

# Regulatory Procedure

## (REGISTRATION/LICENSING AND OTHER REQUIREMENTS FOR INSURANCE BROKER COMPANIES)



**PREPARED BY:  
LEGAL SERVICES CELL, B&SDS  
2017**

**Small and Medium Enterprises Development Authority  
Ministry of Industries and Production (MoI&P)  
Government of Pakistan  
[www.smeda.org.pk](http://www.smeda.org.pk)**

### HEAD OFFICE

4th Floor, Building No. 3, Aiwan-e-Iqbal Complex, Egerton Road,  
Lahore

Tel: (92 42) 111 111 456, Fax: (92 42) 36304926-7  
[helpdesk@smeda.org.pk](mailto:helpdesk@smeda.org.pk)

REGIONAL OFFICE PUNJAB	REGIONAL OFFICE SINDH	REGIONAL OFFICE KPK	REGIONAL OFFICE BALOCHISTAN
3 <sup>rd</sup> Floor, Building No. 3, Aiwan-e-Iqbal Complex, Egerton Road Lahore, Tel: (042) 111-111-456 Fax: (042) 36304926-7 <a href="mailto:helpdesk.punjab@smeda.org.pk">helpdesk.punjab@smeda.org.pk</a>	5 <sup>TH</sup> Floor, Bahria Complex II, M.T. Khan Road, Karachi. Tel: (021) 111-111-456 Fax: (021) 5610572 <a href="mailto:helpdesk-khi@smeda.org.pk">helpdesk-khi@smeda.org.pk</a>	Ground Floor State Life Building The Mall, Peshawar. Tel: (091) 9213046-47 Fax: (091) 286908 <a href="mailto:helpdesk-pew@smeda.org.pk">helpdesk-pew@smeda.org.pk</a>	Bungalow No. 15-A Chaman Housing Scheme Airport Road, Quetta. Tel: (081) 2831623, 2831702 Fax: (081) 2831922 <a href="mailto:helpdesk-qta@smeda.org.pk">helpdesk-qta@smeda.org.pk</a>

**Table of Contents**

<b>1</b>	<b>DISCLAIMER .....</b>	<b>3</b>
<b>2</b>	<b>INTRODUCTION OF SMEDA .....</b>	<b>4</b>
<b>3</b>	<b>ROLE OF LEGAL SERVICES CELL, SMEDA .....</b>	<b>4</b>
<b>4</b>	<b>OVERVIEW.....</b>	<b>5</b>
<b>5</b>	<b>LICENSING REQUIREMENTS .....</b>	<b>5</b>
<b>6</b>	<b>ELIGIBILITY FOR LICENSE .....</b>	<b>5</b>
<b>7</b>	<b>LICENSING PROCEDURE.....</b>	<b>6</b>
<b>8</b>	<b>RENEWAL OF LICENSE.....</b>	<b>8</b>
<b>9</b>	<b>CANCELLATION OF LICENSE.....</b>	<b>8</b>
<b>10</b>	<b>OTHER REQUIREMENTS .....</b>	<b>9</b>
<b>11</b>	<b>ANNEXURE “A” .....</b>	<b>11</b>

---

## **1 Disclaimer**

This information memorandum is to introduce the subject matter and provide a general idea and information on the said matter. The information has been provided on as is where is basis without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been taken to compile this document, the contained information may vary due to changes in law and procedures at various times. SMEDA, its employees or agents do not assume any liability for any financial or other loss resulting from the use of this memorandum. The prospective user of this memorandum is encouraged to carry out due diligence and gather any information which is necessary for making an informed decision, including taking professional advice in addition to relying upon the memorandum.

For more information on services offered by SMEDA, please contact our website: [www.smeda.org.pk](http://www.smeda.org.pk)

## **2 Introduction of SMEDA**

The Small and Medium Enterprises Development Authority (SMEDA) was established in October 1998 with an objective to provide fresh impetus to the economy through development of Small and Medium Enterprises (SMEs).

With a mission "to assist in employment generation and value addition to the national income, through development of the SME sector, by helping increase the number, scale and competitiveness of SMEs", SMEDA has carried out 'sectoral research' to identify policy, access to finance, business development services, strategic initiatives and institutional collaboration and networking initiatives.

Preparation and dissemination of prefeasibility studies in key areas of investment has been a successful hallmark of SME facilitation by SMEDA.

