<u>CCP's Comments on Proposed Changes in Insurance Rules, 2002</u>

1. SECP has proposed to change the Insurance Rules, 2002 by (i) raising paid up capital requirement for insurance surveyors from PKR 1 million to PKR 5 million; and (ii) raising indemnity insurance requirement for insurance surveyors from PKR 1 million to PKR 10 million.

2. SECP, in its letter dated 10 September 2014 to the CCP, stated that the changes have been proposed to 'establish surveyors on better footing', 'to check casual entry and exit of the surveyors', and to 'develop an element of responsibility and sensitivity into the surveyor class.'

3. It is appreciated that SECP is striving to improve standards in the market for which it has statutory oversight. It would, nevertheless, be pertinent to point out that since the insurance surveyors rely more on professional skills rather financial strength to undertake their work, the proposed changes – a five-fold increase in capital requirements and a ten-fold increase in indemnity insurance – will do little to improve either the standards in the industry or inculcate responsibility in the surveyors. At the same time, the proposed changes will most certainly lead to the exit of smaller insurance surveyors and make the entry of new ones more difficult, thereby affecting competition in the insurance surveyors market.

4. Insurance surveyors compete with each other on basis of their skills, experience and reputation. The proposed increase may have the effect of excluding insurance surveyors unable to meet the proposed financial requirements, but otherwise capable and professional, from competing in the market. CCP strongly recommends that SECP should drop the raise in capital requirements and indemnity insurance in favor of better competency-based regulations encompassing education, examination, licensing, and continued education requirements. Improved competency-based regulation would be a more pertinent, reasonable, and a less competition-restrictive way to improve standards and inculcate responsibility in the industry. This is not to say that financial requirements should be done away with completely, but that more emphasis should be placed on ensuring competence of the insurance surveyors in order to make the market competitive.

5. This recommendation is also in line with practices in developed jurisdictions. The 2005 Public Adjuster Licensing Model Act developed by National Association of Insurance Commissioners in the US [appended as Annex A] is provided as a reference. As can be seen from the table of contents, the financial liability bond is only one of the many ways in which public adjusters (the term for insurance surveyors in the US) are regulated. Section 12 of the model law sets the minimum financial liability requirement merely at USD 20,000, which roughly amounts to PKR 2 Million. This amount is five-fold less than the indemnity insurance coverage being prescribed by SECP through the proposed changes. Much emphasis is laid by the model law on licensing, examination, and continued education (Section 6, 9, and 13 respectively) in addition to other non-financial requirements such as record keeping, standards of conduct, and reporting (Section 17, 18, and 19 respectively).

6. It is also pertinent to mention that loss adjusting (the term used for insurance surveyors in the UK) is not a government regulated activity in the UK and operates through a professional body – the Chartered Institute of Loss Adjusters [website available at <http://www.cila.co.uk>] - that focuses on improving competence of its members through technical guidance, code of ethics, and continued professional development programs.