MINUTES OF 207TH MEETING OF THE BOARD OF DIRECTORS

DIRECTORS	HELD AT	ON	TIME
MINUTE BOOK	KARACHI	2ND MARCH, 2010	

CONFIDENTIAL AND RESTRICTED

The 207th Meeting of the Board of Directors of State Life Insurance Corporation of Pakistan was held on Tuesday, 2nd March, 2010 at 11.00 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. Aslam Faruque	Director
4.	Mr. Amin Qasim Dada	Director
5.	Mr. Rasheed Y. Chinoy	Director
6.	Syed A. Wahab Mehdi	Director
7.	Syed Hur Riahi Gardezi	Director
8.	Mr. Akbarali Hussain	Secretary Board

LEAVE OF ABSENCE:

1.	Mr. Shafqat Naghmi	Director

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

3. Divisional Head(Investment) and Divisional Head(PHS) attended the meeting by invitation to present their Memorandums.

ITEM (1) CONFIRMATION OF MINUTES OF 206TH MEETING OF THE BOARD OF DIRECTORS.

4. The minutes of the 206th meeting of the Board of Directors held on 17th February, 2010 together with implementation report were placed before the Board.

Item No.04 Para-23 of 206th meeting – comparison of surrenders for the last three years

5. Syed Hur Riahi Gardezi, Director pointed out that the words "and possibility of obtaining policy loan" after the words "attractive surrender values" in para-23 on page-4 of the minutes of the 206th meeting be deleted.

Item No.04 Para-24 of 206th meeting – increase in disposable income in rural areas due to agricultural growth.

6. Syed Hur Riahi Gardezi also pointed out that the words "who could be potential policyholders for State Life" in para-24 on page-5 of the minutes be substituted with the words "which could be converted into premium by State Life".

7. Syed Hur Riahi Gardezi also informed that in the action column of the Implementation Report henceforth item number be specified.

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Item No.12 Para-76 of 206th meeting – increase in budget for loan and advances to employees

Action: ED(F&A) DH(F&A)

8. Syed Hur Riahi Gardezi pointed out that in para-76 of the minutes on page-17 in item-12, after the words "within approved budget, etc." the words "will remain the same" be incorporated.

Item No.09 Para-62 of 206th meeting – report/status of Centre Point Project

Action: DH(Inv)

9. Mrs. Spenta Kandawalla, Director submitted that the words "that the main concern of Lever Brothers for renting out the above project was security rather than ownership which if redressed would result in Lever Brothers agreeing to rent the property" in para-62 on page-14 of item-9 of the minutes be substituted with the words "that the main concern of M/s. Unilever was not so much the ownership of Centre Point but more related to the security of the currently occupied premises".

Business Review

Action: SGM(Inv)

10. Syed A. Wahab Mehdi, Director pointed out that benchmarks should be fixed for various sources of income including fixed income by Investment Division in line with prevalent market yield.

Action: ED(F&A) DH(F&A)

11. The Board requested ED(F&A) to submit information of re-appropriation of budget amongst different heads in excess of Rs.10 million.

Item No.05 Para-47 of 206th meeting – budget proposal for the year 2010 – carry forward of capital expenditure budget

…on: ED(F&A) DH(F&A)

12. Mr. Aslam Faruque, Director pointed out and it was agreed to by the Board that resolution in para-47-b approving carry forward of capital expenditure budget of Rs.573.632 million not utilized by RE in the year 2009 be reversed and that in future the unutilized budget would lapse at the end of the budgetary period

13. Implementation report of 206th meeting of the Board of Directors was noted.

14. Syed Hur Riahi Gardezi, Director proposed and Mrs. Spenta Kandawalla, Director seconded that the minutes of 206th meeting of the Board of Directors be confirmed with the above amendments.

15. Accordingly, it was resolved as under:-

Action: Secretary Board

RESOLVED:

"that the Minutes of 206th meeting of Board of Directors held on 17th February, 2010 are confirmed with the above amendments."

Withdrawal of 3% increase in premium rates of UAE business

16. The Board of Directors at its 206th meeting while reviewing the business figures of Marketing was informed that the Zonal Management and marketing

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force of Gulf Zone have stated their case on maintaining of the same premium rate and improved bonus and that the increase in premium rates in Pakistan be not made applicable to policies in the Gulf Zone.

17. DH(Actuarial) made a presentation to the Board regarding the working of bonus rate and fixation of premium rates and the process of Actuarial Valuation and how the actuarial surplus is arrived at out of which the bonuses are declared for various classes of policyholders. He explained that the law does not provide any flexibility regarding the total amount surplus to be distributed to the policyholders. Furthermore the option of transferring any amount between statutory fund is strictly prohibited by law which precludes any possibility of Pakistan Life Fund subsidizing the overseas life fund.

