CCP News

Business Recorder

Insurance sector: CCP concerned at preferential treatment to SOEs.

The Competition Commission of Pakistan (CCP) has expressed concern over the preferential treatment given to State-Owned Enterprises (SOEs) within the insurance sector, creating a distorted competitive market for insurance companies.

According to the CCP, in its 2023 Public Investment Management Assessment Report, the International Monetary Fund (IMF) highlighted the need for detailed analysis of competition in key sectors dominated by State-Owned Enterprises (SOEs) in Pakistan. Acting on these recommendations, Finance Division tasked the Competition Commission of Pakistan (CCP) with this responsibility.

Among the four major studies conducted by CCP, a critical one delves into the country's insurance sector—a vital part of the economy that has lagged behind its regional counterparts.

According to a reliable source, the CCP's study emphasizes the essential role insurance plays in fostering economic stability by mitigating risks from adverse events.

A key area of concern raised by the CCP involves the preferential treatment given to SOEs, creating a distorted competitive landscape. The National Insurance Company Ltd. (NICL) holds a monopoly on insuring public sector assets, while the Pakistan Reinsurance Company Ltd. (PRCL) enjoys

Protection under SRO 771 (1)/2007. This SRO grants PRCL the 'exclusive first right of refusal' to acquire at least 35% of all reinsurance business in Pakistan.

Similarly, the State Life Insurance Corporation (SLIC) benefits from the federal government guarantee under the Life Insurance (Nationalization) Order 1972, giving it a significant advantage over private competitors.

These regulatory barriers not only limit market access for private insurers but also constrain the entire industry's growth potential. For instance, the Insurance Ordinance, 2000 grants NICL exclusive rights to insure public property, effectively closing off this lucrative market to private competition. This preferential treatment extends to restrictions on procuring reinsurance from foreign companies, further limiting the industry's ability to manage risk efficiently and driving up operational costs.

The study also highlights concerns in the bancassurance market, where banks often impose arbitrary limits on insurance companies; market access, even if these companies meet Regulatory standards set by the Securities and Exchange Commission of Pakistan (SECP) which creates an uneven playing field. 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 and customers are often misinformed or misled about product details, further eroding trust in the insurance system.

The Federal Insurance Ombudsman (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 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.

To address these challenges, the CCP has put forth several key recommendations aimed at fostering a competitive insurance market. One of the most pressing suggestions is the amendment of SRO 771 (1)/2007 to fully open the reinsurance market to the private sector.

The CCP also recommended changes to the Insurance Ordinance, 2000 to allow private companies to compete with NICL in the public property insurance market. This would ensure a more equitable market environment and potentially lower costs for the public sector.

Other critical recommendations included:- Revising Rule 18 of the Insurance Rules, 2017, which would allow insurers the freedom to choose between domestic and foreign reinsurers, and removing the federal government guarantee on the policies sold by SLIC to create a level playing field for all players, where they may compete based on their services. It is recommended that the Pakistani insurance market may 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.

Additionally, the CCP calls for the State Bank of Pakistan to issue guidelines to prevent restrictive and misleading practices in bancassurance, ensuring that banks provide accurate information and fair access to insurance products.

To improve insurance penetration, the study emphasizes enforcing Section 94 of the Motor Vehicles Act, 1939, which mandates Motor Third Party (MTP) insurance for all vehicles.

Alarmingly, only 3% of vehicles in Pakistan are insured, highlighting a significant gap in compliance that needs to be addressed.

Finally, the CCP recommended that, since FIO was created with the specialized mandate to resolve disputes between insurance companies and policyholders, it may cover all insurance companies both public and private operating in Pakistan.

A single ombudsman could streamline the complaint resolution process and ensure a consistent approach to handling issues across the country. Additionally, rationalizing tax policies, particularly addressing

double taxation on insurance and reinsurance premiums due to provincial sales tax, may also require reassessment, the CCP added.
https://www.brecorder.com/news/40323678/insurance-sector-ccp-concerned-at-preferential-treatment-to-soes

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CCP Strongly Recommends Changes to Insurance Ordinance 2000

The Competition Commission of Pakistan (CCP) has strongly recommended changes to the Insurance Ordinance, 2000 to allow private companies to compete with NICL in the public property insurance market.

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https://propakistani.pk/2024/09/24/ccp-strongly-recommends-changes-to-insurance-ordinance-2000/