MINUTES OF 133RD MEETING OF BOARD OF DIRECTORS

...ECTORS	HELD AT	ON	TIME
...TE BOOK	KARACHI	7th April, 1997	

The one hundred and thirty third (133rd) meeting of the Board of Directors of State Life Insurance Corporation of Pakistan, was held on 7th April, 1997, at Karachi.

PRESENT:

1)	Mr. Muizuddin Ahmed,	Chairman
2)	Mr. Mehmood Ali Bhatti,	Director
3)	Mr. Zafar Mahmoud,	Executive Director
4)	Mr. S. Gulrez Yazdani,	Executive Director
5)	Mr. A. Rauf Malik,	Executive Director
6)	Mr. A.Q. Raashid,	Secretary Board

2. Mr. M. Amjad Virk, Joint Secretary (Adm./Ins.) had informed about his inability to attend the meeting owing to his preoccupation in Islamabad. Therefore leave of absence was granted to him.

3. The meeting commenced with recitation from Holy Quran.

ITEM NO. 1 CONFIRMATION OF THE MINUTES OF 132ND MEETING OF THE BOARD OF DIRECTORS.

4. The minutes of 132nd meeting of the Board of Directors placed before the Board were confirmed.

ITEM NO. 2. CONSIDERATION OF MONTH WISE BREAK DOWN OF FIRST YEAR PREMIUMS AND POLICIES FOR THE LAST TEN YEARS

5. As advised in para 31 of 132nd meeting of the Board of Directors held on 26th February, 1997, a monthly breakdown for the last 10 years of the first year premium and number of policies sold was prepared and placed before the Board. The Board noted the same. The Board also noted that a comprehensive training programme had been drawn for training of officers and staff.

ITEM NOs.3 AND 5. STRUCTURE OF GROUP & PENSION AND SALES & DEVELOPMENT ZONES

ED(G&P) Memorandum dated March 26, 1997.
ED(S&D) Memorandum dated April 3, 1997.

6. Two Memoranda dated 26th March, 1997 and April 3, 1997 were considered by the Board with regard to re-structing of these two Divisions in the light of business results of 1996.

7. With regard to G&P Division, it was informed that two Regional Chiefs and other officials of G&P were of the view that a Zone should be formed if it is able to produce Rs.5

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crore FYP in a year, otherwise financial/administrative cost of the Zone would not be viable.

8. The Board examined the premium received and expenses of those Zones which produced premium of less than Rs.5 crore in 1996, and found the following Zones to be below this standard:

1. Sialkot.
2. Faisalabad.
3. Multan.
4. Hyderabad.

9. After deliberation and the consideration of the information available, the Board decided that these Zones may be reduced in stature and converted as SubZones/Sectors, depending on the magnitude of the premium being received. Multan, Bahawalpur and D.G. Khan were proposed to be joined together to make a Zone with headquarter at Lahore in addition to one already existing there. Those two zones would be called Lahore-1 and Lahore-2. Lahore-1 and Lahore-2 would comprise of the following:

LAHORE-1

Part of Lahore, Multan, Bahawalpur and D.G.Khan.

LAHORE-2

Part of Lahore with Faisalabad, Gujranwala and Sialkot as its Sectors.

10. The Corporate Zone G&P Islamabad be merged with Rawalpindi G&P Zone and the business be distributed between Northern and Southern Regions on the basis of allocation of headquarters of the groups being handled at present by the Corporation.

11. Quetta to become a Sub-Zone with Hyderabad as a Sector because of the fact that major business originated from Quetta. Both Quetta and Hyderabad would be under Karachi East Zone.

SALES AND DEVELOPMENT

12. As regards Zones of Sales & Development, the Board was informed that in the last Regional Chiefs meeting held at Principal Office, it was decided that a Zone in S&D becomes viable if it is producing Rs.5 crore FYP and is maintaining 20,000 number of policies. On the basis of this, in the Southern Region the following Zones were not found upto the criteria.

(i)	Sukkur Zone	Rs.2.68 crore FYP
(ii)	Larkana Zone	Rs.2.55 crore FYP
(iii)	Mirpurkhas Zone	Rs.2.48 crore FYP
(iv)	Quetta Zone	Rs.2.04 crore FYP

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13. In addition to above, the following two Zones were found short by less than Rs.1 crore FYP.

(i) Karachi Eastern Zone	Rs.4.98 crore FYP
(ii) Karachi Central Zone	Rs.4.36 crore FYP

14. It was proposed to combine Sukkur with Larkana Zone and Quetta Zone. Sukkur being the Zone, and Quetta alongwith Larkana as sub-zones. Mirpurkhas should go back to Hyderabad Zone as its sub-zone. It was further proposed that Karachi (Eastern) and Karachi (Central) might be merged, Karachi Eastern Zone to keep the status of the zone while Karachi Central Zone be down graded as sub-zone.

