

MINUTES OF 201ST MEETING OF THE BOARD OF DIRECTORS

DIRECTORS	HELD AT	ON	TIME
MINUTE BOOK	KARACHI	15 TH MAY' 2009	

CONFIDENTIAL AND RESTRICTED

The 201st Meeting of the Board of Directors of State Life Insurance Corporation of Pakistan was held on Friday, 15th May' 2009 at 10.30 a.m. in the Board Room, State Life Building No.9, Dr. Ziauddin Ahmed Road, Karachi.

PRESENT:

- | | |
|----------------------------|-----------------|
| 1. Mr. Shahid Aziz Siddiqi | Chairman |
| 2. Mrs. Spenta Kandawalla | Director |
| 3. Mr. Amin Qasim Dada | Director |
| 4. Mr. Rasheed Y. Chinoy | Director |
| 5. Syed A. Wahab Mehdi | Director |
| 6. Mr. Akbarali Hussain | Secretary Board |

LEAVE OF ABSENCE:

1. Mr. Qamar Zaman Chaudhry
2. Mr. Aslam Faruque
3. Syed Hur Riahi Gardezi

2. The meeting started with recitation of verses from the Holy Quran by the Chairman.

3. Syed Arshad Ali, Executive Director(Mkt/G&P/PHS), Mr.Allah Rakha Aasi, Executive Director(F&A/Act), Mr.Mohammad Yahya, Executive Director (RE/P&GS/Legal Affairs), Mr.Shoaib Mir, Executive Director(IT/R&A), Mr.Ansar Hussain, Divisional Head(Investment), Mr. Muhammad Izqar Khan, DH(F&A) and Mr.Shahrukh Subzwari, Divisional Head(Actuarial) attended the meeting by invitation.

ITEM (1) CONFIRMATION OF MINUTES OF 200TH MEETING OF THE BOARD OF DIRECTORS.

4. The minutes of the 200th meeting of the Board of Directors held on 28th April, 2009 together with implementation report were placed before the Board.

5. Implementation report of 200th meeting of the Board of Directors was noted.

6. Mrs. Spenta Kandawalla proposed and Mr. Rasheed Y. Chinoy seconded that the minutes of 200th meeting of the Board of Directors be confirmed.

7. Accordingly, it was resolved as under:-

RESOLVED:

"that the Minutes of 200th meeting of Board of Directors held on 28th April, 2009, are confirmed."

ITEM 2(i) PRESENTATION OF BUSINESS REVIEW OF MARKETING, GROUP & PENSIONS, INVESTMENT AND REAL ESTATE DIVISIONS FOR THE PERIOD ENDED ON 31-03-2009.

8. The business review of Marketing, Group & Pension, Investment and Real Estate Divisions for and upto the period ended 31st March, 2009 were placed before the Board which was noted.

Action:
Secretary
(Board)

CHAIRMAN'S
INITIALS

MINUTES OF 201ST MEETING OF THE BOARD OF DIRECTORS

DIRECTORS	HELD AT	ON	TIME
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<p>ITEM 2(ii) PRESENTATION ON BUSINESS MODEL INCLUDING AGENCY COMMISSION WITH FIVE YEAR BUSINESS PROJECTION.</p> <p>9. ED(Marketing) presented before the Board, a presentation on individual life business in Pakistan and Gulf Zone and Group & Pension business.</p> <p>10. ED(Marketing) informed the Board that the mission statement of the Corporation was to remain the leading insurer in the country by extending the benefits of life insurance to all sections of Society and meeting commitment to valued policyholders and the nation. State Life so far fulfilled the above mission statement by maintaining its position as leading insurer in the country and having 26 Zonal Offices and over 500 Area Offices and over 2000 Agency Offices all over the country.</p> <p>11. State Life made payment of Rs.1.142 billion, Rs.5.592 billion, Rs.2.368 billion respectively in respect of death claims, maturity payments and surrender payments in the year 2008.</p> <p>12. ED(Marketing) submitted business statistics for the year 2004 to 2008 in respect of first year premium, total life premium, second year persistency, renewal persistency, number of new policies sold and business targets for the years 2009 to 2013 in respect of first year premium, total premium and number of policies to be sold. The first year premium was projected to rise to Rs.12.4 billion in 2013 from Rs.6 billion in 2009 whereas the total premium with second year persistency of 80% and renewal persistency of 90% was expected to grow to Rs.45.2 billion from Rs.21.4 billion in 2009. The number of policies expected to be sold is 995,457 in 2013 from 480,062 in 2009. The number of marketing force is likely to increase from the existing 87,381 to 120,899 in the year 2013. The maximum number of policies sold in the year 2008 fell in the sum assured band of upto Rs.600,000 and in the age limit of 25 to 39. The maximum number of policies sold in 2008 pertained to endowment assurance.</p> <p>13. ED(Marketing) also presented before the Board, the existing commission structure effective 2002 for Sales Representatives, Sales Officers, Sales Managers, Area Managers. The business quotas for each of the above field force is increased by 25% automatically after every three years and next such increase will be effectively 1.1.2011.</p> <p>14. ED(Marketing) further informed the Board that Area Managers are entitled to receive business perks alongwith fixed salaries equivalent that of Deputy manager with no annual increments but receives incentive bonus on their business performance subject to maximum of 3% of FYP. The Area Managers also required to operate within 10% operational cost excluding incentive bonus which if exceeded is recovered accordingly to the approved criteria.</p> <p>15. ED(Marketing) then presented the actual figures of first year premium of the Gulf Zone for the year 2004 to 2008 with FYP targets for the year 2009 to 2013. The FYP premium is expected to grow from US\$ 2.9 million in 2008 to 7.216 million in 2013 with total premium to grow from US\$ 12 million in 2008 to 30 million in 2013. The field force is expected to grow from the existing 196 to 505 in 2013. ED(Marketing) also submitted before the Board, the commission structure of Gulf Zone.</p>			