18. DH(Actuarial) explained that the surplus earned can be increased by following three ways:

- i) Increase in investment returns;
- ii) Increase in existing premiums rates;
- iii) Decrease in expenses.

19. DH(Actuarial) submitted that unfortunately, the investment returns of Gulf business have remained at a very lower level in the past few years as compared to the investment returns of Pakistan Business. A comparison of yield rates of the last five years between Pakistan Life Fund and Overseas Life Fund is presented below:

	Pakistan Life Fund	Overseas Life Fund
		Dollar & Dirham Accounts
Yield on Fund %		
2004	14.26%	4.12%
2005	12.03%	4.04%
2006	12.15%	5.04%
2007	12.62%	6.90%
2008	11.72%	5.14%
source : Accounts		

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20. From the above table, it can be seen that yield rates of Gulf Business are very low as compared to the yield rates of Pakistan Business. As a result, surplus earned on overseas business is no match to the surplus earned on Pakistan Business. Consequently in 2007, the then Appointed Actuary had recommended a slight increase in the premium rates by 3% to minimize the impact of lower returns in the Gulf on future bonus rates.

21. In order to increase the investment returns of Gulf business, certain measures were taken but were badly dented due to Global Financial Crisis which badly affected financial markets of Dubai. At present, the other life insurance companies operating in Gulf are also facing acute challenges in maintaining their business due to this unfortunate event.

22. Recently, the investment division has taken some decisions for improving the low yield rate of Gulf business which hopefully may have a favorable impact on bonus rates in future years.

23. The third factor highlighted in para-15 above relates to expenses. This needs to be given a very close scrutiny to maintain business competitiveness of State Life in the Gulf Region. The expenses of State Life can be broadly categorized as acquisition expenses relating to marketing field force and administrative expenses.

24. DH(Actuarial) mentioned that firstly there is a need to ensure that the commission structure being offered by State Life to its field force in the Gulf region is in line with the commission levels of our competitors in that market. In case our competitors are offering lower commissions then quite naturally it would be difficult for State Life to maintain competitive premium rates and bonus rates in that market over the long run.

25. DH(Actuarial) further mentioned that recently, a decision has been taken to open new branch offices in UAE. Although the feasibility report for this decision has not been provided to us officially but from whatever Actuarial Division have come to know of it, we feel this decision in the short term is likely to further challenge the Gulf business which may necessitate further increase in premium rates or decrease of bonuses in the future years.

26. The Zonal Head of Gulf Zone is of the view that decision of 3% increase in the premium rates is adversely affecting the business of State Life. If this increase is withdrawn it will greatly facilitate the growth of business in the Gulf countries.

27. DH(Actuarial) further explained that although in the short run withdrawal of this increase may have a slight adverse impact on the bonus rates but if it helps in the growth of business as claimed by the Zonal Head of Gulf Zone then from a business point of view it may be worthwhile to withdraw this increase to motivate the Zonal Head and his marketing team to make a greater effort towards growth of business.

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28. As per Insurance Ordinance, the recommendation of the Appointed Actuary is necessary for any changes in the rates of premium. DH(Actuarial) informed that advice has been received from Mr. Shujat Siddiqui, Appointed Actuary which is reproduced below:-

> "I agree with your observations regarding the premium rates for the Gulf Business. The 3% increase in premium rates announced in 2007 has not materially affected the health of the Gulf business. But on the other hand, an increase in premium rates conveys an unpleasant message to the field as well as the prospective customers. Considering all aspects, I am of the view that the Corporation should withdraw the increase with immediate effect. This reduction in premiums may also apply to policies purchased on or after 1st October, 2007. However, reduction in premium rates for these policies should apply prospectively and no arrears should be paid."

29. It is therefore proposed that 3% increase in premium rates of UAE business be withdrawn with immediate effect, and to that effect the consent of the Appointed Actuary in writing has been obtained which has been reproduced above.

30. After deliberation, it was resolved as under:

Action: ED(Act) DH(Act)

<u>RESOLVED:</u>
"that as proposed by DH(Actuarial) and agreed to by an Appointed Actuary, withdrawal with immediate effect of 3% increase in premium rates of UAE business announced in 2007 is approved. This reduction in premiums would also apply to policies purchased on or after 1st October, 2007, however reduction in premium rates for these policies should apply prospectively and no arrears should be paid.

