGS)	Ukraine, Egypt, Hong Kong		

Source:
https://www.eiopa.europa.eu/system/files/2022-12/insurance_guarantee_schemes_ifigs.pdf

2.2.1 Insurance Guarantee Scheme in Malaysia

45. Life insurance businesses in Malaysia is dominantly owned by foreign insurers. There are only three locally owned entities; Etiqa Life Insurance Berhad, Hong Leong Assurance Berhad, and Sun Life Malaysia Assurance Berhad.[31] All of these entities are private life insurers. There is no state run life insurer in Malaysia and the government does not guarantee the policies of insurers. However, the government of Malaysia has established a system called Takaful and Insurance Benefits Protection System (TIPS) to protect owners of takaful and insurance policies. This protects from the loss of eligible takaful or insurance

30 https://documents1.worldbank.org/curated/en/099430211232354829/pdf/IDU1b2120e4c1526d14e231bc33180f72ecc37f7.pdf

31 https://www.bnm.gov.my/regulations/fsp-directory?p_p_id=com_liferay_asset_publisher_web_portlet_AssetPublisherPortlet_INSTANCE_jXC730NRlqU0&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_r_p_tag=life-insurer

benefits in the event that an insurer member fails and is unable to honor the takaful or insurance benefits.[32]

46. Perbadanan Insurans Deposit Malaysia (PIDM), being the administrator of TIPS, provides protection to consumers against the loss of their eligible takaful or insurance benefits if a member insurer fails.[33] PIDM is a Government agency established in 2005 under Akta Perbadanan Insurans Deposit Malaysia (Malaysia Deposit Insurance Corporation Act). In 2010, it was assigned to administer TIPS to provide protection to takaful and insurance holders.

47. PIDM protects eligible takaful or insurance benefits up to RM 500,000. All takaful certificate and insurance policy owners are eligible for protection under TIPS if their takaful certificates or insurance policies are issued in Malaysia by an insurer member and denominated in Malaysian Ringgit. This protection covers 99% of family takaful certificate and life insurance policy owners, 96% of general takaful certificate, and all general insurance policy owners.[34] There is a separate protection for takaful certificates and insurance policies held by individuals and groups, as well as for own damage and third-party claims.

48. PIDM supports overall financial stability by promoting the safety and soundness of their member institutions by giving incentives for sound risk management through the Differential Premium System framework for member banks (DPS), the Differential Levy System framework for insurance companies (DLS) and the Differential Levy System framework for takaful operators (DLST). PIDM collects premiums from member banks and levies from insurer members, annually. Member institutions are charged based on their risk profiles under the DPS, DLS and DLST. The better the risk profile, the lower the premiums or levies and vice versa. The premiums and levies collected are on an ex-ante funding mechanism, meaning they are collected from member institutions in advance, during business as usual. Depending on the levy category that insurer member is classified, the annual rate for family takaful, life insurance ranges between 0.025% - 0.2%.[35]

2.2.2 Insurance Guarantee Scheme in Singapore

49. In Asia, Singapore has established itself as the insurance hub. There are 217 insurance companies operating in the country[36], including large number of major international insurers and reinsurers, besides locally owned insurers.[37] In Singapore, insurance and

[32] https://www.pidm.gov.my/en/how-we-protect-you/tips/about-pidm-faqs
[33] https://www.pidm.gov.my/en/how-we-protect-you/tips/what-is-the-takaful-insurance-benefits-protection
[34] https://www.pidm.gov.my/en/how-we-protect-you/how-pidm-protects-you
[35] https://aseaninsurancecouncil.org/wp-content/uploads/2023/07/Comparison-Among-Countries-in-ASEAN-Providing-Guarantee-to-Insurance-Policy-Holders-160623updt.pdf
[36] https://www.statista.com/statistics/1315827/singapore-number-of-insurance-companies-by-type/#:~:text=In%202023%2C%20there%20were%20217%20insurance%20companies%20in%20Singapore.
[37] https://www.myskillsfuture.gov.sg/content/student/en/secondary/world-of-work/industry-landscape/industry-detail.Insurance-15634.html

reinsurance activities are regulated by the Monetary Authority of Singapore (MAS), established by the MAS Act (Cap. 186). MAS is responsible for the licensing, authorization and supervision of insurance and reinsurance activities. The MAS regulates and enforces the Insurance Act, including the issuance of licenses.[38]

50. The Policy Owners' Protection (PPF) Scheme protects policy owners in the event a life or general insurer which is a PPF Scheme member fails. The scheme provides a safety net for policy owners. The PPF Scheme alleviates financial distress of policy owners in the event their life/non-life insurer fails. The PPF Scheme provides 100 percent protection for the guaranteed benefits of life insurance policies.[39] The PPF Scheme also provides coverage for the specified types of general insurance policies covered under the Scheme. No caps are applicable for protection of general insurance policies. Levy rates imposed on PPF Scheme members are based on (i) MAS' supervisory risk rating of the PPF Scheme member; and (ii) whether the PPF Scheme member is a life or general insurer. PPF Scheme members are required to pay a minimum levy of S$2,500 (for any premium year), in respect of insured policies covered under each of the PPF Life Fund and PPF General Fund.

51. Singapore Deposit Insurance Corporation Limited (SDIC) administers the Deposit Insurance (DI) Scheme and Policy Owners' Protection (PPF) Scheme in Singapore. SDIC is a company limited by guarantee under the Companies Act. SDIC is set up by an act of parliament and has been designated to be the deposit insurance and policy owners' protection fund agency under the Deposit Insurance and Policy Owners' Protection Schemes Act. The board of directors is accountable to the Minister in charge of the MAS.[40]

52. The preferred course of action is to transfer the insurance business of the failed insurer to another insurer, especially in the event of the failure of a life insurer, as there is less disruption for policy owners. However, if a buyer cannot be found or if costs are excessive to facilitate a transfer, MAS may decide to terminate the operations and corporate existence of the entity, if the impact on policy owners is not significant such that policy owners can easily find alternative coverage. On the other hand, if the impact on policy owners is significant, MAS may decide on a run-off. SDIC will then take over the business of the failed insurer. Policy owners will then continue to be covered until such time their policy matures or expires. A combination of options may be adopted for the entire business of the failed insurer.

[38] https://www.mas.gov.sg/regulation/insurance
[39] https://www.lia.org.sg/tools-and-resources/faq/policy-owners-protection
[40] https://www.sdic.org.sg/

2.2.3 Insurance Guarantee Scheme in Thailand

53. The life insurance industry in Thailand comprises of 21 local companies and only 1 foreign company with largest five companies accounting for a share of over 70%.[41] There is no SOE in the life insurance market of Thailand.

54. The Office of Insurance Commission (OIC) is the regulator of Thailand's insurance industry. It was established in 2007 under the Thailand Government Insurance Commission Act, B.E. 2550. The OIC supervises all aspects of both life and nonlife insurance, including their brokers and agents, under the supervision of the Ministry of Finance, and is administered by a board of directors.[42] Thailand separates the institution responsible for the insurance policy guarantee scheme into General Insurance Fund for Non-Life Sector and Life Insurance Fund for Life Sector.

55. The Life Insurance Fund was established as a juristic person in accordance with Section 84 of the Life Insurance Act B.E. 2535, amended by the Life Insurance Act (No. 2) B.E. 2551. Its objective is to protect creditors, who have the right to receive payment of their insurance debts, in the event that a company fails or is subject to revocation of the license to undertake life insurance business, and to develop life insurance business.[43] The Fund is not a government organization or state enterprise.

56. The Fund provides cover to life insurance policy holders for a maximum amount of one million Thai Baht. The policy holder is to receive only one million Baht if the amount of policy exceeds one million Baht. The Fund makes payment to the policyholder and beneficiary entitled to receive payment of policy benefit on behalf of a company whose license to undertake life insurance business is revoked except for the Investment part of Life Insurance Policy. Under the scheme both individuals as well as corporates are protected. In the event of a company's bankruptcy the policyholder and beneficiary can make a claim by filling in an application form and attaching important documents as specified by the Fund.

57. Companies are required to make contributions to the Fund at the rate announced by the OIC, with the approval of the Minister. This rate has to be below 0.5 percent of the insurance premiums received by the company during the period of half year prior to making contributions to the Fund. The companies need to submit the financial report annually to the OIC, which verifies the information of remittances to the Fund.

58. Many jurisdictions implement IGS to safeguard consumers and uphold their confidence. These schemes offer protection not only to policyholders but also to policy beneficiaries and third-party claimants. Conversely, countries without IGS often regard insurance

[41] https://www.fsa.go.jp/en/glopac/assets/participants/current3/19th_thailand.pdf
[42] https://www.tilleke.com/wp-content/uploads/2024/01/Tilleke-Thomson-Reuters-Country-Update-Thailand-Insurance-January-2024.pdf
[43] https://lifeif.or.th/purpose

failures as extremely rare, provided that effective supervisory and regulatory frameworks are in place. They rely more on the ability of regulators to handle the cases of failure through standard crisis management procedures. Also, the private insurance industry is resistant to the additional costs associated with such schemes.

CHAPTER 3 - REGULATORY FRAMEWORK OF INSURANCE/ TAKAFUL INDUSTRY IN PAKISTAN

59. Before the year 2000, the insurance industry of Pakistan was regulated by the Federal Ministry of Commerce (FMC). The industry was governed by the Controller of Insurance under the Insurance Act, 1938. However, during this period, the industry was facing various issues such as fragmentation, operational inefficiencies, low ethical standards, and lack of professionalism. To address these challenges, the Insurance Act of 1938 was replaced by the *Insurance Ordinance 2000*. The objective of the new law was to ensure the protection of insurance policyholders' interests and to promote the growth of the insurance industry. While the Ministry of Commerce (MoC) still remains the line ministry for insurance as a subject, in 2001, the regulatory authority of the insurance industry was transferred to the Securities and Exchange Commission of Pakistan (SECP).[44]

3.1 SECP's Regulatory Oversight

60. The SECP was established in 1999 under the Securities and Exchange Commission of Pakistan Act, 1997. The SECP is mandated to regulate the corporate sector and capital markets, supervise and regulate the insurance companies, non-bank finance companies and private pension schemes, and provide oversight of various external service providers to the corporate and the financial sectors, including chartered accountants, credit rating agencies, corporate secretaries, brokers, surveyors etc.[45] SECP has both investigative and enforcement powers. The SECP exercises its regulatory powers to ensure the smooth functioning of the insurance industry[46] under the Insurance Ordinance 2000.

3.1.1 Compliance with the Insurance Ordinance 2000

61. The preamble of the Ordinance is *to regulate the business of the insurance industry to ensure the protection of the interests of insurance policy holders and to promote sound development of the insurance industry and for matters connected therewith and incidental thereto;*
62. Section 2 (xxvii) of the Ordinance defines insurance as;

> *"insurance" means the business of entering into and carrying out policies or contracts, by whatever name called, whereby, in consideration of a premium received, a person promises to make payment to another person contingent upon*

[44] Khan, A, B. *et al*, (2018). Overview of Insurance Sector in Pakistan during the economy instability and Global Financial Crisis. *International Journal of Business Management and Commerce Vol. 3 No. 2; April 2018.*
[45] https://www.secp.gov.pk/about-us/what-we-do/
[46] https://www.secp.gov.pk/document/sro-89-i2017-insurance-rules 2017/?wpdmdl=25428&refresh=657ad51be0ad71702548763

the happening of an event, specified in the contract, on the happening of which the second-named person suffers loss, and includes reinsurance and retrocession:

63. Section 2 (xxxi) defines “insurer” as:

(i) *any company or other body corporate carrying on the business of insurance, which is a company or other body corporate incorporated under any law for the time being in force in Pakistan; and*

(ii) *(ii) any body corporate incorporated under the law of any jurisdiction outside Pakistan carrying on insurance business which carries on that business in Pakistan.*

64. The Insurance Ordinance 2000 categorizes the insurance business into life and non-life insurance business. The classes of life insurance encompasses ordinary life, capital redemption, pension fund, accident and health businesses. The non-life insurance covers all other types of insurance apart from life insurance, such as reinsurance, fire and property damage, marine, aviation, and transport, motor third-party compulsory insurance, liability insurance, workers' compensation, credit and surety ship insurance, accident, health and agricultural insurance.

65. For the smooth functioning of the insurance industry the SECP has issued various rules, regulations, guidelines and directives from time to time. The table below provides a complete list of rules, regulations and directives issued by SECP to govern the insurance industry in Pakistan.[47]

	Rules
i.	Credit and Suretyship (Conduct of Business) Rules, 2018
ii.	Insurance Rules, 2017
iii.	Unit Linked Product and Fund Rules, 2015
iv.	Small Dispute Resolution Committees (Constitution and Procedure) Rules, 2015
v.	SEC (Microinsurance) Rules, 2014
vi.	Takaful Rules, 2012
	Regulations
i.	Corporate Insurance Agents Regulations, 2020
ii.	General Takaful Accounting Regulations, 2017
iii.	Insurance Accounting Regulations, 2017
iv.	Third Party Administrators for Health Insurance Regulations, 2014
v.	Insurance Companies (Sound and Prudent Management) regulations, 2012
vi.	SEC (Reinsurance Brokers) Regulations, 2021
	Directives
i.	Code of Corporate Governance for Insurers, 2016
ii.	Directive for Life Insurance and Family Takaful Illustrations, 2016

[47] Data provided by the SECP

3.2 Ministry of Commerce (MoC)

66. The three state owned insurance companies, namely State Life Insurance Corporation of Pakistan (SLIC), National Insurance Company Limited (NICL), and Pakistan Reinsurance Company Limited (PRCL) are under the administrative control of the Commerce Division. MoC gives all legislative and policy directives to these SOEs.[48] SLIC is operating in the life insurance, NICL in the general insurance, and PRCL is operating in the reinsurance market.

3.3 Ministry of Communications

67. Postal Life Insurance Company Limited (PLIC) is a wholly owned subsidiary of GoP and comes under the administrative control of the Ministry of Communications.[49] In 2020, PLIC was incorporated in Pakistan as a limited company under the Companies Act, 2017 independent from the governance of Pakistan Post. PLIC is operating in the life insurance segment of the insurance market.