CHAIRMAN'S
INITIALS


MINUTES OF 201ST MEETING OF THE BOARD OF DIRECTORS

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	<p>16. ED(Marketing) informed the Board about the strategy to be adopted by State Life which would be as follows:-</p> <ul style="list-style-type: none"> • Introduction of Unit Link Products. • Enter into Bancassurance. • Exploring the Takaful Window from 2010. • Introduction of New Insurance Plans/Products. • Television commercials/advertisement of our existing profitable products on print media. • Professional Training of field/staff with special emphasis on computer/IT skills. <p>17. ED(G&P) then presented before the Board, G&P Division's five year business plan for the year 2009 to 2013. Presently there are four Zones located at Karachi, Lahore, Rawalpindi and Peshawar with eight Sectors in Karachi Zone, seven Sectors in Lahore Zone, four Sectors in Rawalpindi and two Sectors in Peshawar Zone. There are 86 officers and 129 staff working in G&P Division.</p> <p>18. The Board was informed that the following schemes were sold by G&P Division:</p> <ol style="list-style-type: none"> a) Group Term Insurance b) Group Provident Fund Insurance c) Group House Building and Perquisites Loan Insurance d) Pay Continuation Scheme e) Education Continuation Scheme f) Group Pension Scheme g) Group Endowment Scheme <p>19. The total number of persons insured by G&P Division was 3.879 million in 2008 with majority of them covered under Group Term Insurance. The premium of G&P Division has increased from Rs.1996.7 million in 2004 to Rs.3564.2 million in 2008 whereas the claims of Rs.2136 million was paid in 2004 and Rs.2866 million in 2008. The allowable limit of administrative expenses is 10% whereas the actual administrative expenses was 3.65% in 2008.</p> <p>20. The premium is projected to increase to Rs.8868 million in 2013 from Rs.3564 million in 2008 with average compound growth rate of 20% whereas the claims are expected to be Rs.7094 million in 2013 from the present Rs.2866 million in 2008.</p> <p>21. ED(G&P) informed that the following strategy would be adopted by State Life in respect of Group & Pension Division:</p> <ol style="list-style-type: none"> a) Computerization of G&P Offices which will increase efficiency manifold. b) Recruitment of quality manpower through inducting of MBAs as Marketing Executives. c) Establishment of Marketing Research/MIS Cell for compiling of primary and secondary data. d) Advertisement and publicity. e) Emphasis on selling of products other than term insurance f) Expansion of G&P network by setting up additional Sectors in the Zones <p>22. The additional annual financial impact to implement the strategy mentioned above would be about Rs.24 million.</p> <p>23. The Board appreciated the above presentation.</p>		

 Action:
ED(Mkt)

 CHAIRMAN'S
INITIALS


MINUTES OF 201ST MEETING OF THE BOARD OF DIRECTORS

DIRECTORS	HELD AT	ON	TIME
MINUTE BOOK	KARACHI	15 TH MAY' 2009	

ITEM (3) PRESENTATION OF FIVE YEAR BUSINESS PLAN INCLUDING MARKETING, INVESTMENT AND MANPOWER.

24. Executive Director(F&A) presented before the Board, a Memorandum dated 5th May, 2009 regarding State Life's Five Year Business Plan (2009-2013).