ITEM (2) CONSIDERATION AND APPROVAL OF RECOMMENDATIONS IN MINUTES OF 32ND MEETING OF BOARD AUDIT COMMITTEE HELD ON 10-02-2010.

31. The minutes of the 32nd meeting of Board Audit Committee held on 10th February, 2010 respectively was presented before the Board of Directors for consideration and approval of its recommendations.

32. Accordingly, the Board resolved as under:

Action: Secretary (BAC)

<u>RESOLVED:</u>
"that the minutes of 32nd meeting of Board Audit Committee held on 10th February, 2010 together with recommendations are approved."

ITEM (3) CONSIDERATION AND APPROVAL OF RECOMMENDATIONS IN MINUTES OF 8TH MEETING OF SOCIAL RESPONSIBILITY COMMITTEE HELD ON 11-02-2010

33. The minutes of the 8th meeting of Social Responsibility Committee held on 11th February, 2010 was presented before the Board of Directors for consideration and approval of its recommendations.

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34. Mr. Aslam Faruque, Director informed the Board that as requested by the Social Responsibility Committee he had spoken to Air Commodore Shabbir A. Khan(R) Executive Director, Rashid Memorial Welfare Organization who informed him that the funds given by various philanthropists including State Life were utilized for completion of the building and purchase of equipments and that the donation of State Life can not be pin pointed to purchase of any specific machinery/equipment.

35. Accordingly, the Board resolved as under:

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

RESOLVED:
"that the Minutes of 8th meeting of Social Responsibility Committee held on 11th February, 2010 are ratified and following recommendations to the Board is approved:-

(a) That in view of resources constraints, as decided by the Social Responsibility Committee, it would not be possible for State Life to accede to the request of Sindh Madressah Board for donation for expansion at the campus of SMB Quaid-e-Azam Public School in Darsano, Channo, Ex Malir District, Karachi. However the Social Responsibility Committee would consider request to fund any vocational institute programme as and when a request is received in this regard.

(b) That due to resources constraints as decided by the Social Responsibility Committee, it was not possible for State Life to agree to the request for donation of Suzuki APV Van CNG to Anjuman Kashana-e-Aftfal-o-Naunihal for destitute and orphaned girls since the availability of funds was less than the requirement. In case in future if a viable specific proposal was received, the same would be considered by State Life.

(c) That post facto approval for payment of Rs.150,000 to the Kidney Centre as approved earlier by the Chairman in response to their letter dated 20th October, 2009 is hereby given.

(d) That post facto approval for payment of Rs.100,000 as donation to sponsor the Fundraiser "Art of the Heath for Patient's Welfare and Teaching Aids, Dow University of Health Sciences as approved earlier by the Chairman in response to their letter dated 6th April, 2009 is hereby given.

(e) That the request by the Committee to Mr. Shoaib Mir Memon, Executive Director, State Life to visit the Family Educational Services Foundation, Karachi for deaf reach, community services program and eduserve training programme Centre and put up a report to the Social Responsibility Committee at its next meeting for consideration was agreed.

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(f) That a donation of Rs.500,000 to Indus Earth Trust for building of three low cost demonstration housing scheme in Gharo, Thatta for the rural poor in Pakistan which are storm proof and built by using earth as building material is hereby approved.

(g) That the direction by the Committee to the Secretary,(SRC) to write a letter to Aga Khan Gymkhana to come up with a programme for the special children for which State Life may consider giving donation for purchase of equipments was approved.

(h) That the request by the Committee to Mr. Aslam Faruque, Director State Life, Member SRC to visit Rashid Memorial Welfare Organization Centre and put up his recommendations to the SRC on the request of Rashid Welfare Organization for consideration was agreed.

ITEM (4) CONSIDERATION AND APPROVAL OF RECOMMENDATIONS IN MINUTES OF 9TH MEETING OF REAL ESTATE COMMITTEE HELD ON 01-03-2010

Action:
ED(RE)
DH(REM)
DH(P&M)

36. The above meeting was not held as such the minutes of the 9th meeting of Real Estate Committee to be held on 1st March, 2010 was not presented before the Board of Directors for consideration and approval of its recommendations.

ITEM (5) CONSIDERATION AND APPROVAL OF RECOMMENDATIONS IN MINUTES OF 4TH MEETING OF HUMAN RESOURCES COMMITTEE HELD ON 01-03-2010

37. The minutes of the 4th meeting of Human Resources Committee held on 1st March, 2010 was presented before the Board of Directors for consideration and approval of its recommendations.