15. (B) In Northern Region, the following Zones were not found financially viable:

(i) Swat Zone	Rs.1.98 crore FYP
(ii) Kohat Zone	Rs.1.16 crore FYP
(iii) Islamabad Zone	Rs.3.69 crore FYP
(iv) Mirpur A.K. Zone	Rs.3.27 crore FYP

16. It was proposed to down grade and merge Swat and Kohat Zones as sub-zone and sector office respectively with Peshawar Zone. Also to down grade Islamabad Zone as sub-zone and merge it with Rawalpindi Zone. Similarly Mirpur A.K. Zone be down graded as sub-zone and merged with Gujrat Zone.

17. In Multan Region following Zones were not found financially viable.

(i) Bahawalpur Zone	Rs.3.70 crore FYP
(ii) D.G.Khan Zone	Rs.4.10 crore FYP

18. In addition to above, the following Zones were found short of the minimum requirement of Rs.5 crore:

(i) Vehari Zone	Rs.4.46 crore FYP
(ii) Sahiwal Zone	Rs.4.67 crore FYP
(iii) Rahim Yar Khan Zone	Rs.4.04 crore FYP

19. It was proposed that Bahawalpur Zone be down graded as sub-zone and be merged with Rahim Yar Khan Zone. D.G. Khan Zone be down graded as sub-zone and merged with Multan Zone. It was further proposed that Vehari Zone be down graded as sub-zone and merged with Sahiwal Zone.

20. The down graded zones should follow the natural path of growth and earn the status rationally and after maturing in due course of time. It would also result in adequate savings and reduce the administrative expenses of running the down graded zones.

21. After due deliberation, the Board approved the proposals for G&P and S&D in principle, subject to financial viability and availability of all the relevant data. Accordingly it was resolved as under:

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RESOLVED

"that the proposals for G&P and S&D be and are hereby approved in principle, subject to accrual of adequate savings."

Action: DGM(S&D)/DGM(G&P)

ITEM NO. 4. EVALUATION OF UK BRANCH PROPOSAL FOR FUTURE RESTRUCTURING.

ED(Int'l) Memorandum dated March 27, 1997.

BACK GROUND

22. The Board was informed that State Life's UK Operations were inherited from EFU, on its own the Corporation started the operations in 1974 and at its peak the office had reportedly almost 6000 policies in force in UK. However, with the Financial Services act 1986, which made regulatory environment stringent, lack of professionalism at the Principal Office and persistent rivalry between the officers posted at London and the Principal Office at Karachi led to the decision of the Board of Directors of the Corporation in its 90th meeting held on 3.1.1988 (Item No.5(iii) to close down its new business activities in UK.

23. The decision of the Board of Directors to close the new business was conveyed to Ministry of Commerce and the Ministry in response to the Board's decision advised on 18.1.1988 that the "decision taken by the Board may pend till examination of the issue by the Ministry".

24. Subsequently report was sent to the Ministry of Commerce by the Chairman, State Life, in February, 1989, after his visit to UK, and the Ministry of Commerce on 11.4.1989 advised State Life as under:

> "It has been decided by the competent authority that the London Branch of State Life may not be closed for the present. It had also been decided that State Life should devise ways to adopt a more aggressive line of action in order to enhance its business in UK".

25. A Committee was constituted in State Life for evaluation of UK business. A report was also called from Mr. Anwar Chaudhry, an Independent Consulting Actuary in UK. The work undertaken by the Committee and report of the Consulting Actuary brought out one common factor that "State Life's UK Operation needs total overhauling, introduction of new plans, and restructuring of new linked product."

26. Despite repeated reports prepared in-house by the Corporation and advice received, the issue of closing or relaunching of State Life's UK operation remained open. The matter of future of Corporation's UK operation was again discussed in the 114th meeting of the Board of Directors held on 22.12.1993 (Para No. 21) wherein the Board

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recognized the importance of UK operations and called for an in-depth analysis.

27. In the meeting of the Senate's Standing Committee on Commerce held on 25th January, 1995 at Karachi, the Senate's Committee had also recommended that:

> "New business avenues may be adopted in the UK and business revamped".

28. In light of the different decisions on the issue taken by the Board of Directors of State Life in its different meetings, advices of the Ministry of Commerce and recommendations of Standing Committee of Senate on Commerce, modalities for relaunching of the operation in UK were worked out but could not be implemented for want of definitive decision in this regard.

