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CHAPTER 15

INSURANCE BUSINESS

1. General.

The Exchange regulations governing insurance business entered into in Pakistan are set out in this chapter. Branches and agencies in Pakistan of insurance companies whose head offices are situated abroad are, for Exchange purposes, subject to the same regulations as insurance companies registered in Pakistan.

2. Issue of Life Policies to Pakistanis.

Insurance policies on the lives of Pakistanis resident in Pakistan can be issued only in Rupees.

3. Issue of Policies to Foreigners residing in Pakistan.

Policies on the lives of foreign nationals resident in Pakistan may be issued in Rupees. State Bank will permit conversion of such Rupee policies into foreign currency policies and consequential transfer of actuarial reserves as also remittance of maturity proceeds, as the case may be, provided the premia in Rupees is paid by them out of their genuine savings which are otherwise remittable. Similar facility is also available to diplomats accredited to Pakistan and expatriate employees of international organizations provided premia in Rupees is paid by them out of their convertible Rupee accounts.

4. Issue of Foreign Currency Policies.

Foreign currency policies may be issued on the lives of foreign nationals where premia is paid by them in foreign exchange or out of remittable Rupee funds of the policy holders as laid down in paragraph 18 *ibid*. Foreign currency policies can also be issued on the lives of Pakistan nationals domiciled abroad provided premium is paid in foreign exchange only.

5. Travel Health Insurance Coverage for the Schengen Countries. ¹

As per directives of the European Union, travelers intending to visit all the Schengen Countries are required to invariably show adequate proof of health/medical insurance policy to cover them in the country of visit. Accordingly, in order to facilitate Pakistani travelers to meet the guidelines for issuance of travel visa to Schengen Countries, insurance companies are allowed to issue health/medical policy in foreign currency subject to following conditions:

i) These policies will be issued only in favor of travelers to Schengen Countries for a period covering the stay of the visitors.

ii) Though the policy will be denominated in foreign currency, the premia will be payable in PKR.

¹ FE Circular No. 8 dated 01.08.2005.

iii) In case of settlement of claim, insurance companies will be allowed to remit the funds abroad through interbank.

Authorized Dealers may allow remittance of claims arising under the above policies on submission of applications accompanied by the following documents:

- a) Application on Form 'M' alongwith the declaration in the prescribed form (Appendix V-55).
- b) Copy of Invoice/Bill of Hospital
- c) Copy of Policy

6. Premia on Rupee Policies held by Pakistanis Resident abroad.

Premia on Rupee life policies held by Pakistanis resident abroad must be received either by remittance from abroad or out of Rupees held in the non-resident account of the policy holder.

7. Assignment.

Rupee Policies cannot be assigned by a resident in Pakistan to a non-resident except with the prior approval of the State Bank. Foreign currency policies held by foreign nationals may, however, be assigned to non-residents without State Bank's approval.

8. Payment of Claims – Rupee Policies.

The maturity proceeds or surrender value of Rupee policies will be paid in Rupees only. In the case of foreign nationals, the remittance of maturity proceeds/surrender value of Rupee policies held by them, can be allowed only with the prior approval of the State Bank as indicated in preceding paragraph 3. Application for this purpose should be made in the prescribed form (Appendix V-56).

9. Payment of Claims – Foreign Currency Policies.

The maturity proceeds or surrender value of foreign currency policies held by foreign nationals may be paid in rupees or in the currency of the policy. Payment in foreign currency will be made with the prior approval of the State Bank.

10. Export of Policies.

Life and Endowment policies fall within the definition of securities and cannot be taken or sent out of Pakistan without the prior approval of the State Bank. Application for export of life policies should be made to the Exchange Policy Department, giving full description of the policy and reasons for its export.

11. Remittance of Premia on Foreign Currency Policies of Pakistanis.

Pakistanis, who had taken foreign currency policies while residing abroad, are required to declare them to the State Bank on their return to Pakistan. In this connection, reference is invited to the instructions contained in para 15 of Chapter 20. Normally in such cases, the policy holders will be required to repatriate the surrender value of the policy to Pakistan. However, in

cases where the policy is to mature within one year or so, the State Bank will consider allowing remittance of premia subject to the condition that the proceeds of the policy on maturity will be received in Pakistan through banking channel. Application for the purpose should be made in the prescribed form (Appendix V-57).