(A) **BONUS ON SPLENDID BUSINESS PERFORMANCE 2009**

38. Executive Director(P&GS) presented before the Board, a Memorandum regarding Bonus on Splendid Business Performance 2009 which was submitted to the Human Resources Committee at its 4th meeting held on 1st March, 2010 for consideration and submission of its recommendations to the Board for its approval from the budget of 2009 by allocating additional budget.

39. After deliberations, the Human Resources Committee resolved that on the basis of marvelous business achievement for the year 2009 (FYP Rs.7 Billion approx.), payment of a special bonus equivalent to one basic pay to officers and staff of SLIC as on 31-12-2009, is recommended to the Board for approval from the budget of 2009 by allocating additional budget.

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40. The financial impact for bonus equivalent to one basic pay to officers and staff has been quantified by F&A Division and as attached to the Memorandum is as follows:

S.No.	Officers/Staff	Financial Impact/Year
1.	Staff	Rs.21,072,237
2.	Officers	Rs.35,821,353
	Total	Rs/56,893,590

41. It has been pointed out by F&A Division that there is cushion to award one basic pay as a special bonus from the budget of 2009.

42. Accordingly, the Board resolved as under:

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

RESOLVED:

"that the Minutes of 4th meeting of Human Resources Committee held on 1st March, 2010 are ratified and following recommendations to the Board is approved:-

"that as recommended by Human Resources Committee, payment of a special bonus equivalent to one basic pay to officers and staff of SLIC as on 31-12-2009 for marvelous business achievements for the year 2009 and allocation of additional budget out of the budget 2009 for the special bonus is approved."

(B) ELEVATION/PROMOTION OF MR. KASSIM JEHAN IN VIEW OF INJUSTICE SUSTAINED BY HIM AT THE TIME OF HIS APPOINTMENT IN STATE LIFE AND HIS CURRENT EFFICIENT PERFORMANCE.

43. The Memorandum of ED(P&GS) recommending for upholding elevation/promotion of Mr. Kassim Jehan from Stenographer to Deputy Manager in view of injustice sustained by him at the time of his appointment in State Life and his current efficient performance was submitted to the Board.

44. The Board was informed that In view of the injustice sustained to Mr. Kassim Jehan at the time of his appointment in State Life Insurance Corporation of Pakistan in 1995, he has been promoted from Stenographer to Deputy Manager vide Office Order No. P&GS/PO/272/2009 dated 30-09-2009. After Promotion P&GS Division sent pay fixation sheet of Mr. Kassim Jehan to F&A and IA&C Divisions for necessary action. The IA&C Division suggested regularization of the promotion of Mr. Kassim through Board of Directors, SLIC. The observations of IA&C Division was placed as Annexures to the Memorandum..

45. A brief summary of the case is as follows::

i. Mr. Kassim applied for the post of Executive Secretary in response to advertisement published in daily Dawn on 9th December 1994. The recruitment was meant for senior and middle management cadres.

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ii. As mentioned above, Mr. Kassim applied for the post of Executive Secretary and he possessed qualification of B.Com and know how of shorthand and typing. According to advertisement he fulfilled all criteria for the post he applied for.

Qualification	Experience
Education: B. Com. Typing Speed: 120 wpm Shorthand Speed: 120 wpm PC Courses: DOS, WordStar, Lotus–123	Worked as Stenographer for the period from 2-07-1987 to 30-12-1993.

iii. Contrary to his qualification and experience, Mr. Kassim was selected as Steno-Typist which is a clerical post and lowest rank in the hierarchy of secretarial staff in State Life Insurance Corporation . However, he accepted the offer being not aware of the treatment given to others.

iv. He was not only appointed to a lower post as compared to his qualification & experience but he also fell victim to discrimination as preferential treatment was given to following two appointees:

a. Ms. Perveen Bootwala an experienced graduate, also meeting all the criteria appeared for test and interview. She was rated equally good for her typing and shorthand test. Resultantly, Ms. Perveen was selected as Executive Secretary and she was offered appointment as Manager with 9 advance increments.

b. Mr. Faisal Aziz yet another candidate who was appointed along with Mr. Kassim . Mr. Faisal Aziz a graduate, who was working as a typist in Karachi Zonal office, State Life, with an experience of about two years, was offered appointment as Steno–Typist with 2 advance increments.

v. The above two cases reflect preferential treatment given to candidates while finalizing the cases of appointments as well as injustice made to Mr. Kassim. Ms. Perveen, was appointed Manager with 9 advance increments and Mr. Faisal Aziz, short of experience by about 3 years was appointed as Steno-Typist with 2 advance increments; whereas, Mr. Kassim who fulfilled all the criteria was appointed just as Steno-Typist without any advance increment.

