

SUMMARY OF THE ACTIVITIES OF LIFE COMMITTEE



Sitting from Left to Right:

Syed Fahad Subhan, Mr. Zain Ibrahim (EC's Observer), Mr. Hashim Sadiq Ali (Vice-Chairman), Ms. Lilly R. Dossabhoy (Chairperson), Mr. Mohammad Asim Khan and Mr. Muhammad Rashid

Standing from Left to Right:

Mr. Asif Mirza, Mr. Noman Muhammad, Mr. M. Numan Shaikh (Suptt. Accident & Life) Mr. N.A. Usmani (Secretary General) and Mr. Nabeel W. Sabir (Deputy Secretary General)

- The rising concerns from the industry on the imposition of SST on Corporate Health Insurance and Life Insurance in Sindh needed the committee's immediate attention. Although the administrative efforts made to convince Sindh Revenue Board (SRB) against the imposition kept collection enforcement largely at bay (with only one company issued an order by SRB against non-compliance), the ballooning SST liability from 1 July 2016 in respect of corporate health insurance posed a challenge for all members writing this business from Sindh,

without charging SST.

IAP met the SRB team at their head office in Karachi on 25th October 2018 and subsequently wrote to Chairman SRB on 7th November 2018 bringing the matters of sales tax on life, health and reinsurance to his attention along with the industry recommendations for each.

On 26th February 2019 IAP published a nationwide newspaper appeal to the Prime Minister, Federal Finance Minister, Advisor to

Prime Minister on Commerce Textile and Industry and all Provincial Chief Ministers to consider the industry recommendations on sales tax.

The IAP also brought the matter to the attention of SECP Policy Board who considered the industry request and were kind enough to write to both Chairman SRB and Chairman PRA through the letters dated 13th March 2019.

In the absence of an exemption from SRB on life and health insurance, with sales tax not being charged to customers due to the ongoing discussion and dialogue, the majority of the insurers received a qualified audit opinion on their annual accounts on the sales tax liability from their external auditors.

The extended efforts of the IAP proved fruitful and on 8th May 2019 the SRB issued the exemption notification no. SRB3/4/5 2019 whereby sales tax on health insurance was exempted from 1 July 2016 to 30th June 2019 and sales tax on life insurance was exempted from 1st July 2018 to 30 June 2019. In light of this notification, an emergent meeting of CEOs and CFOs at IAP was held with Syed Asad Ali Shah on 13th May 2019, where the members present agreed to engage Syed Asad Ali Shah for another year to help continue administrative efforts in all provinces for the next year commencing 1 July 2019.

- The committee discussed the various notices / letters received by the member companies from PRA for registration as service providers, following the withdrawal of exemption on life

and health insurance in the Punjab w.e.f. 1st November 2018, by virtue of amendment through the Punjab Finance Act, 2018. Most of the members had sought extension of time from PRA, requesting to keep matters in abeyance till the industry discussions with PRA are completed.

In the emergent meeting of the CEOs and CFOs of member companies held on 13th May 2019, it was decided that the PRA matter also be administratively handled by Syed Asad Ali Shah. Thereafter, he met Member Policy Government of Punjab on 17th May 2019 in Lahore and will be taking up further discussion with PRA. He also advised that a Constitutional Petition against the imposition may be kept ready in the meantime, in case the administrative efforts do not prove fruitful.

- In light of the SECP letter dated 25th October 2018 on Manner of Premium Receipt and Payment of Group Life Insurance Claims and subsequent response incorporating feedback received from Life Insurance Companies, the committee held an emergent session to discuss the response and reach a consensus.

It was noted that in case of group life insurance policies almost all payments are made through cheques (or other non-cash mediums) and therefore the industry has no objections to the SECP's intended directive 2 (i) to collect payments through cheques. However for individual life policies the condition would pose a challenge.

For part (ii) where SECP has allowed premium

collection in cash below Rs. 25,000/- for cases of "practical difficulty" the committee was of the view that the term "practical difficulty" is open to interpretation and in light of the new AML regulations there is no need to limit premium collection in cash to Rs. 25,000/- . The AML Regulations permit collection of funds in any form given Rs. 2 million and above cash collections are reported to the Financial Monitoring Unit (FMU)

For part (iii) requesting group life claims to be paid directly to the beneficiary and not to the group policy holder, the Committee was of the view that this condition is not acceptable/ feasible for the industry due to several reasons. Mainly:

1. the contract/ policy is between the corporate client and insurer, not the ultimate beneficiary
2. The legal complexities of determining and awarding insurance amount is beyond the scope of insurers
3. The insurer can issue one cheque to the policy holder who can then disburse the sum to the deceased employee's identified beneficiaries/ next of kin.
4. The health insurance industry is very competitive with low profit margins, and issuance of separate cheques in the names of beneficiaries would significantly increase the cost of operations, shrinking the operating margins even further.

On 8th November 2018 IAP comments were sent to SECP.

- The committee noted the application of IFRS-9 from 1st January 2019 and sought a clarification from ICAP if the life insurance companies are exempt from this application till 1st January 2021 due to implementation of IFRS-17. IAP letter to ICAP with a copy to SECP seeking this clarification was sent on 14th November 2018.

ICAP clarified that a temporary exemption from application of IFRS 9 (from 1 Jan 2019) for insurers who are in the process of implementing IFRS 17 exists and that it is at the insurer's discretion to adopt IFRS 9 while implementing IFRS 17.

- In December 2018 IAP wrote to SECP to arrange a joint meeting of the life insurers, CDC and SECP. The requested meeting was held on 11th April 2019 4:00 pm at CDC Karachi with SECP and IAP representatives.

During the joint meeting, the CDC proposed the opening of a new account in the name of the concerned company, using the Company's NTN as well as Company's UIN, with the information of the concerned unit linked fund as additional information at the back end, which would be available in the CDC records. As per CDC, this would address the risk of higher tax withholding at the rates applicable to non-tax filers, as faced earlier. With regard to the additional information field, the SECP advised the CDC to coordinate with their IT team for necessary incorporation of this field in the CDC account statements / details, which was agreed by CDC but they informed that it would take some time.

With regard to the CDC transfer charges applicable on the existing portfolio, the SECP advised the IAP to move an application to the SECP on behalf of all members, which was accordingly made for the Commission's consideration.

- The committee while discussing the draft directive on Cybersecurity Framework for

Insurance Sector 2019 SRO 31(1)/2019 felt that the Commission's intended directive appear to be for banks. In the absence of a mandatory "Cyber Security Framework" for banks which have high monetary cyber risks, the directives should not be applied on insurance sector, where cyber risk is limited to data security.

On IAP's request the SECP called a meeting on 27th February 2019 to discuss the draft directive and the industry's concerns, whereby the SECP agreed to constitute an implementation committee which will conduct a survey to assess cyber risk readiness of the insurance industry before any directives can be introduced.

- The Committee while reviewing the data collection format for Key information (Conventional & Family Takaful Business) noted that the current format is not aligned with the new presentation of published financial statements as per the Insurance Accounting Regulations, 2017 as some of the information was not available therein, and suggested that the format be revised for data collection of the year 2019, so that all data presented in the Key Financial Data correlated to the published financial statements. The revised format was reviewed and approved for data collection of first quarter 2019 and onwards.