12. Marine Policies – Exports.

Exports from Pakistan can be insured by the exporters only if the goods are shipped on C.I.F. basis. In respect of shipment on F.O.B. or C & F basis insurance will be arranged by the overseas buyers. Exporters can take out policies only from companies operating in Pakistan, which can be expressed in Rupees or in foreign currency.

13. Marine Policies – Imports.

i) Imports into Pakistan are required compulsorily to be insured in Pakistan with companies operating in Pakistan. Imports can thus be made only on C & F or F.O.B. basis. It is not permissible to issue marine policies covering imports into the country in currencies other than Rupees.

ii) As an exception to the above general rule:

a) National Insurance Company Limited is authorized to issue foreign currency policies against imports financed by P.I.C.I.C./I.D.B.P. and directly by the loan-giving agencies.

b) Sub-authorizations issued under U.S. AID Programme on C.I.F. basis can, at the option of the importers, be utilized for imports from U.S.A. on C.I.F. basis by arranging insurance in the U.S.A.

14. Marine Policies – Shipment between two countries outside Pakistan.

Shipments between two countries outside Pakistan financed by a person or firm in Pakistan with the permission of the State Bank can be insured in Rupees or in foreign currency.

15. Marine Policies – Coastal Shipments.

Coastal shipments between places in Pakistan can be insured in Rupees only.

16. Non-Marine Risks Excluding Life.

i) Insurance cover on non-marine risks (excluding life) inside Pakistan can be issued in Rupees only. Nothing in this paragraph shall affect the operation of the warehouse clause in marine insurance policies.

ii) Insurance cover on assets outside Pakistan owned by residents of Pakistan can be issued in Rupees or in the currency of the country in which the assets are situated.

iii) Insurance cover in respect of personal baggage and valuables in transit of Pakistan nationals can be issued in Rupees only. In respect of foreign nationals, such insurance covers can be written in Rupees or foreign currencies. However, in cases where foreign currency policies are issued to foreign nationals, premia thereon can be collected in foreign exchange only.

- iv) House-holders policies can be issued in Rupees only.
- v) The issue of personal accident policies is governed by the same conditions as those applicable to life policies.
- vi) Policies under the Workmen's Compensation Act and Merchant Shipping Act can be issued in Rupees only.

16A. Issuance of US Dollar denominated Insurance Policies².

i) In order to meet the condition of foreign lenders for foreign currency loans to be raised under Para 8, Chapter 19 of FE Manual or for the projects undertaken in Pakistan as part of bilateral agreement between Government of Pakistan and a foreign country/ multilateral agency, resident insurance companies rated at least as "A" by any approved rating agency of Pakistan may issue US Dollar denominated insurance policies on notional basis.

ii) In this regard, the insurance company intending to issue US Dollar denominated insurance policy will submit an application for prior approval to the Director, Exchange Policy Department, State Bank of Pakistan, Karachi through an Authorized Dealer along with an explicit recommendation letter from the Securities & Exchange Commission of Pakistan (SECP) for each proposal.

iii) The terms and conditions governing such insurance covers/policies shall be as follows:

- a. The insurance company will receive the premium from the applicant only in equivalent PKR.
- b. The payment of claim to the resident company will be made in equivalent PKR, wherever applicable.
- c. The insurance company will have the option to get reinsurance from any foreign reinsurer upto 99% of the sum assured.
- d. The payment of reinsurance premium by the insurance company will be subject to observance of all applicable rules, regulations contained in this chapter and those issued from time to time.
- e. The reinsurance claims to the extent of outstanding liability related to the foreign loans may be paid directly to the foreign lenders by reinsurers. The remaining amount of reinsurance claim will, however, be repatriated into Pakistan and paid to the claimant in equivalent PKR.
- f. The insurance policy document/instrument issued by the resident insurance company to the concerned client must disclose, interalia, above mentioned clauses.