46. After deliberation, the Board resolved as under:

RESOLVED:

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

"that as recommended by HR Committee, the promotion/elevation of Mr. Kassim Jehan from Stenographer to Assistant Manager instead of Deputy Manager is approved."

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(C) Performance Based Bonus Scheme-2009 for Officers of ***State Life Insurance Corporation of Pakistan.***

47. The Board of Directors at its 202nd meeting held on 30th June, 2009 was informed by SGM(Investment) that the Performance Linked Bonus Scheme existed for the officers. The scheme was introduced in the year 2001 with the approval of Board of Directors of State Life which has continued till 2008 with changes in the scheme made from time to time to improve the business performance of the Corporation, based on which bonus was paid on the basis of points earned by the Division in which the officers was posted. The Board had then desired that a bonus scheme be developed for the year 2009 wherein the officers received bonus based on the performance of the Corporation as a whole rather than the performance of the Division in which he is posted and submitted to the HR Committee for detailed examination which would then frame its recommendations to the Board at its next meeting for approval.

48. In terms of the decision of the Board of Directors in its 202nd meeting held on 30.06.2009 the subject matter was placed before the HR Committee of the Board in its 3rd meeting held on 04.12.2009.

49 The HR Committee resolved that Investment, Marketing & F&A Divisions shall examine the proposed Bonus Scheme / recommendations, also keeping in view its financial implication and submit its recommendations on the scheme in next HR Committee meeting. The Board of Directors in its 205th meeting held on 22.12.2009 confirmed the decision of the HR Committee on the subject.

50. Accordingly, the Investment, F&A & Marketing Divisions observations on the proposed Performance Based Bonus Scheme-2009 for officers of State Life was submitted in the 4th meeting of the HR Committee held on 1st March, 2010

51 The officers of the Corporation have already been released advances towards Performance Based Bonus-2009 during 02 Eid Festivals celebrated in the year 2009. This would be adjusted after final declaration of quantum of Performance Based Bonus to officers under the proposed Scheme.

52. Accordingly, the Board resolved as under:

RESOLVED:

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

"that the recommendations of the HR Committee at its 4th meeting held on 1st March, 2010 that the performance based bonus scheme for the year 2009 be continued on the same line as the existing scheme for the year 2008 which was notified by P&GS Division's circular No.PL-24(104)PBB-08 dated 07-08-2008 was approved i.e. bonus would be paid to the officers on the basis of points earned by the Divisions in which the officer is posted."

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(D) INCREASE IN BUDGET FOR LOANS AND ADVANCES TO EMPLOYEES (OFFICERS & STAFF) AREA MANAGERS AND FIELD WORKERS.

53. ED(F&A) presented before the Board at its 206th meeting held on 17th February, 2010 a Memorandum regarding in increase in budget for loans and advances to employees (officers & staff) Area Managers and field workers. The Board referred the above Memorandum to the Human Resources Committee for examination and submission of its recommendations to the Board at its next meeting for consideration which was submitted to the Human Resources Committee at its 4th meeting held on 1st March, 2010

54. Budget for loans and advances to employees (Officers & Staff), Area Managers and Field Workers is sanctioned out of Shareholders' Fund in terms of Section 37(9) of the Insurance Ordinance, 2000, which provides that no loan and advance can be granted to employees or agents except from the Shareholders' Fund.

55. After creation of Shareholders Fund, and in implementation of decision of the Board of Directors taken in its 159th meeting held on 26th January, 2001, the management allocated budget of Rs.200 million out of Shareholders' Fund in February, 2001 for grant of loans and advances to (a) all employees (Staff and Officers including Area Managers and Development Executives) and (b) to Agents. The paid up capital of State Life was Rs.350 million at that time.

56. Total budget for loans and advances was further enhanced from Rs.200 million to Rs.450 million after increase in paid up capital from Rs.350 million to Rs.750 million and then to Rs.900 million, as decided by Board of Directors in its 173rd meeting held on 27th December, 2003.

57. With the passage of time, funds allocated for loans and advances for employees (Officers and Staff), Area Managers and Field Workers have become inadequate as compared to their requirements. The representatives of Employees Federation have been requesting the management from time to time to increase the budget under all type of loans and advances admissible to them.

58. Keeping in view the repeated requests of the Employees Federation and also to meet the demands of Officers, Area Managers and Field Staff, it is proposed that an increase of Rs.100 million in overall budget for loans and advances to employees (officers & staff), Area Managers and Field Workers may be allowed raising the present budget of Rs.450 million to Rs.550 million. Paid up capital of the Corporation has been enhanced from Rs.900 million to Rs.1,100 million in 2009.