3.4 Safeguarding Consumers' Rights

68. For consumer protection and dispute resolution, there are mechanisms in place. These are described below.

3.4.1 Federal Insurance Ombudsman (FIO) and Insurance Tribunal

69. As delineated in Section 125 of the Insurance Ordinance 2000, the office of the Insurance Ombudsman has been established. Furthermore, Section 127 confers upon the Insurance Ombudsman the power to receive grievances and launch investigations into any allegations or complaints against insurance companies. The FIO established under the Insurance Ordinance, 2000 is an autonomous dispute resolution body[50] which is expected to independently and impartially resolve insurance disputes between insurance policyholders and the insurance companies.[51] While the role of FIO is strengthened after the enactment of Federal Ombudsman Institutional Reform Act (FOIA), 2013, the jurisdiction of FIO is restricted to private sector life and non-life insurance companies.

70. According to Section 121 of the Insurance Ordinance 2000, insurance tribunals are established. Section 122(1) of the Insurance Ordinance 2000 provides the Insurance Tribunal with the authority to handle claims of policyholders against insurance companies regarding insurance policies, with the same powers as a civil court. Pursuant to Section 124

[48] https://www.commerce.gov.pk/about-us/about/
[49] https://www.pacra.com/summary_report/RR_2332_10084_21-Oct-22.pdf
[50] The policy holders can make complaint/grievances to the insurance companies and if satisfactory reply is not given in 30 days, the policy holder can then file an application with the Federal Insurance Ombudsman.
[51] https://jamapunji.pk/protect-yourself/complaint-registration-guidance-depending-nature-your-investment

of the Insurance Ordinance 2000, the High Court is responsible for hearing appeals from determinations made by the insurance tribunal.[52]

3.4.2 Wafaqi Mohtasib- Federal Ombudsman (FO)

71. The Office of Wafaqi Mohtasib was established under the Office of Wafaqi Mohtasib (Ombudsman) Order 1983 (President's Order No. 1 of 1983). The President's Order No. 1 of 1983 was later amended to the Wafaqi Mohtasib (Ombudsman) (Amendment) Ordinance, 2002.[53] FO is mandated to diagnose, investigate, redress and rectify any injustice done to a person through maladministration by any federal agency.[54] Further, the enactment of the FOIR Act, 2013, strengthened the legal framework of FO. The jurisdiction of the state owned insurance companies i.e., SLIC and PLIC is held by the Wafaqi Mohtasib.

3.5 State Owned Enterprises (Governance and Operations) Act, 2023

72. SOEs Act 2023 was promulgated in February 2023. The Act seeks to enhance transparency, accountability, and efficiency in the management of SOEs, ensuring they contribute effectively to the national economy. The Act obligates federal government to prepare and issue a policy on the ownership and management of SOEs, every five year. Under the Act, the SOEs are required to undertake their operations according to the criteria of sound and prudent management. It establishes a comprehensive governance framework for SOEs, including the creation of performance evaluation mechanisms and the implementation of modern corporate governance practices. SOEs are provided with greater operational autonomy to make business decisions independently, which is expected to reduce bureaucratic delays and enhance their competitiveness. The Act mandates regular reporting and accountability of SOEs to the government and other relevant authorities, including financial disclosures and performance reports. It outlines a framework for identifying and implementing necessary reforms in underperforming SOEs, including the possibility of privatization or restructuring to improve their performance.

73. Under Chapter 2 *State-Owned Enterprise Management Policy and Principles*, of the said Act, section 4(2) reads as follows;

> *Section 4(2) The policy referred to in sub-section (1), shall provide for, inter-alia-*
> (g) *a framework for ensuring competitive neutrality of the State with respect to state owned enterprises;*

[52] https://www.secp.gov.pk/document/insurance-ordinance 2000/?wpdmdl=652&refresh=657941a3453c21702445475
[53] https://mohtasib.gov.pk/SiteImage/Downloads/Annual%20Reports/annual_report_2005.pdf
[54] https://mohtasib.gov.pk

74. The Central Monitoring Unit (CMU), under the Finance Division, has been entrusted with the responsibility to monitor the implementation of the above mentioned Act. Though, it is at the nascent stage of its functioning.

3.6 The Competition Act, 2010

75. The Competition Commission of Pakistan (CCP) is an autonomous regulatory body established under the Competition Act of 2010 to implement the Act, so the businesses can operate on a level playing field. Broadly, the Act prohibits anti-competitive practices under *Section 3,* Abuse of dominant position, *Section 4* Prohibited agreements, *Section 10,* Deceptive marketing practices, and *Section 11* Approval of mergers. The CCP has a critical role in promoting competition and regulating anti-competitive practices in all sectors of the economy.

3.7 The Life Insurance Nationalization Order, 1972

76. Under the Life Insurance Nationalization Order, 1972 the life insurance business was nationalized in Pakistan. It was a significant policy decision in Pakistan that nationalized the life insurance sector, transferring control and ownership of private life insurance companies to the government. The nationalization resulted in the establishment of the State Life Insurance Corporation of Pakistan (SLIC), which became the sole provider of life insurance services in the country. SLIC operates under Ministry of Commence and is a SOE. Under Section 35 of the Order, the liabilities (sum insured and bonuses) of the policyholders are guaranteed as payment in cash by the Federal Government.

3.8 National Insurance Corporation (Reorganization) Ordinance, 2000

77. The National Insurance Company Limited (NICL) was established in 1976 under the National Insurance Corporation Act, 1976. In 2000, NICL was incorporated as an unlisted public limited company under the Companies Ordinance, 1984 through the National Insurance Corporation (Reorganization) Ordinance, 2000.

> *An Ordinance to provide for conversion of the National Insurance Corporation into a public limited company*[55]

78. Thus, the National Insurance Corporation Act, 1976 was repealed by the National Insurance Corporation (Reorganization) Ordinance, 2000.

3.9 Pakistan Reinsurance Corporation (Reorganization) Ordinance, 2000

79. Pakistan Reinsurance Company Limited (PRCL), formerly the Pakistan Reinsurance Corporation (PRC) was established in 1952 under the Pakistan Insurance Corporation Act, 1952. In 2000, the Insurance Corporation Act, 1952 was repealed by the Pakistan

[55] https://pakistancode.gov.pk/english/UY2FqaJw1-apaUY2Fqa-apaUY2FobJo%3D-sg-j

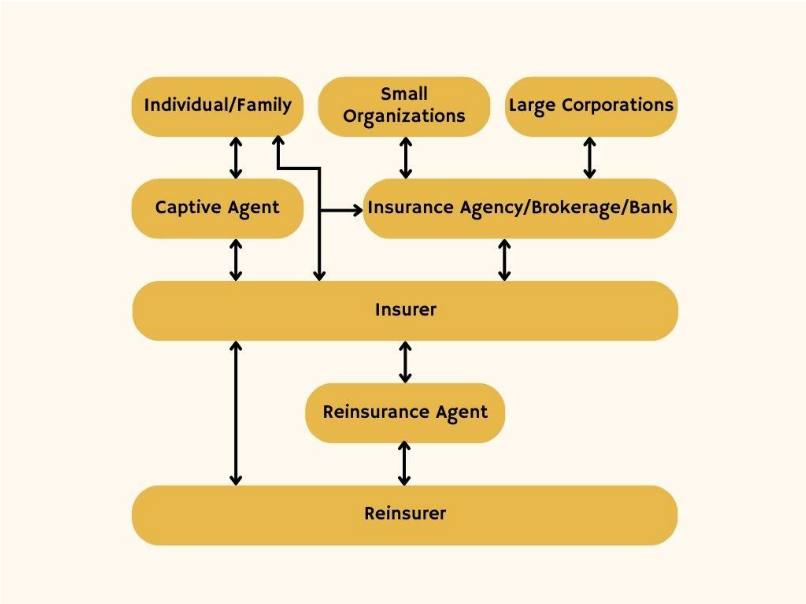
Reinsurance Corporation (Reorganization) Ordinance, 2000. Accordingly, PRCL was incorporated under the Companies Ordinance, 1984. PRCL took over all properties, rights, and liabilities of PIC under MoC's SRO No. 3(35)/2000.[56]

[56] https://www.pakre.org.pk/ms/images/pdf/Accounts/Archives/Annual%20Report%20(2000).pdf

CHAPTER 4 - MARKET STRUCTURE OF THE INSURANCE/TAKAFUL INDUSTRY IN PAKISTAN

80. The insurance industry has multiple players, where demand side consists of the consumers of insurance policies i.e., households and firms. The supply side, has the insurers, reinsurers, and insurance intermediaries. The following figure presents the supply chain of insurance industry in Pakistan.

Figure 4: Market Structure of Insurance Industry



(The two-way arrows show the relationship between the different stakeholders in the market, the demand and supply, and the level of dependence among the various stakeholders. The above figure does not include insurance surveyors)

4.1 Current Market Dynamics

81. According to the SECP, 42 insurance companies are operating in Pakistan. Of these, 28 are non-life insurance, 8 are life insurance, 2 are general Takaful, 3 are family Takaful and 1 is a reinsurance company. The insurance penetration in the country is 0.87 percent, and the insurance density is Rs.2776 i.e., about USD14. In 2022, the total amount of insurance policies stood at Rs.10.1 million.

4.2 Life Insurance/Family Takaful Operators

82. In the life insurance sector, there are 8 life insurers and 3 family Takaful companies. Two out of the 8 life insurers are SOEs. The life insurance companies also offer family Takaful window, however 3 companies are dedicated family Takaful operators.

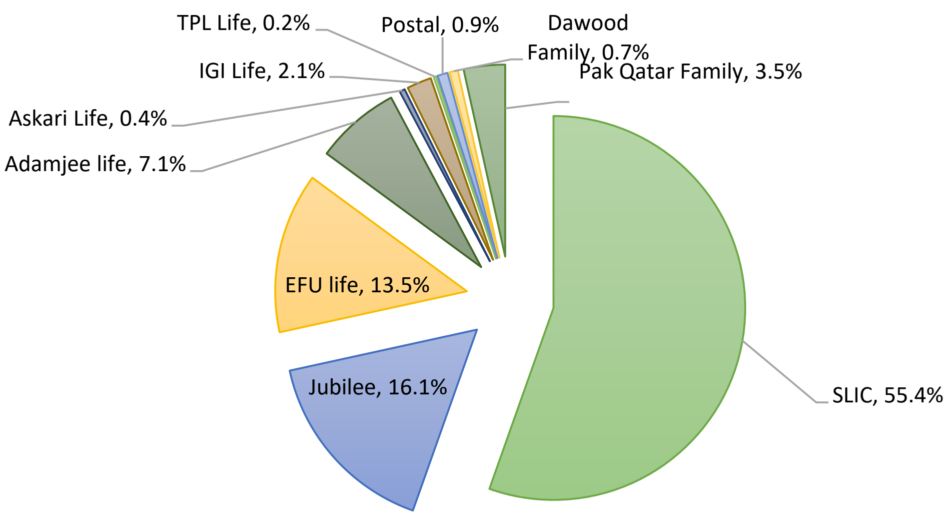
Table 3: State of Market Players in Life Insurance in 2022

	Total	Large (Share>5%)	Medium (Share2%-5%)	Small Share<2%
No. of Companies	11	4	2	5
Gross Premium Written (Rs. billion)	293	270	16	6
Proportion of Market Share	100%	92.2%	5.6%	2.2%

Source: SBP

83. The table provides an overview of the number of companies and their respective market shares in life insurance industry. It can be observed that there are four large insurance companies having a share of greater than 5%. There are only two medium sized companies having a share in the range of 2 to 5 percent. Remaining five companies have a market share of less than 2%. Large market players jointly account for a share of around 92.2%, medium players have a joint market share of 5.6% and only 2.2% share is held by 5 companies.

Figure 5: Market Share of Insurance Companies in the Life Insurance Sector FY2022-23



Source: Authors' calculations based on the SBP data

84. The figure presents the market share of the life insurance companies operating in Pakistan. In life insurance, around 55 percent of the market share is held with the public sector insurance companies, i.e. State Life Insurance Corporation (SLIC) and Postal Life Insurance. The other two prominent companies having a market share of over 10 percent are Jubilee Life, and EFU Life.

85. Herfindahl Hirschman Index (HHI) is a measure of market concentration. A market with an HHI value less than 1500 is considered competitive, between 1500 and 2500 is moderately concentrated, and a HHI value greater than 2500 is highly concentrated. The HHI of the Life Insurance segment of the market is calculated below.

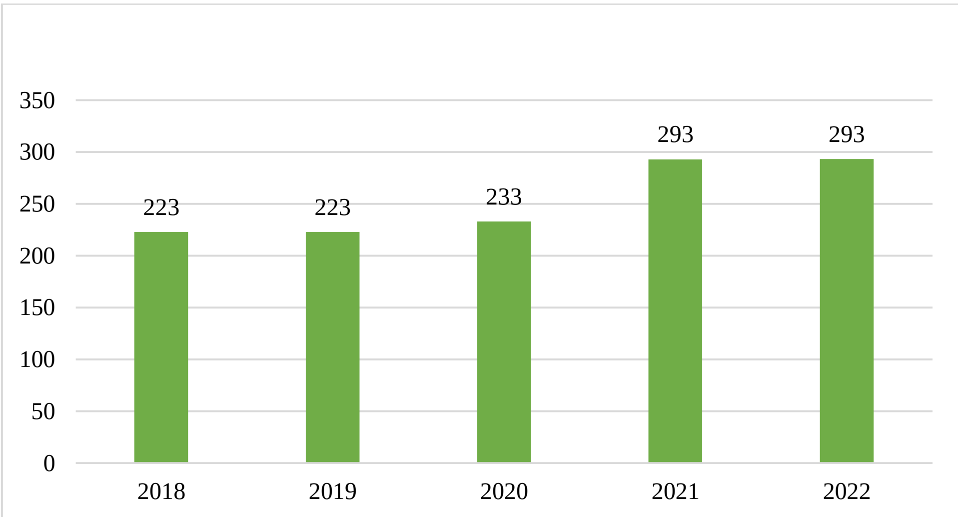
$$HHI = (55.4)^2 + (16.1)^2 + (13.5)^2 + (7.1)^2 + (3.5)^2 + (0.4)^2 + (2.1)^2 + (0.2)^2 + (0.9)^2 + (0.7)^2$$

HHI= 3579

86. The HHI value of the Life Insurance segment is higher than 2500, indicating that the market is highly concentrated. This is due to the fact that State Life Insurance, a State Owned Enterprise (SOE) has the highest market share of 55 percent and the remaining life insurance companies have much smaller market shares in comparison.