Concurrent to the prefeasibility studies, a broad spectrum of business development services is also offered to the SMEs by SMEDA. These services include identification of experts and consultants and delivery of need based capacity building programs of different types in addition to business guidance through help desk services.

## **3 Role of Legal Services Cell, SMEDA**

The Legal Services Cell (LSC) as part of Business & Sector Development Services (B&SDS) Division of SMEDA plays a key role in providing guidance and overall facilitation and support to SMEs on legal matters.

LSC believes that information dissemination to SMEs on the existing regulatory environment is of paramount importance and plays a pivotal role in their sustainable development.

In order to facilitate SMEs LSC has developed user-friendly systems, which provide them detail description of the laws and regulations including processes and steps required for compliance.

The purpose of this document is to provide SMEs either individuals or companies with information pertaining on the subject which a business entity may have to comply with. Entrepreneurs interested in enhancing their understanding about the procedures and their related rights can also use the document. For the convenience of the readers, sample of various forms, instructions on how fill up the forms and important addresses are also included.

## **4 Overview**

- 1) Securities and Exchange Commission of Pakistan (hereinafter referred to as the “Commission”) established under the Securities and Exchange Ordinance, 1969 (XVII of 1969) is the apex licensing and monitoring body for Insurance Broker Companies.
- 2) The Insurance Ordinance, 2000 (hereinafter referred to as the “Ordinance”) and the Insurance Rules, 2002 (hereinafter referred to as the “Rules”) are the relevant law and rules which deal with the registration, licensing and other requirements which have to be followed by Insurance Broker Companies.
- 3) Before going further it would be better to describe what exactly an Insurance Broker means. As per Section 2 (xxviii) of the Ordinance “insurance broker” means a person carrying on the business of insurance broking; and as per section 2 (xxix) “insurance broking” means the arrangement of insurance for reward by a person other than an agent of an insurance company.

## **5 Licensing Requirements**

- 4) As per Section 102 of the Ordinance, it shall be unlawful for any person to act as or describe himself or to hold himself out or permit himself to be described as or held out as an insurance broker in respect of direct insurance business unless he holds a current insurance broker’s license issued by the Commission.
- 5) As per Section 102 sub section (2) of the Ordinance, no person who is not a company shall be eligible to be licensed as an insurance broker.
- 6) From the perusal of the above paragraphs, it is revealed that in the first instance an Insurance Broker should get a company registered with the Securities & Exchange Commission of Pakistan as a limited company under the Companies Ordinance, 1984 and thereafter it should apply for a license with the Commission.

## **6 Eligibility for License**

- 7) As per the Ordinance and Rules, an Insurance Broker desiring to get a license for the same should fulfill the following criteria, at the date of the application and at all times during which the license is held:
  - a. As stated in Para 5 & 6 above, in the first instance an Insurance Broker should be registered with the Securities & Exchange Commission of Pakistan as a limited company under the Companies Ordinance, 1984, with a minimum paid-up share capital

- of not less than ten million rupees for local brokers and 0.3 million US dollars for a foreign insurance broker to be registered in Pakistan;
- b. cash or approved securities to the value of not less than half a million rupees, maintained with the State Bank of Pakistan;
  - c. professional indemnity insurance, to a limit of ten million rupees for any one occurrence;
  - d. not fewer than two employees (at least one of whom must be a director) having a minimum of five years experience working in or in relation to the insurance industry, as
    - i. an employee of an insurer; or
    - ii. an agent; or
    - iii. an employee of an agent; or
    - iv. an employee of an insurance broker; or
    - v. in such capacity, related to the business of insurance, as satisfies the Federal Government that the person has appropriate experience and knowledge to undertake the business of insurance broking; and
  - e. Ascertain that neither the body corporate nor any director of the body corporate, nor any officer of the body corporate engaging in the business of insurance broking—
    - i. is a minor;
    - ii. has been found of unsound mind by a Court of competent jurisdiction;
    - iii. has been found guilty, within the five years preceding the present date, of criminal misappropriation or criminal breach of trust, cheating or forgery or an abetment of or attempt to commit any such offence by a Court of competent jurisdiction;
    - iv. has served any custodial sentence imposed by a Court of competent jurisdiction, ending within the five years preceding the present date;
    - v. has been found guilty by a Court of competent jurisdiction of any offence involving insurance; or
    - vi. has been otherwise declared as disqualified by the Insurance Tribunal, other than for a term which had expired prior to the present date.