59. After deliberations, the Human Resources Committee resolved that an increase of Rs.100 million in overall budget for loans and advances to employees (officers & staff), Area Managers and field workers may be allowed raising the present budget from Rs.450 million to Rs.550 million. Paid up capital of the Corporation has been enhanced from Rs.900 million to Rs.1100 million in 2009.

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60. It was also resolved that rest of terms and conditions including mix of amount between employees and agent/EOA, rate of mark up categories of loan/advance, authorization of ED(F&A) for making necessary appropriation/re-appropriation within approved budget etc. will remain the same.

61. After deliberation, the Board resolved as under:

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

RESOLVED:
"that the recommendations of HR Committee allowing an increase of Rs.100 million in overall budget for loans and advances to employees (officers & staff), Area Managers and field workers, raising the present budget from Rs.450 million to Rs.550 million is approved."

"that as recommended by HR Committee rest of terms and conditions including mix of amount between employees and agent/EOA, rate of mark up categories of loan/advance, authorization of ED(F&A) for making necessary appropriation/re-appropriation within approved budget etc. will remain the same."

(E) CREATION OF POSTS OF MANAGER (1), DEPUTY MANAGERS (2) AND 10 POSTS EACH OF ASSISTANT MANAGERS AND EXECUTIVE OFFICERS.

62. A Memorandum from ED(P&GS) for creation of one post of Manager, two posts of Deputy Managers and 10 posts each of Assistant Managers and Executive Officers was submitted to the Board.

63. The Board was informed that there has been no recruitment of personnel in any functionality of State Life Insurance Corporation of Pakistan since 1996. On the other than, there is attrition constantly be way of retirement on superannuation.

64. It is pertinent to point out that the present sanctioned strength of Zones were determined at the time of creation of new Zones during the period 1994-96 based on the number of policies in relation to procurement of core business of life insurance. The State Life's life insurance business in general and the insurance business of smaller Zones which were created then in particular has increased manifold. For instance, the Zones of Sahiwal, Rahim Yar Khan, D. G. Khan, Bahawalpur etc. were doing business of first year premium(FYP) around 30-40 million and now standing at somewhere around 400-450 million in terms of first year premium(FYP) alone.

65. The sanctioned strength in almost all functionalities in the Zones stand depleted and is found deficient in respect of personnel/human resource owing to increase in the business strength coupled with retirement on regular basis, resultantly the working in the Zones is affecting the service delivery adversely. The Zonal Heads are pressing hard for replenishing the human resource to make up the deficiency in the existing working strength.

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66. Section 6(2) of the State Life Employees (Service) Regulations, 1973 as amended up to date specifically lays down that the Chairman may with the prior approval of the Board create permanent posts.

67. In addition to the available vacant positions in the Zones/Regions, it has been worked out that one post of Manager, two posts of Deputy Managers and ten posts each of Assistant Managers and Executive Officers are required in the larger interest of smooth working of the Zones and the service delivery at large. The budgetary cover is available for the vacancies.

68. State Life has already begun the process of recruitment by observing the codal formalities.

69. After deliberations, the HR Committee agreed in principle to the proposal and directed that details be worked out.

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

70. The Board discussed the proposal of the HR Committee in detail and agreed in principle to the proposal and instructed that details be worked out.

(G) CONTRACT EMPLOYMENT UNDER PRIME MINISTER'S ASSISTANCE PACKAGE FOR SONS/DAUGHTERS OF DECEASED EMPLOYEES.

RESOLVED:

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

"that the decision of HR Committee that in respect of contract employment under Prime Minister's Assistance Package for sons/daughters of deceased employees that in the first instance data pertaining to employees who have died during service in the last five years be gathered and submitted in the next HR Committee meeting is approved."

(H) PROMOTION FROM AGM TO DGM AND DGM TO GM IN STATE LIFE SUBJECT TO SUCCESSFUL COMPLETION OF TRAINING.

71. The HR Committee at its 3rd meeting held on 4th December, 2009 had recommended that the promotion from AGM to DGM and DGM to GM in SLIC be subject to successful completion of training on the same lines as NIPA training mandatory for promotion of Federal and Provincial Government officers from BS-18 to BS-19. The Committee had also directed that a detailed proposal in this regard including its financial implication be chalked out by P&GS Division in consultation with F&A Division and submitted to the Board of Directors for review and approval. The recommendations was approved by the Board at its 205th meeting held on 22nd December, 2009.