87. Over the course of five years (2018-2022), upward trend has been observed in life insurance. Figure below presents the trend in Gross Premium Written (GPW) of life insurance in the country.

Figure 6: Trend in Gross Premium Written in Life Insurance (Billion Rupees)



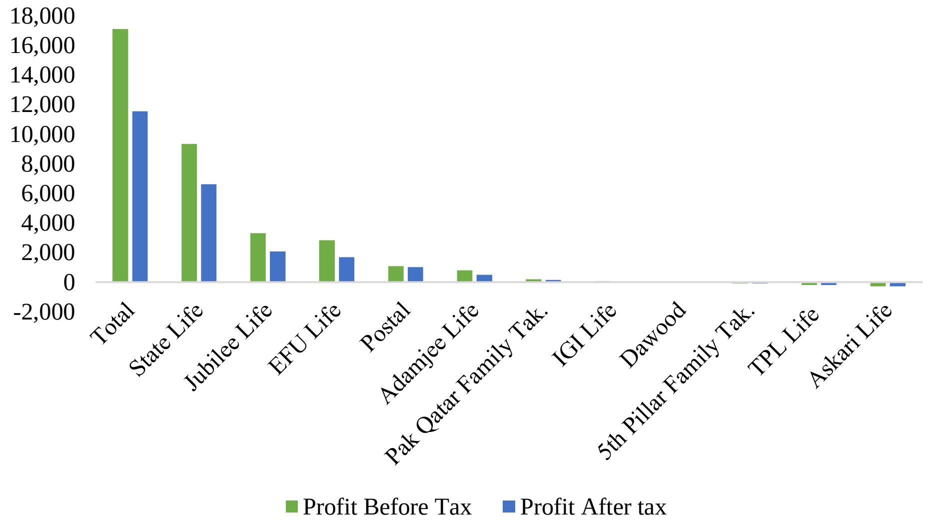
Source: SBP's Financial Statement Analysis of Fianacial Sector[57]

88. The sales of policies through different distribution channels differ across public and private entities in life insurance. Around 99% of the policies sold by the two life insurance SOEs i.e., SLIC and Postal Life are made through the channel of sales agents. On the other hand, around 54% of the policies sold by the private life insurance companies is through the channel of bancassurance.[58]

[57] https://www.sbp.org.pk/reports/annual/FSAFS/2023/2023.htm
[58] SECP. Insurance Statistics 2022.

4.2.1 Profit and Loss of Life Insurance Companies

Figure 7: Profit/Loss of Companies in Life Insurance in 2022 (Rs. million)



Source: SBP, https://www.sbp.org.pk/reports/annual/FSAFS/2023/2023.htm

89. During 2022, the life insurance industry posted a Profit Before Tax (PBT) of Rs. 17.1 billion and a Profit After Tax (PAT) of Rs. 11.6 billion during 2022. Highest profit was earned by SLIC followed by Jubilee, EFU and Postal Life. Although, Postal Life's market share was less than that of Adamjee's, it posted a PBT and PAT of Rs. 1 billion each, higher than Adamjee. Three insurers, Askari Life, TPL Life and 5th Pillar Family Takaful reported a loss during 2022.

4.2.1 SOEs in Life Insurance Business

State Life Insurance Corporation of Pakistan (SLIC)

90. The business of life insurance was nationalized in 1972 and 32 insurance companies were merged and brought under the management of State Life Insurance Corporation of Pakistan.[59] It enjoyed a monopoly in life insurance till 1990 when the life insurance sector was liberalized. Private companies started offering life insurance after the liberalization of the sector. Since then, the market share of SLIC has been declining, and has reached around 55% in 2022.[60] SLIC is operating under the Ministry of Commerce (MoC) which appoints its Board of Directors to run its affairs. SLIC is running life insurance, health insurance, accident insurance and family takaful business. The policies issued by SLIC are guaranteed by the Federal Government to be paid in cash under Article 35 of Life Insurance Nationalization Order 1972. Besides business of life insurance, the corporation is involved in investment of policy holder's fund in government securities, stock market and real estate

[59] https://www.statelife.com.pk/index.php/corporate-profile
[60] Calculation from SBP's data, *https://www.sbp.org.pk/reports/annual/FSAFS/2023/2023.htm*

etc.[61] The Corporation has its principal office in Karachi and it operates through 33 zonal offices providing individual life insurance, 4 zonal offices providing group life insurance and a zonal office in Dubai covering gulf countries.

91. An attempt has been made to change the status of SLIC from corporation to public limited company through State Life (Reorganization and Conversion) Ordinance, 2016. However, the ordinance was converted to Bill by National Assembly and was sent to Senate. The Senate has proposed some amendments in the Bill and it is put forward to National Assembly Standing Committee on Commerce where it is still pending.[62]

Postal Life Insurance Company Limited

92. Postal Life Insurance Company Limited (PLICL) is the oldest service provider in subcontinent. It was established by the British Raj in 1884 to cover the lives of postal mail runners.[63] Later, its services were extended to employees of other government departments. After independence, the PLICL started offering its services to general public through vast network of Pakistan Post. PLICL is wholly owned by GoP and operates under the umbrella of Ministry of Communications. GoP appoints its board of directors to run the affairs of company.

93. In 2020, the Government of Pakistan made PLICL independent of Pakistan Post and it was incorporated as limited company under the Companies Act, 2017. Currently, the company is providing individual, group life and savings solutions through a network of over 10,000 Post Offices and 47 field offices across Pakistan.[64] It is offering ten policies including whole life policy, joint life endowment policy, education and marriage endowment assurance, accidental death and permanent disability benefit contract, annuity policies, endowment policy, anticipated endowment plan, child protection policy, non-medical policy and group insurance. PLICL has a vast presence in the rural areas of Pakistan through extensive network of post offices, and the premium can be paid in any post office in the country. Despite these advantages, its share has remained less than 1%.[65] All the revenue generated by PLICL is invested in Post Office Insurance Fund which is controlled by the Ministry of Finance. PLICL gets a return according to the ongoing government investment return rates. This policy ensures security of fund, attractive return and increased public confidence.

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[61] https://mohtasib.gov.pk/SiteImage/Downloads/WMS%20Committee%20report/SLIC.pdf
[62] https://www.statelife.com.pk/doc/2023/PUBLISHED-ACCOUNTS-Mar-2023.pdf
[63] https://plic.com.pk/about
[64] https://communication.gov.pk/Detail/MDNkNGFhM2QtNGNiNy00MTU4LWJiYTQtZDA3ZDFhNDNhMTU0
[65] https://www.pacra.com/summary_report/RR_2332_10084_21-Oct-22.pdf

4.3 Non-Life Insurers/General Takaful Operators

94. In the non-life insurance sector, there are 30 insurers including 28 non-life insurers and 2 general Takaful companies operating in the country. NICL is the only state owned non-life insurer providing insurance to public properties in Pakistan.

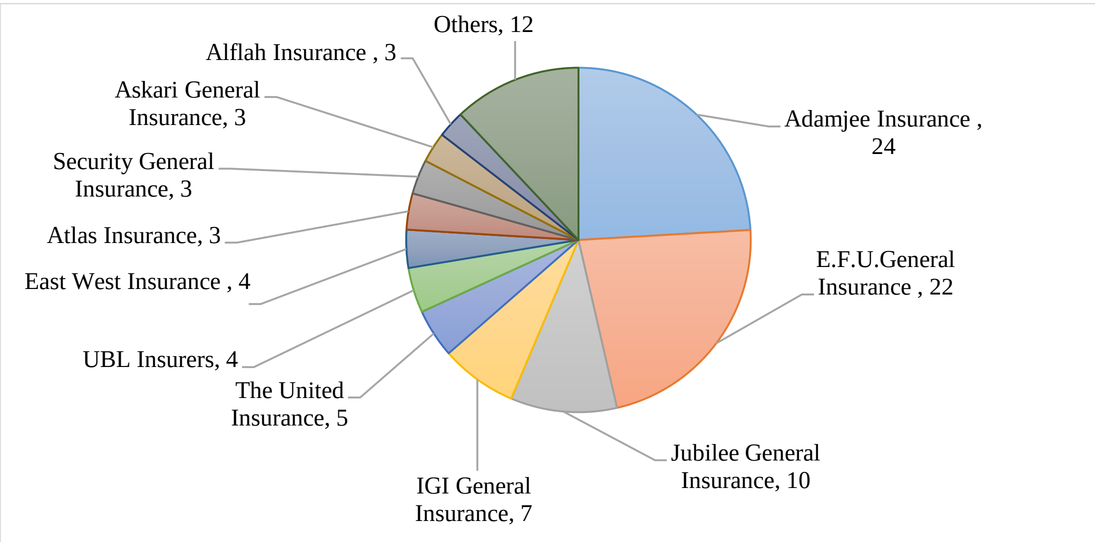
Table 4: Market Shares of Large, Medium and Small Players in Non-Life Insurance 2023

	Total	Large (Share>5%)	Medium (Share 2%-5%)	Small Share<2%
No. of Companies*	30	5	8	12
Gross Premium Written (Rs. Billion)	84.7	55.6	22.2	6.8
Proportion of Market Share	100%	65.7%	26.2%	8.1%
*** Based on data of 25 companies**				

Source: IAP

95. The table gives an overview of the number of companies and their respective market share in non-life insurance industry. The market has three segments; large companies having share more than 5%, medium companies having share in the range of 2-5% and small companies with a share less than 2%. Accordingly, the market is highly concentrated with a small number of large companies (5) have a significant market share (65.7%) . Medium companies have a market share of around 26%. The small companies, despite being the largest group in number, hold the smallest portion of the market share. The detailed share of companies in each category is provided in figures below.

Figure 8: Market Share of Insurance Companies in the Non-Life Insurance Sector 2023(%)



Source: SBP, Financial Statements' Analysis[66]

[66] https://www.sbp.org.pk/reports/annual/FSAFS/2023/2023.htm

96. The above figure shows the market share of the non-life insurance companies in the non-life insurance segment during 2023. Among private players, out of the total 30 insurers, more than 50 percent market share is held by 3 insurance companies, EFU General Insurance, Adamjee Insurance, and Jubilee General Insurance. The data shows that Adamjee insurance has the highest market share of 24%, followed by EFU General Insurance with 22%, and Jubilee General Insurance with 10%. The HHI of Non-Life Insurance is calculated below.

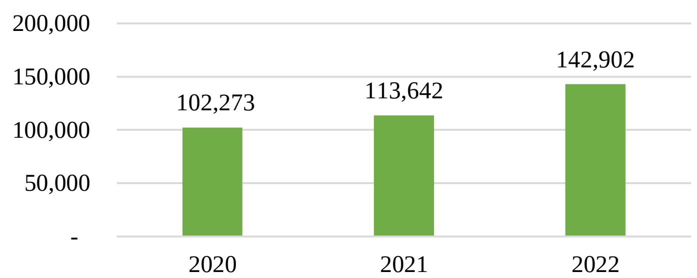
HHI=

$$(24)^2+(22)^2+(10)^2+(7)^2+(5)^2+(4)^2+(4)^2+(3)^2+(3)^2+(3)^2+(3)^2+(2)^2+(2)^2+(2)^2+(1)^2+(1)^2+(1)^2+(1)^2+(1)^2 = 1334^*$$

(* HHI is calculated from the data available on 25 non-life insurers, of these 6 companies had a market share less than 0.1 percent)

97. The HHI value of the Non-Life Insurance segment is less than 1500, indicating that the market for non-life insurance is competitive. In the non-life insurance sector there is high degree of competition as out of 30, there are 3 companies that have a share greater than 50 percent of the market.

Figure 9: Trend in Gross Premium Written in General Insurance (Rs. In Million)



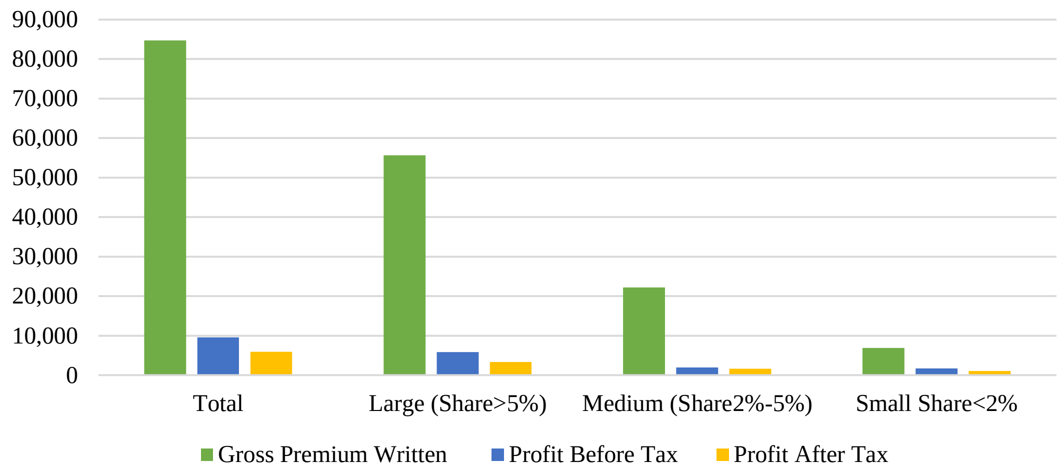
Source: PACRA General Insurance Report, 2023

98. In Non-Life insurance the majority of premium were collected through agents followed by direct sales and sales through brokers. Following figure presents the distribution of sales made through different channels in 2022.

4.3.1 Profit and Loss in Non-Life Insurance Sector

Figure 10: Gross Premium, Tax and Profit/Loss of Companies in Non-Life Insurance

(Rs. million)



Source: IAP Based on data of 25 companies*

99. The non-life insurance recorded a GPW of Rs. 84.7 billion during 2023. The sector witnessed a PBT of Rs. 9.5 billion and a profit after tax of Rs. 5.9 billion in 2023. The PBT of large players accounted for 61% of the total PBT. Similarly, the PAT of large players accounted for 55% of total PAT earned by non-life insurers. Detail of profit and loss of large, medium and small players is provided in the above figure.