29. Apart from the decisions and continuous decision making process on the issue in Pakistan, simultaneous activities were also in progress in the UK. The life insurance business in UK, like any other country, is heavily regulated. The UK regulating body of insurance, Department of Trade and Industry (DTI) was kept informed of the thinking process of the Corporation. In 1988, the DTI was informed that State Life would not undertake any new business in UK, i.e. it had suspended its new business activities in UK. In 1993 DTI was informally informed of the plans to relaunch the UK operations on a full scale. Communication of different and conflicting decisions reflected a lack of policy decisions and strategic planning of the Corporation.

30. The DTI recognized the lack of professionalism of the Corporation and decided that the Corporation should submit its business plans, details of the products intended to be marketed and other detailed information so as to enable them to take a decision whether or not to allow State Life to write new business. The formalities asked for by the DTI to be completed were almost tantamount to fulfillment of formalities for opening up a fresh branch office. In line with the decisions of Board of Directors and Ministry of Commerce to relaunch operations in UK, a consulting actuary was engaged to help develop the modalities. The Consulting Actuary accordingly submitted two reports for relaunching of the operation.

31. Ministry of Commerce had actively been involved in the decision on the issue. It was for consideration whether State Life should decide on the future of the UK operation on its own or Ministry of Commerce again needs to be involved.

PROPOSAL
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32. The total income including investment income of UK office during 1996 was only Rs.6.9 million whereas the total expenses were almost Rs.20 million, i.e. three times the total income. The office was being maintained out of the investment income or diminution of investment portfolio.

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Whole life policies were developed on the basis of 85 years life expectancy and the figures suggested that the policies serviced by the UK branch might go upto the year 2025 if the policyholders did not expire before that date. The total sum assured and reversionary bonuses of UK branch as at 31st December, 1995 was as under:

Total liability as at 31.12.1995	₤ 858,747
Liability already paid (1996)	₤ 100,022
Balance	₤ 758,725
Amount of policies under APL etc.	₤ 108,000
Liabilities as at 31.12.1996	₤ 650,725

33. If all policies in force in UK were fully paid out State Life would incur maximum outflow of ₤ 650,725 and thus save around 1.4 million pound of the investment portfolio which could be repatriated.

34. However, the following options were available for the Corporation.

i) Convince the DTI to allow State Life to pay the entire sum assured to the policyholders prematurely and close down its operation altogether in UK.

ii) Sublet the operations to some Pakistani financial institution to act on behalf of the Corporation, i.e. to collect renewal premiums and make payment of claims etc.

iii) Complete the formalities and revive the operating permission and relaunch its operation.

iv) If State Life wants to operate in UK and feels that it is too lengthy procedure for revival of the operation, the Corporation may buy a small company which may be headed by an English man. By buying a company, State Life will inherit its network which may then be developed for its own business.

35. The options available at Serial No.(i) and (ii) above were approved by Executive Committee in its 223rd meeting held on March 19, 1997 (Item No.7-ii, para No. 71) for implementation and further action, while deciding to close down the London operation. These options however, would require informal discussions and the consent of Department of Trade and Industry, UK and then in case of Serial No.(ii), would also have to be negotiated and details finalized with the collaborating institution. National Bank of Pakistan had been approached in the matter who appeared to be agreeable in principle but could only decide after the approval of the DTI etc.

36. The view of the Chairman, which he explained to the

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Board, was that for years the London office was kept alive in the hope of improving the situation there, but nothing had been achieved practically over nearly one decade. The present situation was that expenditure on London operations was close to 300% of its income. Efforts to turn around the operations of London office and making them viable might take another two to three years. Meanwhile the Corporation would be incurring heavy losses in this attempt and even then there was no certainty that these operations would, eventually, become profitable. As things stood to-day, and with its dismal history in the past, spending more money on London operations would amount to throwing good money after bad money. It was, therefore, highly advisable to close this office, from a commercial point of view, as early as possible.

37. After due deliberation, the Board decided to close down the UK operations. The Board also approved the line of action based preferably on option at para (ii) of para 31 or, in case it is not possible, then option at sub para 31(i) be explored. The Board also desired to find out if there was any other viable option available. Accordingly the Board resolved in principle as under:

RESOLVED

(a) "that State Life's operations in UK be wound up. Options at para 31(i), 31(ii) be explored. Meanwhile, any other feasible options may also be identified and investigated.

(b) "that Ministry of Commerce had been part of the decision making process on the issue and the Ministry may be consulted in light of Board's decision giving the reasons."

Action: ED(Int'l)

CHAIRMAN

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