## **7 Licensing Procedure**

- 8) A company, fulfilling the conditions stated above, may make an application for registration to the Commission. Application for grant of a license shall be signed by at least two directors and accompanied by a fee of ten thousand rupees, which shall be refunded if the license is not granted. This application shall contain the following details in respect of the applicant company namely
- i. the name of the body corporate;
  - ii. the address of its registered office;
  - iii. its postal address (if different);

- iv. a description of the business carried on by it (other than insurance broking);
  - v. the names of insurance companies, if any, which have appointed the applicant company as an insurance agent;
  - vi. the names of shareholders holding more than ten per cent of the issued share capital;
  - vii. the names and particulars of all directors of the body corporate; and
  - viii. details/evidence of prescribed qualifications as stated in Para 7 above.
- 9) Application for grant of license should be accompanied with the following documents:
- i. Evidence of payment of the prescribed fee
  - ii. Certified true copy of the last filed Form A, 21 and 29 attested by the concerned Company Registration Office.
  - iii. Feasibility Study and Business plan containing 3 years financial projections.
  - iv. Confirmation from external auditors in respect of the minimum paid-up capital.
  - v. A declaration form to the effect that neither the applicant nor any director or principal officer of the applicant is disqualified from holding his office as such.
  - vi. Certified true copy of certificate of incorporation duly certified by the Company Registration Office.
  - vii. Certified true copy of Memorandum and Articles of Association duly certified by the Company Registration Office.
  - viii. A statement showing the numbers of persons working in the company along with their complete names, addresses and other particulars
  - ix. Evidence with respect to the amount stated in Para 7 (b) above.
  - x. Evidence of the professional indemnity insurance policy
  - xi. A letter of support in the favor of applicant from not fewer than five registered insurance companies in the prescribed forms each sign by a duly authorized representative
- 10) In addition to the documents listed above, every application shall also be accompanied by a declaration by the applicant company, made in writing on stamp paper, signed by at least two directors, attested by the Notary Public, stating that
- a. the information given is in accordance with the Ordinance and Rules and is complete and correct;
  - b. The requirements of the Ordinance and the rules made thereunder concerning the required qualifications of an insurance broker have been complied with;
  - c. An undertaking to comply with and in the case of an existing insurance broker a declaration that the Ordinance and the rules made thereunder concerning the conduct of an insurance broker have been complied with during the previous twelve months concerning the conduct of an insurance broker;

- d. neither the body corporate, nor any director of the body corporate, nor any officer of the body corporate engaging in the business of insurance broking, is disqualified from acting in the business of insurance broking by virtue of
    - i. being a minor;
    - ii. having been found of unsound mind by a Court of competent jurisdiction;
    - iii. having been found guilty, within five years preceding the date of the declaration, of criminal misappropriation or criminal breach of trust, cheating or forgery or an abetment of or attempt to commit any such offence by a Court of competent jurisdiction;
    - iv. having served any custodial sentence imposed by a Court of competent jurisdiction, ending within five years preceding the date of the declaration;
    - v. having been found guilty by a Court of competent jurisdiction of any offence involving insurance; or
    - vi. having been otherwise declared as disqualified by the Insurance Tribunal, other than for a term which had expired prior to the date of the declaration.
- 11) Upon receiving an application, the Commission may grant a license, having a term of not more than twelve months, to act as an Insurance Broker, where the Commission is satisfied that the applicant company is qualified to be granted such a license

## **8 Renewal of License**

- 12) The license of an Insurance Broker Company shall be valid for one year and shall be renewable for a term of not more than twelve months, through an application for renewal and on payment of a fee of ten thousand rupees which shall be refunded if the renewal of the license is not granted.
- 13) The application for renewal shall be accompanied with the documents and declaration as stated Paragraphs 9 and 10 above.

## **9 Cancellation of License**

- 14) The Commission may cancel or refuse to issue or renew a broking license, where the Commission believes on reasonable grounds that the company has contravened a provision of the Ordinance, including without limitation that the company has failed to maintain prescribed minimum levels of paid-up capital, statutory deposit or professional indemnity insurance.



- 15) The Commission may apply for an order from the Tribunal, that a company is disqualified from acting as an insurance broker, or as a director or principal officer of an insurance broker company, if it demonstrates on reasonable grounds that the activity of the company as an insurance broker or as a director or principal officer of an insurance broker company would be detrimental to the interests of policy holders.