4.3.1 SOE in Non-Life Insurance

National Insurance Company Limited

100. National Insurance Company Limited (NICL) was initially established in 1976 under the NIC Act 1976 as National Insurance Corporation (NIC) to insure public sector organizations. A major objective in establishing NIC was to reduce the outflow of foreign exchange in the form of reinsurance premium. In January 2001 its status was changed to a company limited from corporation under the National Insurance Corporation (Reorganization) Ordinance, 2000 to enable it operate under Insurance Ordinance 2000. Its paid up capital was raised to Rs. 2 billion from Rs. 5 million.[67] The change in its status was aimed at running it on commercial basis. NICL is the only state owned company, under the administrative control of the Ministry of Commerce, which is involved in non-life insurance business in the country. It is the only state owned enterprise to insure properties owned by the government, autonomous bodies, and organizations in which the Government of Pakistan or provincial governments control financial interests. The Section 166(3) of the Insurance Ordinance, 2000 empowers NICL to insure public property and to insure any

[67] https://nicl.com.pk/our-heritage-2/

risk pertaining to any public property. It has a market share of around 17.5% in terms of GWP.[68]

4.3.2 Third Party Motor Insurance in Pakistan

101. Third-party insurance is a policy acquired by the insured (first party) from the insurance company (second party) to safeguard against the claims of another individual or entity (third party). An illustrative instance of third-party insurance is car insurance, crafted to shield you from claims made by other drivers in the event of an accident.[69]

102. Third-party insurance is a mandatory requirement stipulated by the Motor Vehicles Act of 1939. The primary objective of this insurance policy is to provide substantial compensation to victims and the legal representatives of deceased victims, contingent upon the involved motor vehicle being insured.

103. Chapter VII of the Motor Vehicles Act of 1939 outlines provisions for insurance against third-party risks, a regulation still in effect in Pakistan. However, the compensation amount remains insufficient to adequately cover the losses incurred by victims of traffic accidents. Despite the legal requirement for third-party insurance, a considerable number of vehicles in the country remain uninsured, contributing significantly to the escalating rate of traffic accidents.

104. In 2016, amendment was made in the Motor Vehicles Act, 1939 (IV of 1939) to increase the insurance coverage limit for victims from twenty thousand to five hundred thousand and four thousand and two thousand in to two hundred thousand rupees. By making third-party insurance obligatory, the Bill aimed to intensify penalties for drivers operating uninsured motor vehicles, addressing a key factor behind the prevalent issue of vehicular accidents.[70]

4.4 Insurance Intermediaries

105. Insurance is a complex product that provides compensation to the insured or third party according to terms and conditions if a covered incident occurs. Distribution of insurance is carried out in multiple ways. In most of the insurance transactions, there is an intermediary.[71]

106. An intermediary has an important role in the entire life cycle of an insurance product, including sale, policy servicing, and claim servicing. An intermediary provides all material information concerning a proposed cover to enable the customer to choose the best product.

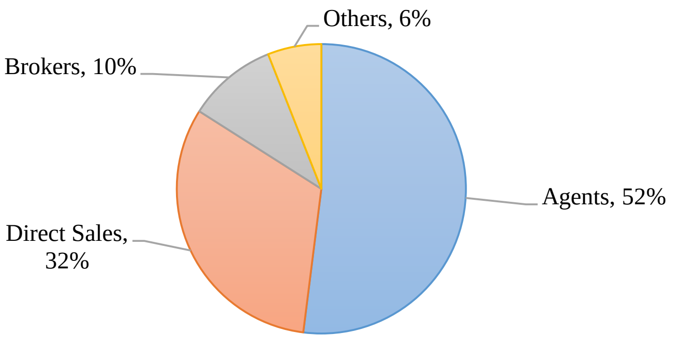
[68] https://www.dawn.com/news/1808723
[69] https://myinsurancebroker.com/insurance/understanding-third-party-insurance
[70] https://senate.gov.pk/uploads/documents/1463475308_490.pdf
[71] https://www.ciab.com/wp-content/uploads/2017/04/RoleOfInsInt.pdf

After the sale is realized, the intermediary coordinates between the insurer and the customer for policy servicing and claim servicing.

107. Generally, the insurance intermediaries have been classified into insurance agents, insurance brokers, surveyors, and third-party administrators. Although, surveyors and third-party administrators are included in insurance intermediaries, they are not involved in the marketing and procurement of insurance business.[72] The distinction between an agent and a broker depends on how they provide their services to insurance companies and consumers. Insurance agents normally work for insurance companies and are licensed to carryout business on behalf of insurer. They sell the new policies and renew the existing policies of consumers. Both the insurers and the consumers benefit from the services of agents. They help the consumer to choose the policy that best matches their needs. Generally, Insurance brokers work for policy holder, and are independent of insurer.[73] They provide tailored policies to businesses, government entities, organizations and individuals. They facilitate clients in selecting insurance by offering choices from different insurers and products. Operating as the buyer's "agent", brokers typically collaborate with multiple companies to secure coverage for their clients.

108. The following figure shows the GWP channel wise distribution in the non- life insurance sector.

Figure 11: Channel Wise Premium Collection in Non-Life Insurance in 2022

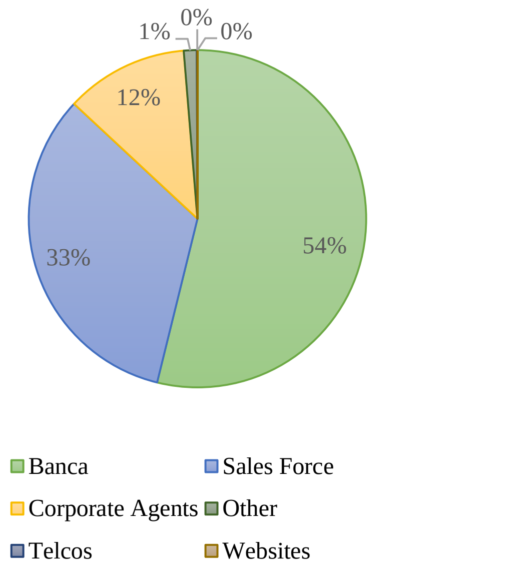


Source: Insurance Industry Statistics 2022, SECP

[72] https://blog.tapoly.com/insurance-intermediary-different-types/
[73] https://www.startupfino.com/blogs/role-of-insurance-intermediaries-and-regulatory-framework/

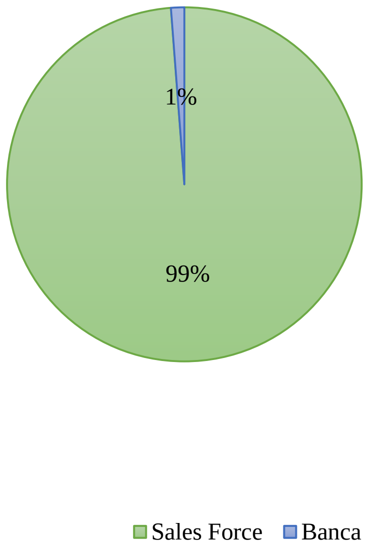
109. The figures below present the comparison of sales in public and private sector made through different channels in the life insurance sector.

Figure: Channel-wise Premium Distribution of Private Insurers



Source: Insurance Industry Statistics 2022

Figure: Channel-wise Premium Distribution of Public Insurers



Source: Insurance Industry Statistics 2022

4.5 Reinsurance/Retakaful

110. Reinsurance, commonly known as "insurance for insurance companies," involves a contractual agreement between an insurer and a reinsurer. In this arrangement, the insurance company transfers a portion or all of the risk associated with one or more insurance policies to the reinsurer. Reinsurance generates value as it generates stability. It reduces financial costs, improves market access, and results in better insurance prices.[74]

111. These reinsurance contracts can be directly negotiated with a reinsurer or facilitated through a third party, such as a reinsurance broker or intermediary.[75] The reinsurance companies are insurance companies that sell policies to other insurance companies. The reinsurers allow the insurers to reduce their risks and protect them from losses. Further, a reinsurance company may also be a direct writer of insurance risks as well.[76]

112. There are two main types of reinsurance: Treaty and Facultative. Treaties encompass comprehensive groups of policies, such as an entire primary insurer's auto business. On the

[74] https://www.casact.org/sites/default/files/database/forum_01sforum_01sf179.pdf
[75] https://content.naic.org/cipr-topics/reinsurance
[76] https://pii.com.pk/wp-content/uploads/2018/12/S.M.-Qudratullah-EFU.pdf

other hand, facultative agreements are tailored for specific individual risks, typically high-value or hazardous, such as a hospital, that may not be suitable for inclusion in a treaty.[77]

113. In treaty reinsurance, a company purchases insurance from another insurance company. The reinsurance purchasing company is called the cedent and the reinsurance issuing company is called the reinsurer.[78] The cedent passes on part of his risk to reinsurer either proportionally or non-proportionally. The facultative reinsurance consists of coverage purchased by an insurer to cover a single risk or a block of risks. This type of reinsurance provides the reinsurance company an opportunity to review individual risks and choose among them.79 Pakistan Reinsurance Company Limited (PRCL) is the sole reinsurance provider in Pakistan providing treaty as well as facultative reinsurance.

114. Retakaful is takaful for takaful companies, just like reinsurance.[80] However, shariah compliance characteristics of retakaful makes it different from conventional insurance. In this setting, risks are shared voluntarily and collectively by participants. Its market is concentrated in Muslim countries mainly in Middle East. In Pakistan, PRCL is providing retakaful services under Takaful Rules 2012. PRCL has established a dedicated window called "Waqf" in 2018 to carry out operations related to retakaful.[81]

4.5.1 SOEs in Reinsurance

Pakistan Reinsurance Company Limited (PRCL)

115. Pakistan Reinsurance Company Limited, PRCL was established in 1952 as Pakistan Insurance Corporation under PlC Act 1952. PRCL is an SOE and it is the sole reinsurance company operating in Pakistan. PRCL is a public sector company under the administrative control of the Ministry of Commerce.[82] It provides reinsurance, insurance, and other risk transfer services to insurance-based firms. The company operates across various segments, including fire, marine cargo, marine hull, accident, aviation, engineering, and treaty. Its business operations are managed through six departments: Fire, Marine (Cargo and Hull), Engineering, Accident, Aviation, and Treaty & Business Development.

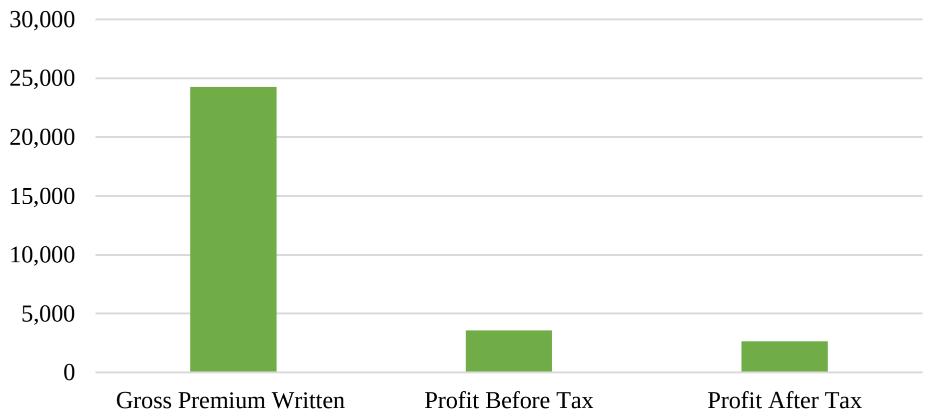
116. The Fire department specializes in covering risks related to buildings, contents, stocks, machinery, and other insurable interests. The Marine department, comprising Marine Cargo and Marine Hull, focuses on a wide range of risks, including cargo, hull, machineries, freight, shipbreaking, pleasure boats, and third-party liability. The Engineering department is dedicated to reinsurance coverage for property damage, business interruption, machinery breakdown/boiler, contractor all risks, erection all risks, and third-

[77] https://www.iii.org/publications/insurance-handbook/regulatory-and-financial-environment/reinsurance
[78] https://www.investopedia.com/terms/t/treaty-reinsurance.asp
[79] https://www.investopedia.com/terms/f/facultative-reinsurance.asp
[80] https://elibrary.worldbank.org/doi/epdf/10.1596/9780821397244_CH12
[81] https://www.pakre.org.pk/ms/images/pdf/Accounts/Accounts%20Retakaful%20-%2030-09-2019.pdf
[82] https://pakre.org.pk/ms/about-prcl/company-profile.html

party liability. PRCL operates comprehensively across these departments to effectively conduct its business activities.[83]

Figure 12: Gross Premium and Profit of Pakistan Reinsurance Company Limited in 2022

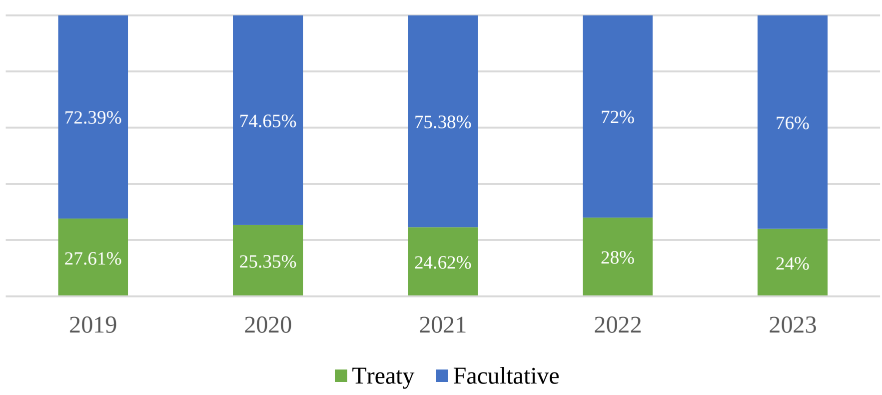
(Rs. million)



Source: SBP, , https://www.sbp.org.pk/reports/annual/FSAFS/2023/2023.htm

117. The PRCL has about 25-27 percent share in the reinsurance market (treaty and facultative).[84] During 2022, PRCL recorded GPW of Rs. 24 billion and earned a Profit Before Tax and Profit After Tax of Rs. 3.6 billion and Rs. 2.6 billion respectively.