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72. At the time of confirmation of the minutes of the 3rd meeting, the members of the HR Committee deliberated on the above and resolved as under:

RESOLVED:

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

"that the reversal of earlier recommendation of successful completion of training on the same line as NIPA training mandatory for promotion of Federal and Provincial Government officials from BS-18 to BS-19 for promotions of AGM to DGM and DGM to GM in State Life, as decided in the 3rd meeting, of HR Committee and approved by the Board in its subsequent meeting and its replacement by an in-house training program devised to cover the following areas;/(a) Public Management, (b) Business Promotion, (c) Marketing, (d) Insurance Management, (e) Policy Holder's Services, (f) Business Communication Skills & Report Writing, (g) Office Management, (h) Financial Planning & Policy, (i) Advanced Financial Management, (j) Corporate & Business Laws etc. was approved. The trainers shall comprise of in-house officers as well as visiting faculty having knowledge of the respective subjects."

ITEM NO (6) POSITION PAPER ON SURRENDER OF POLICIES.

73. The Board of Directors at its 206th meeting held on 17th February, 2010 had requested DH(PHS) to submit a position paper to the Board at its next meeting giving a comparison of surrenders for the last three years and its percentage to total policy payment and highlighting the reasons for surrender of policies and how it can be reduced and control.

74. DH(PHS) presented before the Board, statistics related to plan wise voluntary surrenders, sum assured wise surrenders, policy duration wise surrenders, age wise surrenders, State Life historical surrenders by number and percentage and value and average surrender size for the years 2004 to 2009, for Individual Life Pakistan business, surrender rates for Gulf business and comparison of surrender benefits paid to policyholders of State Life with EFU, NJI and ALICO.

75. DH(PHS) informed that the percentage of surrenders is high in endowment plan because the majority of inforce policy constitute endowment plan. The 6 to 10 years policy duration attracts surrender because of cash value the policy attain in this period. The bonus rate have gone up in the recent past which has resulted improved cash value of the policy.

76. In reply to a query, it was explained that policy upto a sum assured of Rs.600,000 is non medical as such in case of early death claim due diligence is done before any claim is repudiated.

Action:
ED(PHS)
DH(PHS)

77. DH(PHS) submitted before the Board the reasons for surrenders and measures to reduce surrenders which was noted by the Board.

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ITEM (7) **CRITICAL ANALYSIS OF INVESTMENT STRATEGY SUGGESTED BY M/S.SIDAT HYDER MORSHED ASSOCIATES.**

78. Senior General Manager(Investment) presented before the Board, a Memorandum regarding critical analysis of investment strategy suggested by M/s. Sidat Hyder Morshed Associates.

79. The Board at its 207th Meeting held on March 2, 2010 desired to submit a critical analysis of Investment. Strategy suggested by M/s. Sidat Hyder Morshed Associates. The recommendation of the consultants are given in Appendix-1 of the report to the Memorandum.

80. The report aims to value all the assets at their market price. The asset allocation given on page 15 of the report was submitted to the Board which is reproduced below:-

Assets	Target Allocation	Current Allocation	Max. / Min. Allocation	
Banks	66%	52%	62%	42%
Cash	7%	11%	21%	17%
Equities	18%	27%	37%	17%
Property	9%	10%	20%	0 %

The position of the above assets as at 31-12-2009 is as under:-

Head of Account	Cost	%	Market Value	%
Investments	145,971	71.56	126,624	56.34
TFCs	3,823	1.87	3,823	1.70
Equities	24,608	12.07	44,437	19.77
Bank Deposit	10,291	5.04	10,291	4.58
Property	2,510	1.23	22,777	10.43
Policy Loan	16,800	8.23	16,800	7.48
	204,003	100.00	224,799	100.00

81. In case the recommendation are to be followed the corporation can not increase its exposure either in equities or in properties.

82. Other Recommendations:

a. Equities:
The consultants have recommended using external fund managers i.e. mutual funds for managing a part of our portfolio.

For the purpose of study few funds have been taken and a yield on these funds for three years as compared to yield on equity portfolio of the Corporation is given in the Annexure 'A' to the Memorandum.