17. Premia Collection – Rupee Policies.

² FE Circular No. 10 dated 01.11.2017

Premia on policies issued in Rupees to non-residents can be collected by remittance from the country in which the policy holder is resident or out of Rupees held in his non-resident account. Insurers are not permitted to accept payments in Rupees from resident sources.

18. Premia Collection – Foreign Currency Policies.

Premia on foreign currency policies issued by insurance companies in Pakistan, in respect of foreign nationals resident in Pakistan, can be collected out of remittable Rupee funds of the policy holder or through a remittance received from abroad. In respect of foreign nationals residing abroad, the premia can be collected only through a remittance from abroad. As regards Pakistan nationals holding foreign currency policies, premia can be collected in foreign exchange only as laid down in paragraph 4 *ibid*.

19. Method of Settlement of Claims (Non-Life).

Claims on Rupee policies can be paid in Rupees only even in cases where the beneficiary is a non-resident.

20. Claims under Foreign Currency Policies covering Imports under Aid/Loan.

Claims arising under Foreign Currency policies covering imports under Aid/Loan can be paid by National Insurance Company Limited (NICL) without the prior approval of the State Bank of Pakistan in foreign currency for the replacement of goods damaged or lost in transit. Before making payment of claims in foreign currency, the NICL will obtain from the concerned importers an undertaking to the following effect:

- i) The amount of the claims will be utilized only to the extent required for replacement of the goods damaged/lost in transit and any amount un-utilized will be repatriated to Pakistan through the medium of an Authorized Dealer in foreign exchange.
- ii) Documentary evidence regarding payment made to the overseas suppliers in respect of goods purchased in replacement shall be submitted to the State Bank.
- iii) The documents viz. Invoice relating to shipment duly endorsed by the Authorized Dealer, Bill of Lading, Bill of Entry and Bank's certificate showing repatriation of un-utilized amount, if any, shall be submitted to the State Bank within 4 months from the date of payment to the overseas suppliers.

The National Insurance Company Limited will report the payment of the claims in foreign currency to the SBP-Banking Services Corporation through a monthly statement showing the amount of claims, names and addresses of the importers, number and date and value of the import licences/authorization, if any, against which the goods were originally shipped and names and addresses of the overseas exporters. The statement, alongwith the copies of claim payment advices sent to the respective importers and relative undertaking obtained from them, should be so submitted as to reach the concerned area office of the Foreign Exchange Operations Department by the 7th of the following month.

21. Claims in respect of Marine Policies covering Exports.

- i) Claims arising under the policies covering exports from Pakistan are payable to the shippers in cases where the proceeds have not been realized from the overseas importers. Where the payments have been received by the shippers, the claim can be paid to the overseas importers.
- ii) Remittance of these claims by Pakistani insurance companies to foreign importers may be allowed by the Authorized Dealers on submission of applications accompanied by the following documents:
 - a) Application on Form 'M' alongwith the declaration in the prescribed form (Appendix V-55).
 - b) Claim Note.
 - c) Policy in original. Duplicate acceptable where original is retained by the Customs authority of the importing country and/or lost and indemnity in lieu of the original.
 - d) Invoice on CIF basis relating to the shipment.
 - e) Bill of Lading/Airway Bill/Postal Receipt relating to the shipment.
 - f) Survey Report/Short Landing Certificate/General Average Adjustment/Short Contents Certificate/No Survey Loss Certificate. Survey is not necessary if claim is not likely to exceed U.S. \$100/-.
 - g) Foreign bank's certificate to the effect that the proceeds relating to the shipment against which claim is made have already been remitted to Pakistan (except in case of general average claim payable to adjusters).
- iii) To facilitate prompt payment to overseas claimants, the State Bank will consider requests from Pakistani insurance companies for settlement of such claims by their overseas settling agents through a system of revolving letter of credit. In cases where such permission is given, claims would be scrutinized by the overseas settling agents on the basis of the documents indicated at serial No. (b) to (g) in the preceding subparagraph and payments made through revolving letter of credit. The claim documents both in respect of direct remittance and remittance under letter of credit should be submitted to the State Bank alongwith the relative Form 'M' while reporting the transaction in the monthly Returns for post facto checking alongwith the declaration in the prescribed form (Appendix V-55).
- iv) Foreign insurance companies are required to settle claims in respect of marine policies covering exports through their head offices on the basis of all the above claim documents.