Figure 13: Share of Treaty and Facultative Business of PRCL 2019-2023 (%)



Source: Financials of PRCL

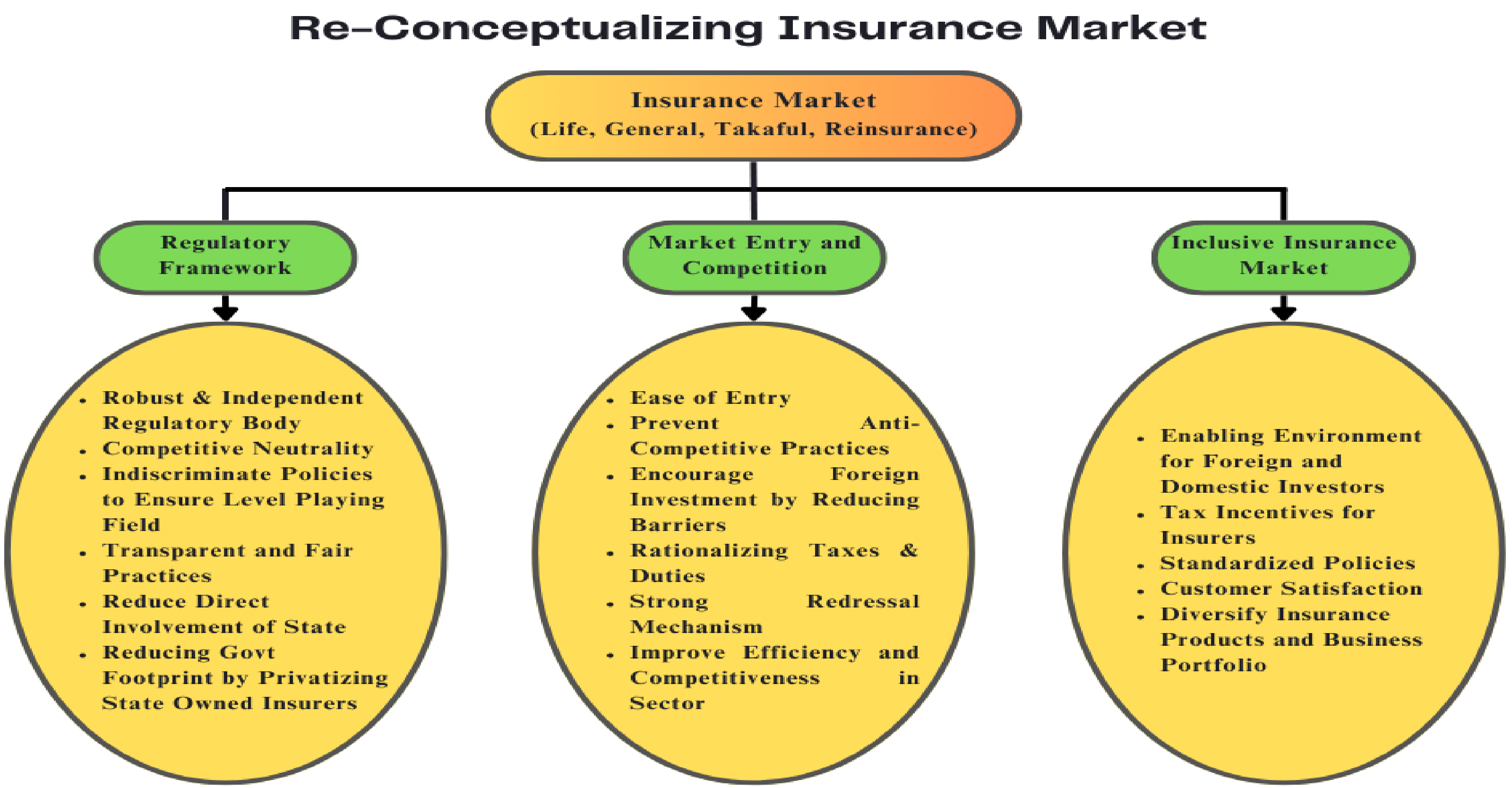
118. It can be observed from the above figure that of the two reinsurance business of PRCL, the share of facultative reinsurance was over 70 percent, while the share of treaty business was less than 30 percent during FY2019-2023.

[83] https://pakre.org.pk/ms/
[84] Data shared by PRCL

Re-conceptualizing the Insurance Industry

119. There are multiple factors that influence the competitive landscape of the insurance industry. The following figure highlights several factors, including the regulatory framework, market competition, and the inclusive insurance market, aimed at bringing Pakistan's insurance industry at par with the best-performing international markets.

Figure 14: Towards Promoting Competition in the Insurance Market



CHAPTER 5 - MARKET CONTESTABILITY IN THE INSURANCE/ TAKAFUL INDUSTRY

120. A contestable market is a market that has no entry and exit barriers for firms and there are limited sunk costs. Market contestability analysis is critical for economic regulation and competition policy.[85] To assess the level of competition in the insurance market this section identifies and evaluates the entry barriers and market contestability. These barriers restrict new competitors from entering the market and at the same time protect the interest of the incumbent players by maintaining or increasing their market share, profitability, and revenues. These are (a) structural/natural barriers, (b) regulatory barriers, and (c) barriers resulting from anti-competitive conduct of market players because of their dominance and market power, and vertical/horizontal agreements between players. These barriers are discussed in detail below.

5.1 Regulatory Barriers

5.1.1 Restriction on Procuring Facultative Reinsurance from outside of Pakistan

121. It is mandated under Rule *18(1)* of the *Insurance Rules, 2017* that no insurer may purchase facultative reinsurance for any insurance business underwritten in Pakistan outside the country without obtaining permission from the SECP. The regulation reads as;

> *For the purposes of sub-section (5) of section 41 of the Ordinance, no insurer shall reinsure facultatively outside Pakistan any insurance business or any part thereof underwritten by it in Pakistan without the permission of the Commission.*

122. All the insurers are required to procure facultative reinsurance from inside Pakistan. Once the local capacity is utilized then insurers are allowed to procure facultative reinsurance from outside Pakistan. This restriction on procuring facultative reinsurance from outside Pakistan thus creates a barrier for domestic insurers intending to procure facultative reinsurance from foreigner players. Such a restriction may allow local players to offer reinsurance on their own terms and conditions whereas, at the same time, the foreign players may offer better reinsurance services. Furthermore, it indirectly grants monopoly power to PRCL and restricts competition. Although, the SECP may grant permission under Rule 18(2) to have reinsurance from outside Pakistan. But having such restriction is against the spirit of healthy competition. The permission may be granted if SECP finds that the insurance exceeds the insurer's treaty arrangements, and that the excess cannot be reasonably placed within Pakistan or if the insurance business is of a special

[85] https://documents1.worldbank.org/curated/en/628321468766160320/pdf/multi-page.pdf

nature and there are no treaty arrangements for it.[86] Although such a restriction may be helpful in managing the outflow of foreign exchange, however, it distorts competition in local market as local service providers have no incentive to innovate and offer better services.

5.1.2 PRCL Receives Statutory Reinsurance in Non-Life Treaty Insurance

123. The basic purpose of insurance is to divide the risk. Therefore, the insurance companies do not take whole risk upon them rather they divide the risk by covering themselves under reinsurance. Reinsurance acts as financial safety net for insurance companies. In Pakistan, there is only one reinsurer; Pakistan Reinsurance Company Limited (PRCL). PRCL is an SOE under the administrative control of the Ministry of Commerce. The Company's reinsurance segments include fire, marine cargo, marine hull, accident and others, aviation, engineering and treaty. PRCL is the only reinsurance organization operating in Pakistan and it provides cover to non-life insurance companies.[87] *Section 41* of the *Insurance Ordinance, 2000* makes it obligatory for all insurers to maintain reinsurance arrangements according to their exposure.[88] The *Section 41(1)* reads as follows;

> *An insurer shall effect and shall at all times maintain such reinsurance arrangements as are, in the opinion of the directors (or such other person or body responsible for conducting the management and business of the insurer), formed on reasonable grounds, having regard to the exposures of the insurer in respect of individual contracts accepted and in respect of aggregate losses arising out of individual events, adequate to ensure continuing compliance by the insurer with the provisions of this Ordinance relating to solvency.*

124. Further, the *SRO 771 (1)/2007* of MoC[89] makes it obligatory for every insurer operating in Pakistan to reinsure with PRCL at least 35% of the business which is in excess of the aggregate of:

(i) insurer's net retention
(ii) the sum insured otherwise reinsured with PRCL or with any other insurer in Pakistan but excluding any part reinsured outside Pakistan.

125. Hence, every insurer is required to procure 35% of the treaty reinsurance from PRCL. This regulation grants PRCL first right of refusal in treaty reinsurance agreements.

[86] https://www.secp.gov.pk/document/sro-89-i2017-insurance-rules 2017/?wpdmdl=25428&refresh=657ad51be0ad71702548763
[87] https://www.brecorder.com/news/3553447
[88] https://jamapunji.pk/sites/default/files/InsuranceOrdAmended-Nov2011.pdf Section 41.
[89] https://www.psx.com.pk/psx/themes/psx/uploads/Notice-Draft-OFSD-for-Public-Comments.pdf

5.1.3 Monopoly Power of PRCL to Choose the Good Policies

126. The monopoly powers granted to PRCL under the *SRO 771 (1)/2007* of MoC, also empower PRCL to choose the reinsurance of its own choice. The basket of an insurer contains policies with differing risks and premium rates. Every reinsurer intends to offer coverage for policies with lower risk and higher premium rates. The first right of refusal granted to PRCL enables it to choose the policies that are attractive in terms of lower risk and higher premium rate. With PRCL having already chosen the better policies, the ratio of inferior policies increases in the basket of the insurer. This basket becomes less attractive for foreign reinsurers and put the insurer in struggle to procure coverage for the remaining policies. Hence, this practice by PRCL also tantamount to abuse of dominant position.

5.1.4 Foreclosure of Public Property Insurance for Private Sector under the Insurance Ordinance 2000

127. The National Insurance Company Limited provides non-life insurance coverage to the state-owned movable and immovable assets belonging to the Federal and provisional governments, Local Authorities, and Statutory Corporations. *Section 166 (3)* of the *Insurance Ordinance, 2000* has granted NICL exclusive rights to insure business pertaining to any public property.[90] The relevant section reads as follows:

> *Subject to the provisions of sub-sections (4) and (5), all insurance business relating to any public property, or to any risk or liability appertaining to any public property, shall be placed with the Company only and shall not be placed with any other insurer:*
>
> *Provided that marine, aviation and transport insurance relating to goods the import of which is financed out of an external loan, or with external aid, may, at the option of the importer, be placed with any insurer authorised to carry out such insurance business in the country giving the loan or aid.*

128. According to the above-mentioned Section, no company other than NICL can provide coverage to the public assets. This Section has eliminated the possibility of competition in this market segment altogether. It does not only exclude the private sector, but it also excludes the possibility of having coverage with any other public sector insurer. The conditions for exemption from this Section are provided in *Sections 4 and 5.* No private company can provide coverage to the public assets, unless it is granted permission by government to do so. The Competition Commission of Pakistan, vide its *Policy Note dated May 18th, 2015* recommended the government to amend the above mentioned Section. There have also been multiple demands from different public sector entities to amend the

[90] Section 166 of the Insurance Ordinance, 2000. https://jamapunji.pk/sites/default/files/InsuranceOrdAmended-Nov2011.pdf

relevant section and allow a healthy competition in this market.[91] However, the government has not yet amended the section. Due to the monopoly of NICL, the public sector entities sometimes have to purchase costly insurance, which posits a loss to these entities.[92]

5.1.5 Government Guarantee on Life Insurance Policies Sold by SLIC

129. Life insurance business was nationalized in Pakistan in 1972, and SLIC enjoyed a monopoly until 1990, when private companies were allowed to establish their business again. Since 1994, the market has been open, but SLIC continues to dominate the market with over 50 percent of share in the Life Insurance segment. It has also led to bureaucratic behaviour and has resulted in a lack of innovation in product development.

130. The government provides security to the policies issued by SLIC. The government's guarantee is granted under Section 35 of the Life Insurance (Nationalisation) Order, 1972 which reads as follows:

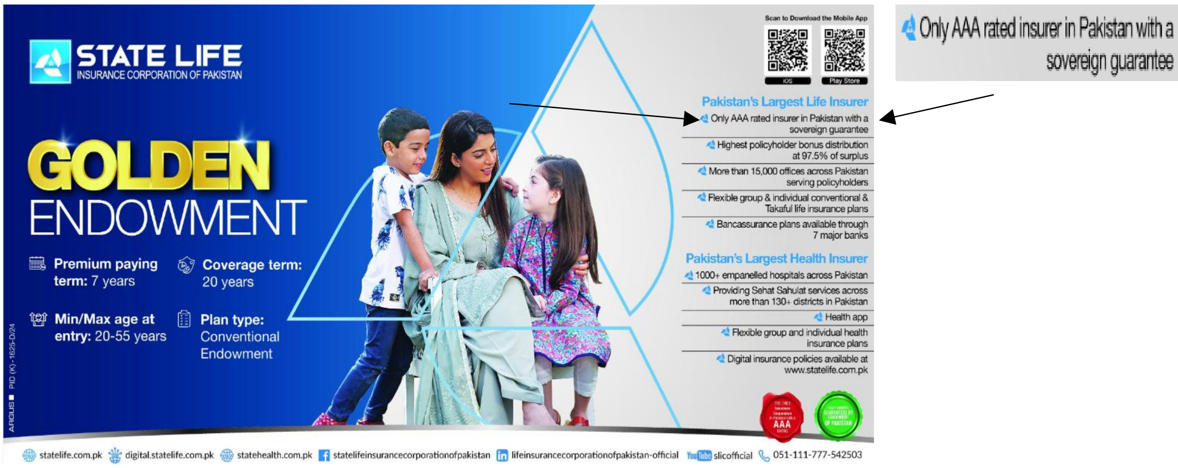
The sums assured by all policies issued by the Corporation including any bonuses declared in respect thereof and, subject to the provisions contained in Article 21, the amounts assured by all policies issued by any insurer, the liabilities under which have vested in a Corporation under this Order, and all bonuses declared in respect thereof, whether before or after the appointed day, shall be guaranteed as to payment in cash by the [Federal Government].