25. ED(F&A) submitted to the Board of Directors, the five year business plan of State Life Insurance Corporation of Pakistan based on the following assumptions:

- i. Budget 2009 is taken as base for preparation of this Business Plan.
- ii. Premium Income is projected to increase by 20% every year.
 - a) First year premium projected at annual growth of 20% p.a.
 - b) Second year persistency projected at 82%.
 - c) Renewal persistency projected at 90%.
- iii. Rental Income is projected to increase by 8% every year assuming that occupancy will remain at the present level of 90%.
- iv. Growth in Investment Income is taken at 15% yielding a constant return of 11% on average Life Fund.
- v. It is assumed that ratio of premature claims (surrenders) and death claims will remain the same. Whereas maturity claims are estimated after taking in consideration actual maturities minus premature claims and death claims.
- vi. Acquisition cost including branch overheads (Area Managers Cost) is calculated by applying the current rates of commission and other benefits on premium income.
- vii. Growth in administrative expenses has been projected at 12% p.a. keeping in view inflation. CBA agreement, annual increments, promotions etc.

26. Business figures for the years 2009-2013, based on above stated assumptions will be as under:

Income	2009	2010	2011	2012	2013
Premiums less Reinsurances	27,195	32,634	39,161	46,993	56,392
Rental Income from Investment Property	369	399	431	465	502
Net Investment Income	18,879	21,677	24,895	28,600	32,865
Total Net Income	46,444	54,710	64,487	76,058	89,759
Claims, including bonuses, net of reinsurance recoveries	15,031	16,168	18,244	20,806	22,112
Acquisition Cost	7,686	9,122	11,003	13,196	15,827
Admin Expenses	2,790	3,131	3,502	3,931	4,397
Total Management Expenses	10,476	12,254	14,505	17,127	20,224
Total Claims and Management Expenses	25,507	28,422	32,749	37,933	42,336
Excess of Income over Claims and Management Exp	20,937	26,287	31,738	38,125	47,423
Surplus appropriated to share holder's fund	(422)	(506)	(608)	(729)	(875)
Balance of statutory fund at beginning of year	177,459	197,974	223,755	254,885	292,281
Balance of statutory fund at end of year	197,974	223,755	254,885	292,281	338,828

CHAIRMAN'S
INITIALS



MINUTES OF 201ST MEETING OF THE BOARD OF DIRECTORS

DIRECTORS	HELD AT	ON	TIME
MINUTE BOOK	KARACHI	15 TH MAY 2009	

Comparison of actual management expenses 2009-2013 based on the above projections with the statutory expense limits allowed by the SECP.

Descriptions	2009	2010	2011	2012	2013
Total Allowable Expenses	10,878	12,095	13,455	14,659	17,591
Actual Expenditures	10,476	12,254	14,505	17,127	20,224
Expenses Saved/(Exceeded)	402	(159)	(1,030)	(2,468)	(2,633)

27. ED(F&A) informed the Board that above results reflect explicitly that in the year 2009; Corporation will remain within statutory expense limit prescribed by the SECP whereas from 2010 to 2013 expenses will exceed the allowable limits. 96% of expense relates to agency commission, area managers cost, salaries and allowances and other fixed expenses that cannot be reduced except by a cautious calculated policy decision by the Board.

28. The Board was informed that any efforts such as budgetary control economy drives etc can target only less than 4% of the acquisition cost. Hence without a clear policy decision regarding the above said 96% expense will not address the above issue.

29. ED(F&A) proposed that the Board may like to constitute a Committee comprising of two Board Members, ED(Marketing) and at least three senior members of his Field Management, DH(F&A), DH(P&GS) and DH(Act.) to work out a sustainable acquisition cost structure for the Corporation.

Action:
ED(Mkt)
ED(P&GS)
ED(F&A)
DH(Mkt)
DH(P&GS)
DH(F&A)

30. The Board desired that business figures for the year 2009 to 2013 based on the assumption of increase in first year premium at growth of 35% and 40% be prepared and submitted to the Board for review. The Board also suggested that the issue of expense ratio be taken up with SECP for consideration. The recruitment of Actuaries at prevalent market salary for development of new products be considered.

31. After deliberation, the Board resolved as under:

RESOLVED:

Action:
ED(Mkt)
ED(P&GS)
DH(Mkt)
DH(P&GS)

"that as proposed constitution of a Committee comprising of two outside practicing Actuaries, ED(Marketing), three Senior Members of Field Management, DH(F&A), DH(P&GS) and DH(Actuarial) to propose a sustainable acquisition cost structure for the Corporation, is hereby approved."

ITEM (4) PRESENTATION ON STATE LIFE SUBSIDIARIES I.E. ALPHA INSURANCE CO., PAKISTAN EMERGING VENTURE CAPITAL MANAGEMENT FUND, STATE LIFE ASSETS MANAGEMENT CO. AND STATE LIFE ABDULLAH HAROON ROAD PROPERTIES (PVT) LTD.

Action:
DH(Inv)

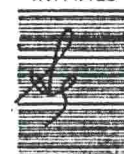
Due to paucity of time, the above presentation was deferred.