## **10 Other Requirements**

- 16) As per the Ordinance and Rules, the following are the further requirements / provisions which a licensed Insurance Broker Company should follow:
- i. Any sums received by an insurance broker company from a policy holder or an insurer (insurance company), other than remuneration payable to the broker company by the insurer (insurance company), shall be deemed to be held on trust for the insurer. Payment by a policy holder to an insurance broker company shall be deemed to constitute payment to the insurer.
  - ii. Any amount held by an insurance broker company for payment to the policy holder shall be paid to the policy holder as soon as practicable and in any case in not less than two weeks.
  - iii. Any amount held by an insurance broker company for payment to the insurer shall unless the insurer has previously agreed otherwise in writing be paid to the insurer as soon as practicable.
  - iv. A licensed insurance broker company shall be presumed to act as the agent of any insurer with which such broker has a contract of agency, so far as relates to any policies placed by that broker company with that insurer, and the insurer shall be liable for the conduct or misconduct of the broker company with respect to such policies. Where a licensed insurance broker company is not presumed to act as the agent of an insurer, the broker company shall be liable to the policy holder and the insurer shall not be liable for the conduct or misconduct of the broker company as distinct from itself or its agents, except as otherwise provided in the Ordinance.
  - v. No insurer and no director of an insurer shall hold any direct or indirect ownership interest in an insurance broker company or take part in the management or direction of an insurance broker company, and vice versa.
  - vi. A licensed insurance broker company shall disclose to the policy holder or intending policy holder any relationship between the broker company and any insurer.
  - vii. A licensed insurance broker company, in placing business with an insurer with whom the broker company has a contract of agency, shall, before the contract of insurance is effected, inform the intending policy holder of both the existence of the contract of agency and that the broker company is acting as the agent of the insurer in respect of all matters concerning the contract of insurance.

- viii. Any payment of money (other than premium) from an insurance broker Company to an insurer or vice versa shall be made by crossed cheque, pay order or electronic funds transfer.
- ix. A licensed insurance broker company shall not receive from an insurer or from a person on behalf of an insurer a gift, gratuity, benefit or other reward (however described) except as remuneration for services rendered to the insurer:
- in arranging or effecting a particular contract of insurance;
  - in connection with dealing with or settling a claim under a particular contract of insurance; or
  - otherwise than in connection with the broker arranging or effecting contracts of insurance or dealing with or settling claims under contracts of insurance.
- x. An insurer shall not pay to an insurance broker company, and an insurance broker company shall not receive from an insurer, in respect of the arranging or effecting of contracts of insurance by that insurance broker company with the insurer, remuneration at a rate or on a basis that has been varied having regard to any one or more of the following:
- the number of contracts so arranged or effected;
  - the total amount of premiums paid or payable under such contracts;
  - the total amount of sums insured under such contracts.
- xi. A licensed insurance broker company shall make an annual report to the Commission. Such report shall include audited accounts of the insurance broking business and such other information and statements as may be prescribed, each in such format as may be prescribed.
- xii. An insurance broker company shall notify to the insurer of any change in the details required under application for registration as stated in Para 8 above within three months of that change having effect, such notification being in written form and signed by at least two directors of the body corporate.
- xiii. The Commission may, in accordance with procedures prescribed by rules, visit the premises of an insurance broker company or of an agent of an insurance company, to ensure compliance by the broker, or the agent, or any insurer of which the broker or the agent is an agent of, with the provisions of this law relating to insurance contracts, brokers and agents.
- xiv. A company ceasing to act as an insurance broker shall maintain, for such period as may be prescribed, such minimum level of professional indemnity insurance in respect of liabilities arising from its activities as an insurance broker to which the company may be subject, as may be prescribed.
- xv. No company formerly acting as an insurance broker may be voluntarily wound up during the above so prescribed period.

## **11 ANNEXURE “A”**

### **Important Addresses**

**1. Securities and Exchange Commission of Pakistan**

National Insurance Corporation Building, 63 Jinnah  
Avenue, Blue Area  
Islamabad-44000,  
Pakistan  
Telephone: +92-51-9207091-4  
Fax : +92-51-9204915  
[www.secp.gov.pk](http://www.secp.gov.pk)

**2. The Insurance Association of Pakistan**

**Head Office**

1713 – 1715, 17th Floor Saima Trade Tower – A., I.I. Chundrigar Road,  
P.O.Box 4932  
Karachi 74000,  
Pakistan  
Phone: +92-21-32277165-68  
Fax: +92-21- 32277170  
Email: [info@iap.net.pk](mailto:info@iap.net.pk)  
[www.iap.net.pk](http://www.iap.net.pk)