The guarantee of the Federal Government to the policies issued by SLIC distorts the level playing field for other insurers and hampers their growth. This clause has helped SLIC to maintain higher market share despite liberalization of the sector. Such a provision hampers competition by providing the insurer unfair advantages, distorting risk assessment and pricing, promoting market dominance and distorting incentives for innovation and efficiency. The SLIC

An attempt was made to convert SLIC into a public limited company through State Life Insurance Corporation (Re-organization and Conversion) Bill, 2016. Section 9(1) of the draft legislation extends the guarantee of the payment by the Federal government to policies issued prior to promulgation of the State Life Insurance Corporation (Re-organization and conversion) Bill, 2016. Under Section 9(2), the policies issued after promulgation of the draft legislation were not liable to payments by the Federal government. However, this legislation faced multiple challenges and lapsed, as it was not passed by the National Assembly.

[91] Asif, R. (December 2019). Punjab demands end to NICL monopoly. Business Recorder. https://tribune.com.pk/story/2111950/punjab-demands-end-nicl-monopoly
[92] Iqbal, W. (24 October 2020). *Insurance Ordinance, 2000: PD submits summary to amend Section 166 (3)*. Business Recorder. https://www.brecorder.com/news/40028350

is able to use this guarantee as a marketing tool to get a competitive advantage over other market players. The following newspaper advertisement is for reference here.[93]



131. Furthermore, according to the 'Competitive Neutrality' principle, a public sector business/ agency should not have a competitive advantage or a disadvantage over the private sector simply due to their government ownership. Public sector businesses/SOEs should compete with private sector businesses on an equal and competitively neutral environment.[94]

132. The OECD's Competitive Neutrality Toolkit, 2021 that draws on the international best practices to help public officials identify and minimize competition distortions caused by government intervention, states the following:

> *"the principle of competitive neutrality fosters competition by eliminating or reducing undue competitive advantages that some players may enjoy over their competitors, such as support granted by the state or regulations that favour incumbents. Governments should ensure a level playing field between state-owned and privately-owned enterprises, between different privately-owned enterprises and between domestic and foreign enterprises. Ensuring a level playing field is key to enabling competition to work properly and deliver benefits to consumers and the wider economy".*[95]

5.1.6 Limited Jurisdiction of Federal Insurance Ombudsman (FIO)

133. The FIO was established under the Insurance Ordinance, 2000 and thereafter the FIO Secretariat was established in 2006. The FIO is a specialized institution that aims to develop a sound oversight mechanism for the malpractices in the insurance industry, and to provide

[93] Source: https://epaper.brecorder.com/2024/12/18/1-page/attachment/1820544-picture.html
[94] https://www.qca.org.au/project/competitive-neutrality/
[95] https://www.oecd.org/en/topics/sub-issues/competitive-and-fair-markets/competitive-neutrality-in-competition-policy.html

protection to the policy holders. While FIO is created under the Insurance Ordinance and it should have mandate over all life and non-life insurance companies (private or public) operating in Pakistan. However, the jurisdiction of the FIO has been restricted to only the private sector insurance companies, while the jurisdiction over the government owned insurance companies (SOEs) remains with the Wafaqi Mohtasib. The FIO is specialized in insurance related matters and has expertise in dealing with insurance disputes. In contrast, the Wafaqi Mohtasib deals with a broader range of issues and complaints against the public sector organizations and government departments. The Wafaqi Mohtasib lacks specialization in insurance matters and therefore the effectiveness of resolving insurance specific issues. While on the one hand this jurisdictional issue between FIO and Wafaqi Mohtasib leads to confusion among the policyholders about where to file a complaint regarding insurance. On the other hand, the vast jurisdiction of the later results in filing of huge number of complaints and long time for disposal of the cases creating a barrier for the insurance sector's growth and penetration.

5.2 Strategic Barriers

5.2.1 Anticompetitive Behavior of Banks in Bancassurance (*Banca*)

134. All the insurance companies operating in Pakistan are required to comply with the Solvency Requirements defined in the Insurance Ordinance 2000 Sections 35 and 36 which make it obligatory for an insurer to maintain a surplus of assets over its liabilities. Furthermore, Section 41 (1) makes it obligatory for every insurer to maintain reinsurance arrangements that are sufficient for him to continue its business. Section 41 (1) reads as follows:

> *An insurer shall effect and shall at all times maintain such reinsurance arrangements as are, in the opinion of the directors (or such other person or body responsible for conducting the management and business of the insurer), formed on reasonable grounds, having regard to the exposures of the insurer in respect of individual contracts accepted and in respect of aggregate losses arising out of individual events, adequate to ensure continuing compliance by the insurer with the provisions of this Ordinance relating to solvency*.

135. Insurance companies also use banking channels to sell insurance. In doing so they follow the obligations set out in the Insurance Ordinance 2000, and by the SECP. The commercial banks/DFIs (including Islamic banks) operating in the country have different capital base, size, distribution reach, service quality and appetite for bancassurance. The banks and the insurance companies match with each other keeping in view their size, products, and services etc. However, in some cases, banks put an internal limit on the insurance business they can do through banking channel.[96] In such instances, although the insurance company is fulfilling the requirements of the regulator, SECP, but it cannot do

[96] Information shared by Insurance Association of Pakistan in meeting with CCP.

business beyond the limit set by the respective bank. Many large banks incorporated in Pakistan are also in the insurance business. These banks promote their own insurance business and are unwilling to do business with small insurance companies. Such a practice by banks warrants to refusal to deal and may attract the provision of the *Competition Act, 2010, Section 3 abuse of dominant position*. Thus, while small insurance companies may meet regulatory requirements set by SECP, the internal policies of banks regarding the insurance business create barriers for these companies as they seek to do business with banks.

5.2.2 Mis-selling and Deceptive Sales Tactics under Bancassurance/ Bancatakaful

136. There are multiple insurance companies providing their services through 'bancassurance'. Bancassurance arrangement can involve a bank, a microfinance bank, or a financial institution, and an insurer. SECP Corporate Insurance Agents Regulations, 2020 defines bancassurance as;

> *"bancassurance" means the offering, advertising, distributing, selling and/or marketing of insurance products by a bank licensed by State Bank of Pakistan to their account holders /customers / general public through their sales and distribution channels including but not limited to branches, telemarketing centres, websites or any digital platform etc. by virtue of agency agreement(s) between the insurer and the bank;*[97]

137. Under bancassurance arrangement, the financial institution comes together with an insurance company under the "agency agreement" to market and sell insurance products. Banks usually have large clientage which the insurance provider targets. The banks sell insurance products to its customers on behalf of the insurance company. The commission earned on selling the insurance products is divided between the bank and the insurer on either direct sales or referral method.[98] It's a win-win situation for both the bank and the insurance company, as for the banks 'bancassurance' is a low hanging fruit and the insurers get access to a vast customer base, their savings and deposits.

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[97] https://www.secp.gov.pk/document/notification-s-r-o-1304/?ind=1607591757298&filename=Notification-S.R.O-1304-compressed.pdf&wpdmdl=40906&refresh=66d6df8ea5c051725357966
[98] https://www.linkedin.com/pulse/case-against-bancassurance-

To address the issue of mis-selling (life and non-life insurance), the SECP has issued market conduct regulations i.e. Corporate Insurance Agents Regulations, 2020, under which the corporate agents including banks are required to ensure the provision of clear and detailed disclosure to the customers including bilingual policy documents, increased communication through SMS and emails, after sales call back confirmation process and the automatic claw-back provision. Under Section 15 Commission claw-back, in case a policy is mis-sold, the entire commission paid by the insurer to the corporate insurance agent, and the premium paid by the policyholder is refunded.

138. Although, the SECP has issued detailed regulations as discussed above, however it is observed that the bank/insurer staff do not properly guide the customers about the details of the insurance products, and the terms and conditions applicable. At times the information is in fine print that misleads and exploits the vulnerable customer. This issue can also be observed from the complaints data of FIO according to which bancassurance has the highest number of complaints received against the insurers.[99] A policy holder can lodge his/her complaint with the insurance company as prescribed under *Rule 33 'Conduct of agents and insurer'* of the *Insurance Rules, 2017*. However, in case the customer grievance is not addressed, he can then lodge a complaint with the Federal Insurance Ombudsman (FIO).[100] Determining who should be held legally accountable in cases of consumer complaints is a challenge, as the banks argue that they are liable to complaints lodged only with the Banking Ombudsman. Due to this issue, the cases of policy holders remain pending at the desk of FIO. Annex III provides the data on the complaints received by the FIO and the monetary relief provided.

5.2.3 Non-Implementation of Motor Third Party (MTP) Insurance

139. Motor Third Party insurance offers protection in cases where a motor vehicle accident results in injury or damage to a third party's health or property, for which the driver or owner of the vehicle are deemed responsible.[101] The policyholder pays a premium to the insurer to safeguard against liabilities arising from damages inflicted upon a third party during a road traffic incident.

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[99] Please see Annex-III for data on complaints handled by FIO and the Wafaqi Mohtasib.

[100] For redressal of policyholders complaints, there are multiple avenues i.e (i) insurer (ii) SECP (Small Dispute Resolution Committee for complaints up to limit of PKR 2.5 million) (iii) Insurance Tribunal (iv) FIO (v) Legal recourse

[101] https://documents.worldbank.org/en/publication/documents-reports/documentdetail/934881468163480768/motor-third-party-liability-insurance

140. In Pakistan, every motor coming on road in public place is required to have MTP insurance. *Section 94* of the *Motor Vehicles Act, 1939* makes it obligatory for motors to have third party insurance.[102] The Section 94 reads as follows:

> *No person shall use except as a passenger cause or allow any other person to use a motor vehicle in a public place, unless there is in force in relation to the vehicle by that person or that other person, as the case may be, a policy of insurance complying with the requirements of this Chapter.*

141. This insurance provides coverage for any damage or injury caused to a third party by the insured vehicle. However, non-availability of mechanism for verification of third party insurance, inadequate information and awareness, lack of centralized data base with provincial Law Enforcement Agencies (LEAs), high cost and low compensation for insurance settlement has resulted in only 3% of the motors insured.[103] Consequently, as the potential market for MTP insurance remains untapped in the country there is low insurance penetration, participation, innovation, and competition in the industry.

5.2.4 Issues in Applicable Sales Tax on Insurance and Reinsurance Services

142. In Pakistan, federal and provincial sales tax is applicable on the insurance industry. In general, the sales tax on goods is a Federal tax while sales tax on services is a provincial tax. The Federal Board of Revenue (FBR) collects sales tax on the sale and supply of goods, and on imported goods under the Sales Tax Act, 1990.[104] The FBR also collects sales tax on services levied under the Islamabad Capital Territory (Tax on Services) Ordinance, 2001.[105] Sales tax on services that are interprovincial, national or provided in the Islamabad Capital Territory (ICT) such as telecommunications, IT, banking and insurance are collected by the FBR. The provincial governments levy sales tax on services in their respective jurisdictions. Sales tax on insurance (life and non-life), and reinsurance is levied as under:

- Punjab under the Punjab Sales Tax on Services Act, 2012;
- Sindh under the Sindh Sales Tax on Services Act, 2011;
- Khyber Pakhtunkhwa (KP) under the Second Schedule of the KP Finance Act, 2021[106]; and

[102] Motor Vehicles Act, 1939. https://punjablaws.punjab.gov.pk/uploads/articles/motor-vehicles-act-1939-doc-pdf2.pdf
[103] Business Recorder. (14 December 2023). Status of Motor Third-Party Insurance in Pakistan: Importance of Motor Third-Party Insurance. https://www.brecorder.com/news/40278543
[104] Certain goods are exempted from the sales tax, these include computer software, poultry feeds, medicines and unprocessed agricultural produce, and other goods specified in Sixth Schedule of the Sales Tax Act, 1990, or under various SROs issued by the government under Section 13 of the Act, https://www.fbr.gov.pk/sales-tax/142263/131269
[105] *ibid*
[106] https://kpra.gov.pk/wp-content/uploads/2022/05/second_schedule_2021-22-1.pdf

- Balochistan under the Balochistan Sales Tax on Services (Amendment) Act, 2018.[107]

143. The sales tax rates vary across provinces and are driven by the provincial financial requirements, economic conditions and revenue targets. The provincial sales tax is applicable on both life and non-life insurance, and the reinsurance services. However, certain segments of the insurance services such as life insurance, and health insurance have been notified as exempted from provincial sales tax[108] for a certain fixed period to boost the demand for insurance in the country.[109] Likewise, marine insurance for export and crop insurance are excluded from the list of applicable sales tax schedule under the provincial sales tax laws.

144. While the provincial sales tax on insurance premium is paid by the policy holder, the provincial sales tax on reinsurance premium is paid by the insurer, as excess risk is transferred to the reinsurer. At the reinsurance stage, the same insurance premium collected by the insurer is subject to the sales tax for procuring reinsurance services. This creates a tax anomaly as sales tax is levied on already taxed premium. Further, sales tax is applicable on reinsurance even when exempted on life and health insurance and some general insurance, along with withholding tax on the reinsurance commission (ceding commission), paid by the insurers. The taxation anomalies thus increase the cost of doing business, create a tax burden on the insurance industry at reinsurance stage and act as an entry and efficiency barrier.

5.2.5 Federal Insurance Fee on Non-Life Insurance

145. In 1989, the Government of Pakistan imposed Federal Insurance Fee at the rate of 1 % of the premium on non-life insurance policies through Finance Act 1989.[110] At the time of this levy's promulgation, the industry was taken into confidence that the fee will be utilized for creating awareness of insurance in country. However, the fee has not been utilized for the said purpose, hence creates an additional cost for non-life insurers. It is expected that a large amount may have been collected so far, which is lying redundant in government accounts.