CHAIRMAN'S
INITIALS




MINUTES OF 201ST MEETING OF THE BOARD OF DIRECTORS

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<p>Action: DH(Inv)</p>	<p>ITEM (5) PRESENTATION ON TAKAFUL VIS A VIS CONVENTIONAL INSURANCE.</p> <p>33. Due to paucity of time, the above presentation was deferred.</p> <p>ITEM (6) ANY OTHER ITEM WITH THE PERMISSION OF THE CHAIR.</p> <p>(I) INVESTMENT IN MUTUAL FUNDS.</p> <p>34. Divisional Head(Investment) presented before the Board, a Memorandum dated 11th May, 2009 regarding investment in Mutual Funds.</p> <p>35. Divisional Head(Investment) informed the Board that a study for strengthening of Investment Division of the Corporation was carried out by Asian Development Bank a few years back which had recommended that the Corporation should place some of its money in mutual funds. Requests are being received from various quarters for investment in mutual funds. State Life has so far not placed any funds in Open Ended Mutual Funds as Investment Division is managing our own fund.</p> <p>36. Presently there are more than 100 Open Ended Mutual Funds are operating in the country which can broadly be classified as income, growth, balance and principal protected funds. As a result, they differ in term of risk, return and portfolio compositions.</p> <p>37. DH(Investment) pointed out that investing in mutual fund tantamount to authorizing the respective fund manager to manage our fund on a discretionary basis who would invest according to Fund's Investment Policy and guiding principles. The Fund Manager shares his fee on the basis of market value of the fund. Even in case of loss, the Fund Manager charges his fee and entire loss is borne by the investors. Moreover, Fund Manager does not guarantee any return on the investments.</p> <p>38. Mutual Funds are selected for investment on the basis of their past performance. As the future performance is uncertain therefore possibility of loss cannot be ignored. Reporting loss by a fund not only deprives unit holders from dividend income but also exposes them risk of losing principal if NAV falls below face value. Statistics released by Mutual Fund Association of Pakistan (MUFAP) clearly suggests that Assets under Management of various funds have substantially declined since 2008 to to-date.</p> <p>39. DH(Investment) further informed that payouts of mutual funds are in the form of Cash Dividend and Bonuses. For the year ended 30th June, 2009 very few of them have declared interim cash dividend and that too very nominal i.e. upto 9.5%. It is to be noted that the Corporation relies on Investment Income to maintain its payout on Insurance Policies. The Corporation itself has been capable of generating around 13% p.a. return on fund under its direct management despite being very conservative which is much higher than the industry average.</p> <p>40. The Insurance Ordinance does not provide a separate head of assets for mutual funds. Hence these have to be grouped under equities.</p>		

CHAIRMAN'S
INITIALS


MINUTES OF 201ST MEETING OF THE BOARD OF DIRECTORS

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<p>Action: DH(Inv)</p> <p>41. In view of foregoing the Board was requested to consider advisability of investment in Mutual Funds.</p> <p>42. After deliberation, the Board advised the DH(Investment) to present a technical paper including therein the government directives and the relevant portions of the Insurance Law at the next meeting of the Board.</p> <p>(II) <u>DONATION TOWARDS THE PRIME MINISTER'S FUND CREATED FOR THE LOCAL DISPLACED PERSONS OF SWAT.</u></p> <p>43. Executive Director(P&GS) presented before the Board, a Memorandum dated 14th May, 2009 for approval of donation towards the Prime Minister's Fund created for the Local Displaced Persons of Swat.</p> <p>44. The abnormal situation Swat has compelled the residents including women and children to migrate temporarily to area where peace prevails. The internally displaced persons from Swat have left behind everything and are in need of support to overcome their plight.</p> <p>45. State Life Insurance Corporation of Pakistan operates its offices in the above areas and earn revenues through life insurance policies sold. As a social responsibility, it is suggested that a donation of Rs.1 million be approved towards the Prime Minister's Fund created for the Local Displaced Persons of Swat.</p> <p>46. Accordingly, the Board resolved as under:</p> <p><u>RESOLVED:</u></p> <p>(i) "that in view of the extent of the needs being faced by the internally displaced persons (IDPs), a donation of Rs. Two million to the Prime Minister's Fund created for the internally Displaced Persons of Swat, is approved."</p> <p>(ii) "that ED(F&A) is hereby authorized to allocate budget for the donation approved above and take all steps for making payment of the same."</p> <p>47. The meeting ended with vote of thanks to the chair.</p> <p style="text-align: right;">  (CHAIRMAN) </p>			
<p>Action: ED(F&A) ED(P&GS) DH(F&A) DGM(GS)</p>			<p>CHAIRMAN'S INITIALS</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>