22. Claims under Foreign Currency Policies other than Marine.

Claims on foreign currency policies other than marine can be paid as under:

- i) Where the beneficiary is a non-resident, the claim can, with the permission of the State Bank, be paid in the currency in which the policy is issued.
- ii) Where the beneficiary is resident in Pakistan, payment of claim can be made in Rupees only for which prior permission of the State Bank is not required. In case, however, the resident beneficiary requires payment in the currency of the policy, application for making such payment should be made to the State Bank giving full reasons as to why he requires payment in foreign currency.

Application for remittance of claim under (i) and (ii) above, should be made on Form 'M' accompanied by the prescribed declaration (Appendix V-55).

23. Reinsurance Business.

Exchange facilities for reinsurance will be given only to branches or offices of insurance companies in Pakistan doing business on their own account. Such facilities will not be given to agents of non-resident companies who book business on account of the non-resident companies.

24. Reinsurance – Life.³

Remittance of reinsurance premia both under treaty and facultative cover arising from the life insurance policies is not permissible except in the following cases:

- a) Reinsurance premia on policies reinsured before 29th December, 1970.
- b) Reinsurance premia on policies issued and reinsured on or after 25th May, 1973 for sums over Rs. 3.5 lacs.

Remittances in respect of (a) and (b) above will be allowed by the State Bank in accordance with the procedure set out in the following paragraph No. 25.

25. Remittance under Reinsurance Business.

Permission may be given by the Authorized Dealers for remittances in respect of reinsurance business effected with or accepted from non-resident companies on the insurance companies submitting to them the following information and documents. Remittances in respect of life re-insurance business will, in addition, be subject to conditions laid down in the preceding paragraph 24:

- i) Remittance of premia under Facultative Reinsurance:
 - a) Applications on Form 'M' accompanied by a declaration in the prescribed form (Appendix V-58).
 - b) Evidence in the nature of cover note etc., in respect of reinsurance effected.

³ FE. Circular No. 01 dated January 01, 2003.

- c) Certificate from the Controller of Insurance to the effect that the local market has been fully utilized before placing any part of the risk outside the country facultatively.

ii) Settlement of Account under Treaty Reinsurance:

- a) Application on Form 'M' accompanied by declaration in the prescribed form (Appendix V-59).
- b) A proforma statement of account showing net balance payable/receivable signed by the manager or an authorized officer of the applicant company duly confirmed by the beneficiary.
- c) Proceeds Certificate in case any amount of claim has been received in cash and the same is being accounted for through the statement of account.

These documents will be submitted to the SBP-Banking Services Corporation with the monthly Returns.

26. Foreign Currency Accounts of Pakistani Insurance Companies.

Retention of foreign currency received by Pakistani insurance companies is not permissible except with the special permission of the State Bank. Premia collected by them in foreign currency must, therefore, be sold to an Authorized Dealer. There is, however, no objection to the settlement of reinsurance accounts through the non-resident reinsurers.

27. Transfer of Surplus Funds of Marine and General Business by Foreign Insurance Companies.

It is the practice with foreign insurance companies, operating in Pakistan, to settle through their head offices all claims arising under the policies issued by them and payable to non-residents. Similarly claims arising in Pakistan under the policies issued by their head offices are settled by their branches in Pakistan. To facilitate such settlements the local branches of overseas insurance companies are allowed to transfer their surplus funds on quarterly, half-yearly or annual basis. Companies wishing to transfer surplus funds should make an application to the State Bank, through the Authorized Dealer maintaining their account, on Form 'M' supported by:

- (i) a no objection certificate from the Controller of Insurance,
- (ii) a declaration and statement in the prescribed forms (Appendices V-60 and V-61) signed by the manager or an authorized officer of the remitting branch holding power of attorney, and
- (iii) other requisite documents.