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[107] To amend the Balochistan Sales Tax on Services Act, 2015, https://phkh.nhsrc.pk/sites/default/files/2020-12
[108] https://www.secp.gov.pk/wp-content/uploads/2016/05/SECP-welcomes-SRB-decision-to-defer-sales-tax-on-life-and-health-insurance.pdf
[109] https://www.srb.gos.pk/srb/wp-content/uploads/2020/07/04-08-2015-2.pdf, https://www.karachitaxbar.com/wp-content/uploads/articles/2019/Saud_ul_hasan_Sales_tax_on_services_F.Acts_2019.pdf
[110] https://na.gov.pk/uploads/documents/1335428564_190.pdf

CHAPTER 6 - CONCLUSIONS AND RECOMMENDATIONS

146. The insurance industry plays an important role in the development of a country by bringing certainty and reducing the risk faced by individuals and businesses. The insurance industry has remained dormant in Pakistan, as insurance penetration and density are low compared to regional counterparts. The industry has witnessed government intervention in the form of nationalization during 1970s, and support to SOEs after liberalization. This support has hindered the growth of private insurers in the country.

147. The industry is primarily governed by SECP under the *Insurance Ordinance, 2000* and the *Insurance Rules*, 2017. However, there are multiple acts, rules, regulations and guidelines applicable on the industry as discussed in the report. Although there are 4 SOEs present in the insurance industry, however their foot print is prominent in each of the insurance business, i.e., life, non-life, and reinsurance.

148. In the Life insurance business, SLIC and Postal Life insurance are the 2 SOE insurers. SLIC has a monopoly in life insurance with over 50% market share. The non-life insurance business is dominated by the private sector. NICL is the only SOE operating in non-life insurance segment having 100% market share. It is the only insurer providing general insurance to the movable and immovable assets belonging to the Federal and provisional Governments, under *Section 166* of the *Insurance Ordinance, 2000*. In the reinsurance business, PRCL is the only reinsurance provider. It enjoys government support in both the treaty and facultative insurance business.

149. Based on the market analysis, review of the legal and regulatory framework, stakeholder consultations, and the barriers to competition identified, the study makes recommendations which are divided into (i) regulatory, and (ii) other recommendations to enhance competition in the industry.

6.1 Recommendations to Improve Regulatory Framework

6.1.1 Amendment in SECP Insurance Rules, 2017 to Enhance Competition in the Domestic Reinsurance Market (Facultative Reinsurance)

150. Rule 18 (1) of the Insurance Rules, 2017 restricts insurance companies to reinsure facultatively outside Pakistan any insurance business or any part thereof underwritten by it in Pakistan without the permission of the SECP. Under Rule 18, the insurance companies first have to exhaust the available reinsurance domestically. Further under the said rule, SECP may grant permission to insure facultatively outside Pakistan under Rule 18(2) (a)(b) and (c) whereby the amount to be reinsured is in excess of the insurer's treaty arrangements, facultative reinsurance is required for some special reason, or the insurance is of special nature. Where such requirement may be beneficial for restricting outflow of foreign exchange, however it may put additional obligatory requirements on market players and hinder their performance. In a market where there is only one reinsurer i.e., PRCL, this regulatory support under Rule 18 may put burden on the insurers as they are pushed to

place their business with local reinsurer even if it is less competitive to international reinsurers. This requirement is against the spirit of competition as insurers cannot freely choose between reinsurer of their choice. Therefore, it is recommended that in order to improve competition and choice in the reinsurance market, Rule 18 of the Insurance Rules, 2017 may be amended by SECP and insurers may be allowed to freely choose between local or foreigner reinsurers.[111]

6.1.2 Removal of Statutory Requirement of Treaty Reinsurance from PRCL to Create a Level Playing Field

151. *Section 42* of the *Insurance Ordinance, 2000*, directs that every insurer shall offer to reinsure with *PRCL* a certain proportion of its direct non-life insurance business. Further, *SRO 771 (1)/2007* of Ministry of Commerce specifies that every insurer operating in Pakistan shall continue to reinsure with PRCL not less than 35% of its treaty business. The PRCL enjoys regulatory support from the Federal Government in the shape of exclusive first right of refusal to have at least 35% of treaty reinsurance business from insurers operating in Pakistan. The statutory requirement of reinsurance together with first right of refusal are the key revenue drivers for PRCL.[112] Under this statutory obligation, PRCL attains monopoly power to choose the insurance businesses to reinsure. Further, the restriction to purchase 35% of reinsurance from PRCL excludes other players to participate in the reinsurance market hence creating a non-level playing field for reinsurers. Removing such requirement will increase competition in the reinsurance sector and will help foreign investment and innovation and efficiency in the sector. The government may consider amending the *SRO 771 (1)/2007* of Ministry of Commerce to provide a level playing field to other reinsurers.

6.1.3 Allowing Private Sector to Participate in Insuring Public Property

152. NICL has the exclusive rights to insurance public property. No other entity can insure any public property unless granted permission by government. Section 166 (3) of the Insurance *Ordinance*, 2000 grants NICL exclusive rights to underwrite and insure public sector firms, their assets, and properties. Such exclusive rights close the entry of other entities in the market of public property insurance, hence hampers competition in this market. Therefore, it is recommended to remove such barriers and allow all market players to participate in the market of public property insurance.

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[111] SECP comments shared on the subject are that the Rule 18(1) of the Insurance Rules, 2017 aims to utilize the capacity of the local insurers, thereby fostering competition within the industry regarding risk acceptance. If risk cannot be absorbed locally, insurers are then permitted to place reinsurance with foreign reinsurers. Furthermore, SECP's role is limited to reviewing whether an offer has been made to the local industry before placing it with the foreign players and ensure that the risk placed with foreign reinsurance companies have the required credit rating to protect the interest of the insurance companies and the policy holders.

[112] https://www.psx.com.pk/psx/themes/psx/uploads/Notice-Draft-OFSD-for-Public-Comments.pdf

6.1.4 Removing Government Guarantee on Life Insurance Policies Sold by SLIC

153. With over 50% of the market share in life insurance segment of insurance, and over 5.7 million individual life policyholders[113] SLIC enjoys monopoly power. The life insurance policies of SLIC are attractive to consumers because of the Federal Government's guarantee under *Section 35* of the *Life Insurance (Nationalization) Order 1972*. Over the decades, SLIC has been receiving government support, which has resulted in the monopoly of SLIC in the life insurance segment. Even after liberalization of the sector, SLIC continues to enjoy full financial security by the Federal Government to all policy holders. The private insurance companies doing business in the life insurance segment do not have any such guarantee by the Federal Government, while they compete with SLIC in the life insurance business. While the principle of competitive neutrality asserts that the state should ensure a level playing field, where both public and private sector businesses compete on equal terms. This guarantee by the government distorts the level playing field for other market players. In order to have fair competition in the life insurance business based on competitive neutrality as envisaged in Pakistan's SOE Act, 2023, it is recommended that such provision may be abolished and a level playing field may be created for all players where they compete on the basis of their services and not on the basis of government guarantees. This existing government guarantee on policies sold by SLIC imposes a contingent liability on the government's budget. Therefore, it is proposed that the Pakistani insurance market may be encouraged for a transition towards an Insurance Guarantee Scheme (IGS), as operational in several other countries.[114] An IGS in Pakistan will limit the government's fiscal exposure, as the scheme would be funded by the industry rather than taxpayers. This will promote fair competition, and will also encourage innovation and efficiency in the products and services provided by SLIC and the private insurers in the life insurance business.[115]

6.1.5 Jurisdiction of the FIO Over all Insurance Companies

154. The FIO acts as a safeguard for policyholders, and ensures that their grievances against the insurers are addressed impartially and fairly. This is essential for maintaining consumer's trust and confidence in the industry. By addressing grievances and recommending improvements, the FIO contributes to raising the industry standards and enhancing the quality of services provided by insurers. While the FIO has a specialized role in the insurance industry i.e., dispute/grievance settlement, however its jurisdiction is limited only to private sector life and non-life insurance companies. The complaints/grievances against the public sector insurance companies (SLIC and Postal

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[113] https://www.brecorder.com/news/40117944

[114] IGS is discussed in detail in Chapter 2

[115] The Privatization Commission in its comments during the finalization of this report have proposed 'Phased Privatization of Insurance SOEs'. As per Privatization Commission, the phased privatization of insurance SOEs accompanied by measures to ensure that privatized entities operate under a competitive regulatory framework, could enhance their efficiency and contribution to the market. As part of the privatization process consider to implement employee shareholding scheme to ensure buy-in from the workforce and smooth transitions.

Life) are handled by the Wafaqi Mohtasib, i.e., the Federal Ombudsman.[116] It is recommended that since FIO has been established under the Insurance Ordinance 2000 and is mandated to resolve disputes between the insurance companies and the policyholders, therefore it may cover all insurance companies, whether public or private operating in Pakistan. A single ombudsman may better provide a centralized authority for addressing insurance related grievances. It will build greater expertise and knowledge about the insurance industry, leading to more informed decision making and better dispute resolution of complex cases. A single ombudsman may streamline the complaint resolution process and ensure that there is a consistent approach to handling issues across the country.

6.2 Other Recommendations to Enhance Competition

6.2.1 Banks to Ensure Equal Treatment to all Insurers

155. Insurance providers are also using banking channels to sell their products. *Section 41(1)* of *Insurance Ordinance, 2000* requires all insurers to cover their risk through reinsurance. However, in some instances, banks put an internal limit on the business insurance companies can do through a banking channel. This limit is not communicated to the insurance providers and is disclosed once the limit has reached. Such a practice is detrimental to competition as despite insurer's compliance to the Insurance regulatory requirements, they are declined to do business beyond a limit. This behavior of banks represent refusal to deal and is against the spirit of competition. Therefore, it is recommended that the CCP may further explore this conduct under Section 3 of the Competition Act. Additionally, the SBP may issue guidelines to banks asking them not to involve in such practice, which limits competition.

6.2.2 Guidelines on Mis-selling and Deceptive Sales Tactics under Bancassurance/ Bancatakaful

156. Insurance companies also provide insurance services through the banking channels. The banks have a large pool of financial data on their customers, making it convenient for insurance companies to target and sell their products. The banks and the insurance companies sell the insurance products through the banks' network either through 'direct sales' or the 'referral' model. Banks' customers choose bancassurance because of their trust and relationship with the bank.[117] It is alleged that the bank/insurance company's staff take advantage of the low financial literacy of the customers and mis-sell insurance products. They sell insurance not as an insurance policy rather as a bank product. Further, the information on the insurance policy is not fully provided, or it is in fine print on the insurance document, or the charges are not fully disclosed. Thus misleading the customers.

[116] Please see Annex-III for the data on the complaints handled by the FIO and the Wafaqi Mohtasib.
[117] https://www.iiu.edu.pk/wp-content/uploads/2024/05/ILR-Vol-7-Issue-2-Article-1-210524.pdf

This mis-selling and deceptive practice of the bank/insurance staff is a violation of *Section 10*, of the *Competition Act, 2010*.

157. It is recommended that strict regulations are made to ensure bancassurance carry genuine benefits for the customer, and misleading sales practices are not used to sell insurance. Also, the insurance terms & conditions are clearly laid out in the insurance brochures. Selling insurance through Bancassurance must ensure transparency, customers' interests and their requirements. The CCP may issue a policy note on mis-selling and deceptive marketing to the SBP and the SECP. Additionally, in cases of disputes, mis-selling, or breach of agreement, while policyholders can lodge complaints with the Federal Insurance Ombudsman (FIO). However, in bancassurance cases, banks often argue that they are accountable to the Banking Ombudsman only, which does not handle insurance issues. Therefore, it is recommended that this jurisdictional conflict is also resolved through better coordination and clear working boundaries. Consumer protection is central to competition. Therefore, to ensure consumer protection, a suitable coordination mechanism is needed to address complaints and cases involving dual jurisdiction effectively.

6.2.3 Implementation of Motor Third Party (MTP) Insurance to Promote Competition

158. In most countries, motor third party insurance is mandatory as a social policy to protect the third party (other road users) in the event of an accident whereby the third parties are compensated for damages inflicted by any accident. Motor third party mandatory insurance is a critical component of a well-functioning insurance market. In Pakistan, under *Chapter VIII* '*Insurance of motor vehicles against third party risks'* of *Motor Vehicles Act*, *1939* the motor vehicles insurance is mandatory. The Act provides compensation to a third party in case of death or bodily injury caused due to the negligence of the driver or the owner of the vehicle, insured for the MTP insurance coverage. However with over a population of 240 million, and over 30 million vehicles on road, only 3% are insured in the country, leaving a vast majority of the population vulnerable to material risks. In comparison, other regional players such as Sri Lanka has a penetration of 73%, India 43% and Bangladesh's penetration is 36%.[118] Implementation of MTP insurance can have significant benefits for both individuals and society as a whole. For Pakistan MTP insurance is of critical importance not only to reduce the number of road accidents, encourage responsible driving, protection for accident victims, but also to reduce government's financial burden, for market development of the auto insurance, increased insurance penetration and higher government revenue. While public awareness campaigns may be initiated to create awareness about MTP insurance, the law enforcement agencies may also be directed by the provincial governments to ensure compliance of said regulation. The SECP has proposed recommendations in the Motor Vehicles Act, 1939 to increase MTP insurance in the country. The implementation of the proposed changes in the Act and further recommendations in its report "The Status of Motor Third Party Insurance in Pakistan" will

[118] https://www.secp.gov.pk/document/diagnostic-study-on-the-status-of-motor-third-party-insurance-in-pakistan/?wpdmdl=48683&refresh=6666d819a6da81718016025

encourage MTP insurance. Furthermore, the Indian MTP insurance model may be reviewed to encourage MTP insurance in the country.

6.2.4 Exemption of Reinsurance from Sales Tax

159. Reinsurance is an input service to the insurer. The insurance companies purchase reinsurance to cover their risk. The provincial sales tax is paid on the insurance premium by the policy holders, which is collected by the provincial revenue authorities. The provincial sales tax is also levied on the reinsurance premium and paid by the insurer. The premium is therefore taxed twice i.e., as insurance premium and then as reinsurance premium. This amounts to double taxation, as the insurance companies charge sales tax, when they sell insurance to customers, while the insurance companies obtain reinsurance of the same risk to lessen their exposure; at this stage, sales tax is again levied and paid by the insurer. Taxing reinsurance has a dual effect, on the one side, it increases the cost of doing business for the insurers, and on the other it raises the insurance premium for the customers. Thus, the tax incidence is on the end consumers. Furthermore, while the provincial governments exempted life and health insurance from sales tax in the past; however, the sales tax remained applicable on reinsurance premium. While such amendments to the provincial tax laws was aimed to benefits the end customers, however taxing reinsurance premium takes out this spirit. It is, therefore, proposed that the provincial governments may consider amending the respective sales tax levy to exempt reinsurance sector from sales tax. The SECP has also proposed the provincial governments to exempt reinsurance sector from the sales tax.[119] The Goods and Services Tax (GST) Council in India has also given exemption to coinsurance, reinsurance, life, health, crop, livestock insurance among others from sales tax.[120] Further, strict monitoring by the insurance sector regulator, SECP of the insurance companies would be required in the case the reinsurance premium is exempted from sales tax, ensuring that the benefit is passed on to the end consumers in the form of lower premium.

6.2.5 Rationalizing the Federal Insurance Fee

160. In 1989, the Government of Pakistan imposed Federal Insurance Fee at the rate of 1 % of the premium on non-life insurance policies through Finance Act 1989.[121] At the time of this levy's promulgation, the industry was taken into confidence that the fee will be utilized for creating awareness of insurance in country. However, the fee has not been utilized for the said purpose, hence creates an additional cost for non-life insurers. It is expected that a large amount may have been collected so far, which is lying redundant in the government accounts. Therefore, it is proposed that either the collected fee may be utilized for the

[119] https://www.brecorder.com/news/40173267

[120] https://irdai.gov.in/documents/37343/365525/Exemption+of+reinsurance+schemes%2C+in+respect+of+specified+insurance+schemes.pdf/248b6a05-c2a1-301b-af77-3a915549ca23?version=1.1&t=1639019575707&download=true

[121] https://na.gov.pk/uploads/documents/1335428564_190.pdf

promotion of insurance or the fee may be abolished to reduce transaction cost; each of these steps will enhance competition.

The above recommendations are summed up in Table 5 indicating the responsible authority and the priority to implement the recommendation.

Table 5: Entry Points for the Reform of the Insurance Industry

No.	Recommendation	Responsibility	Priority
1	**Recommendation to amend Rule 18(1) of Insurance Rules 2017 and allow insurers to procure facultative reinsurance from international reinsurers without prior permission from SECP**	SECP, Parliament	High
2	**Recommendation to withdraw SRO 771 (1)/2007 of Ministry of Commerce and remove regulatory support of mandatory 35% of treaty reinsurance to be placed with PRCL**	SECP, Parliament	High
3	**Recommendation to amend Section 166(3) of the Insurance Ordinance 2000 and remove entry barrier for private sector to enter the market of public property insurance**	SECP, Parliament	High
4	**Recommendation to amend Section 35 of the Life Insurance (Nationalisation) Order, 1972 and withdraw security of government against the policies issued by SLIC**	SECP, Federal Government	High
5	**Recommendation to make FIO the sole Ombudsman to streamline the complaint resolution process**	Federal Government	Medium
6	**Recommendation to issue guidelines for Banks to provide all players an equal chance to do business**	SBP	High
7	**Issue Guidelines on Mis-selling and Deceptive Sales Tactics under Bancassurance/Bancatakaful**	SECP, SBP	High
8	**Recommendation to implement the Section 94 of the Motor Vehicles Act, 1939 and ensure mandatory motor third party insurance for all vehicles on road**	Interior Ministry, Provincial Police	Medium
9	**Recommendation to Exempt Reinsurance from Sales Tax**	SECP, Provincial government	Medium
10	**Recommendation to remove Federal Insurance Fee from the premium on non-life insurance.**	SECP, Ministry of Finance	Medium

ANNEX-I: PIMA Working Group

No.	Name	Designation	Organization
Ministry of Finance Members			
1.	Mr. Qamar Sarwar Abbasi (Convener)	Additional Finance Secretary (CF)	Ministry of Finance
2.	Dr. Imranullah Khan	Joint Secretary, (CF-I)	Ministry of Finance
3.	Ms. Zakirah Akram (Moderator)	Deputy Secretary, (CF)	Ministry of Finance
Technical Working Group Members			
4.	Mr. Shahid Zia Cheema	Chief,	Planning Commission
5.	Mr. Adnan Riaz Mir	T&S, PPMC	Ministry of Energy (Power Division)
6.	Mr. Muhammad Talha	Director, E-Procurement	National Highway Authority
7.	Mr. Majid Soofi	Director General	Director General, SOE Triage, Central Monitoring Unit, Ministry of Finance
8.	Ms. Kishwar Khan,	Director General, Research	Competition Commission of Pakistan
9.	Mr. Noman Laiq	Director General, Exemptions	Competition Commission of Pakistan
10.	Ms. Maryam Zafar	Director, Research	Competition Commission of Pakistan

ANNEX-II: Historical Developments in Pakistan's Insurance Market

Nature of Regulation	Period	Market Development
Liberalized	1947-1950	During 1947, there were 5 Domestic and 77 foreign insurance companies providing marine and life insurance services. The Insurance Act 1938 provided the regulatory environment for the industry. The Department of Insurance was established in 1948 under the Ministry of Commerce to oversee the industry.
	1950-60	PIC was established in 1952 under the PIC Act 1952 to provide reinsurance services. In 1955, NCS was launched to promote insurance culture, facilitate small insurance companies, monitor government insurance spending and facilitate claims settlement.
	1960-70	The number of local insurance companies increased from 26 in early 60s to 47 by 1971. On the other hand, the number of foreign insurance companies decreased to 25 till 1972 from 77 in 1947 due to political instability.
Nationalized	1970-80	The business of life insurance was nationalized in 1972 and SLIC was established by consolidating 32 companies. The NCS was replaced with NIF in 1973, which, later, was transformed into NIC to insure public property.
	1980-90	No significant developments took place during 1980s.
Liberalized	1990-2000	The financial sector reforms were initiated in 1990 and the life insurance was reopened for private sector. Ministry of Commerce regulated the industry till 2000.
	2000-onwards	The Insurance Ordinance 2000 was promulgated in 2000 and SECP was made the regulator of insurance industry. Since then, SECP has introduced different regulations which include Insurance Accounting Regulations 2017, Insurance Companies Sound and Prudent Management Regulations 2012, Marine Insurance Act 2018, Corporate Insurance Agents Regulations 2020. There are 42 insurance companies including 30 non-life/general takaful insurers, 11 life/family takaful insurers and 1 reinsurer.

ANNEX-III: Sector-wise Complaints handled by FIO and FO in 2022

Life Insurance	Complaints Handled	General Insurance	Complaints Handled
Term Plans	1710	**Vehicle**	34
Bancassurance	2729	**Crop**	4
Death	94	**Theft**	6
Group Insurance	13	**Fire**	3
Maturity Claims	22	**Takaful**	75
Health	11	**Administrative**	39
Sub total	4579	**Sub Total**	161
Grand Total	4740		

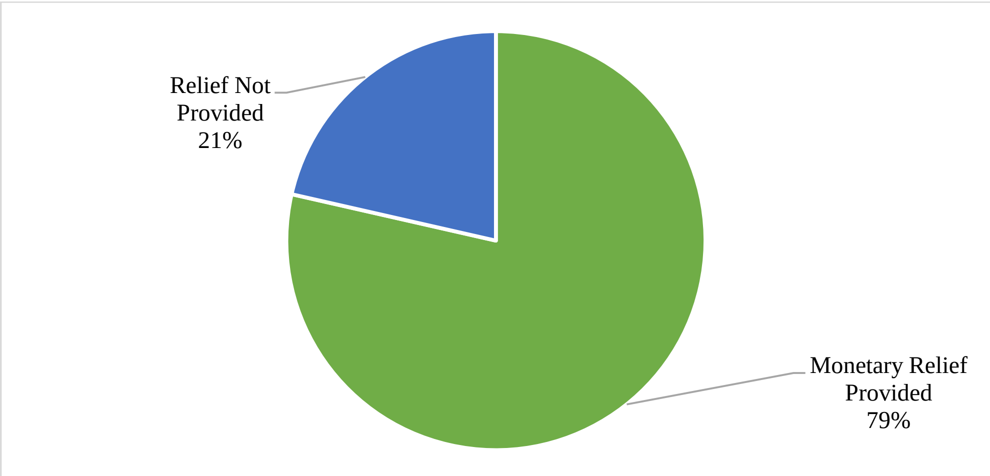
Source: FIO Annual Report, 2022

Complaints Handled by FO (Wafaqi Mohtasib)

	Receipt	Disposal
Postal Life Insurance	4,036	3,813
SLIC	884	862
Total	4920	4675

Source: Wafaqi Mohtasib Annual Report, 2022

Monetary relief provided by the FIO



Source: FIO Annual Report, 2022

ANNEX-IV: Takaful

Takaful is an Islamic form of insurance that is based on the principles of mutuality and cooperation and originates from the Arabic word '*Kafalah'* which means guaranteeing each other.[122] Takaful insurance is of two types, Family Takaful and General Takaful. In 2022, the global Takaful insurance market was valued at $31.7 billion, projected to grow to $126.8 billion by 2032.

In conventional insurance, the insurer (insurance company) sells the insurance policy to the insured/policyholders and invests the premium/proceeds for its shareholders. The shareholders are not necessarily the policyholders. The policyholder however receives the return contracted.[123] On the contrary, in Takaful, the insurer/insurance company and the policyholder are joint investors in the insurance policy. The insurer is the manager of the policyholder, and the policyholder shares the profits and the losses in the investment. A positive return on investment to the policyholder is not legally guaranteed.

Under the basic principle of Takaful, each participant is to contribute to a fund that is used to support each participant. The policyholders cooperate among themselves for a common good. The losses are divided and the liabilities are spread according to the pooling/premium system. The purpose of Takaful is not to seek profits at the cost of others but to share each other's burdens. The pool of funds collected by the participants is called the Takaful fund. The Takaful fund is operated and managed by a 'Takaful operator' the insurer, who charges a fee for managing the funds, marketing, underwriting, and claims management.

There are different models of Takaful adopted depending upon the relationship between the Takaful operator and the policyholder. However, the basic two models of Takaful are '*Wakalah'* and '*Mudarabah*. Others include the *Wakalah Waqf* model, the '*Tabarru'* model, or a combination of models.[124]

Wakalah in Arabic means 'agency'. Under the *wakalah* model of insurance, an agency relationship is agreed upon between the insurer/*wakalah* operator and the policyholder. The operator manages the participation of the policyholder and in return, a fee is charged by the operator who acts as a 'wakil'.[125] The '*Mudarabah'* model is based on profit and loss sharing between the takaful operator and the policyholder. In return, the takaful operator is paid a share of underwriting and a share in profit on investments.[126] The '*Mudarabah'* model is adopted in Malaysia and the Asia Pacific while the *Wakalah* model is adopted in the Middle East.

Takaful insurance is mainly limited to Muslim majority countries and by region is analyzed across the Gulf Cooperation Council (GCC) countries, Malaysia, Asia, and the rest of the

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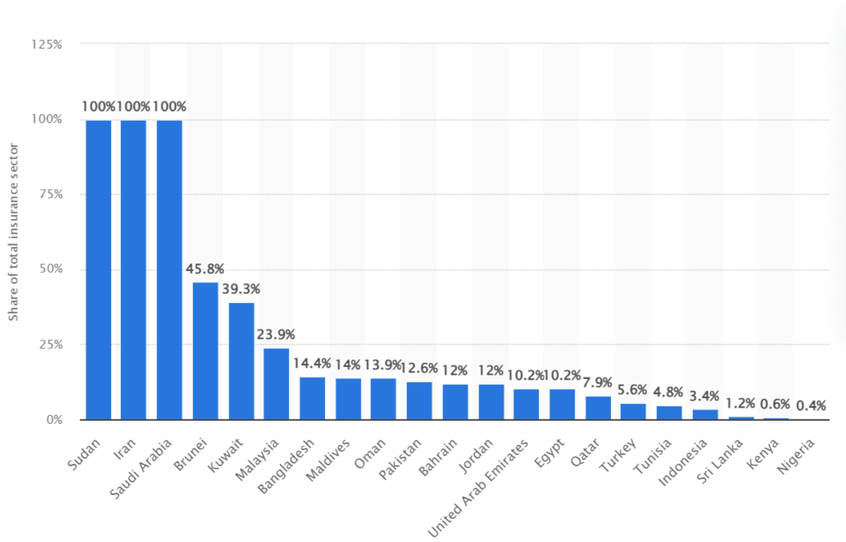
122 https://www.islamic-banking.com/explore/islamic-finance/islamic-insurance-takaful
123 *ibid*
124 https://www.financialislam.com/takaful-models.html
125 https://islamicmarkets.com/education/takaful-wakalah-model
126 https://retakaful.africa-re.com/services/retakaful_models

world.[127] Within the two types of Takaful, General Takaful had a higher share compared to Family Takaful in 2022. The GCC countries have the highest Takaful insurance market share because it has a high demand for Sharia compliant financial products and is the locus of Islamic finance. Asia, which is home to many Muslim countries like Malaysia, Indonesia, Pakistan Bangladesh, and others have large Muslim populations and a growing demand for Islamic financial products, and is expected to be the fastest growing region for Takaful insurance.[128]

Figure 15: Share of Takaful Insurance in the Domestic Insurance Sector in 2020



Source:https://www.statista.com/statistics/1264763/takaful-contribution-share-total-insurance-sector-country/

The data from the above figure shows that out of the total Muslim countries that have a Takaful insurance market, Sudan, Iran, and Saudi Arabia's insurance market is 100 percent based on Takaful insurance. Except for 6 countries, rest in all of the Islamic countries the Takaful insurance market share is less than 20% of the total domestic insurance market.

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[127] https://www.alliedmarketresearch.com/takaful-insurance-market-A11835#:~:text=The%20global%20takaful%20insurance%20market,other%20against%20loss%20or%20damage.

[128] ibid

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CCP's RESEARCH TEAM

Name of the Officers	Designation
Ms. Kishwar Khan	Director General
Ms. Maryam Zafar	Director (Research)
Ms. Saira Israr	Economist
Mr. Abdul Haseeb Satti	Deputy Director (Research)
Mr. Kazim Ali	Assistant Director (Research)
Mr. Samiullah Jan Afridi	Management Executive (Research)