It may be noted that the dividend yield on State Life's portfolio is better than the yield on mutual funds.

b. Government Bonds:
The consultants have recommended a passive approach for managing Government Bonds portfolio. They have also suggested that a portion of this portfolio be managed actively to make gains. They have suggested that appointed actuary should specify a target duration. The corporation is following a passive strategy for the bond portfolio. A feedback is taken from appointed actuary while participating in auction for the bonds.

c. Corporate Bonds:
It has been proposed to buy "A" rated bonds when suitable yields are available. This is already being done.

d. Cash:
It has been proposed to use KIBOR as a benchmark for placing funds with the banks. The Corporation is placing its funds with the banks on a daily product basis so that these could be withdrawn during the auction. Since KIBOR is interbank lending rate, no bank offers deposit rates based on KIBOR. Hence this recommendation can not be used.

e. Properties:
A moderately active approach has been suggested for property investment. A separate paper in this respect is already under consideration of the Board.

f. Investment Restrictions:
Since active management of stock has been suggested, it has been proposed that the fund manager be given discretion to buy stocks. Further exposure on one company has been restricted to 10% of State Life's total assets. There is an Investment Committee in State Life headed by Chairman. The Committee takes buy and sell decisions. The limits of exposure in one company or a group of companies is determined according to provisions of insurance rules.

g. Performance Measurement:
It has been proposed to measure the performance with that of peer group performance or with mutual funds. State Life compares its Government Securities performance with 6 month T-Bills yield, that of equities with KSE Index and that of Corporate Bonds with outstanding Corporate Bonds in the market.

Action:
DH(Inv)

83. Mr. Morshed of M/s. Sidat Hyder Morshed Associates was invited to the meeting wherein he gave the brief to the Board which was noted.

ITEM (8) POSITION PAPER ON LAST THREE YEARS REINSURANCE EXPENSES.

Action:
ED(Act)
DH(Act)

84. Due to paucity of time, the above item was deferred to the next meeting of the Board of Directors.

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ITEM (9) POSITION PAPER ON COST BENEFIT ANALYSIS AND RISK AND RETURN ANALYSIS ON CENTRE POINT PROJECT AND REPORT OF INDIVIDUAL VALUER I.E. NESPAK.

ITEM (13) POSITION PAPER ON CENTRE POINT PROJECT – CURRENT STATUS.

85. The Board of Directors at its 206th meeting held on 17th February, 2010 had approved in principle the proposal of SGM/DH(Investment) as recommended by the Real Estate and Investment Division Committee on Centre Point Project at its meetings held on 9th February, 2010,16th February, 2010 and 1st March, 2010, for creation of a joint venture company between SLIC and TPL Properties (Pvt) Ltd with equal 50:50 share holding in the Centre Point Project and purchase of 50% of the shares by State Life of the joint venture company. Mr. Ansar Hussain, SGM(Investment) had submitted before the 2nd meeting of the Committee the advantages of the option of State Life share holding in the joint venture company wherein shares would be purchased by State Life at Rs.30 per share rather than out right purchase of project by State Life. In case of joint venture company State Life will not have to pay CVT and the out flow of cash would also be halved.

86. The Board had then made an observation that before formal ratification of the project by the Board, a cost benefit analysis and risk and return analysis be submitted by SGM(Investment) to the Board at its next meeting wherein the estimation of appraisal price of Centre Point be submitted highlighting the assumption on which the price has been worked out.

87. The Board had also observed that the project be got evaluated by independent government valuer M/s. NESPAK other than M/s. Oceanic Surveyors and its report submitted to the Board.

88. As per above observations of the Board, SGM(Investment) and Member of Real Estate and Investment Division Committee submitted that State Life had got the Centre Point Project evaluated by M/s. NESPAK whose report was then presented by SGM(Investment) before the Board. A fee of Rs.300,000 was paid to M/s. NESPAk for valuation of the project.

89. Mr. Ansar Hussain, SGM(investment) also presented before the Board, a copy of the valuation report of Centre Point property carried out by Ernst & Young and received from M/s. A & A Associates. The assignment regarding risk and return analysis was carried out by M/s. Ernst & Young at the request of M/s. TPL Properties (Pvt) Ltd for the sake of transparency since M/s. Ernst & Young were independent party to carry out the assignment.

90. Mr. Rasheed Y. Chinoy, Convenor of Real Estate and Investment Division Committee and Mr. Ansar Hussain, Member, DH(Investment) informed the Board that the following documents were presented by Mr. Ali Jameel, CEO TPL Properties (Pvt) Ltd to the above Committee at its meeting held on 1st March, 2010:-

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i. Agreement to Sell and Purchase Shares (Share Purchase Agreement (SPA) and Share Holders' Agreement (SHA). (These agreements have bee drafted by M/s. Rizvi, Isa, Afridi and Angell, legal counsel of M/s. TPL Properties (Pvt) Ltd.

ii. Valuation Report (Discounted Cash Flow Methodology) issued by chartered accountants, Ernst & Young Ford Rhodes Sidat Hyder (E&YFRSH) showing indicative value of Centrepoint between a range of PKR 2.941 to 3.318 billion and IRR and ROE at approx. 16.2% and 18.2% respectively.

iii. Project Grading Report of PACRA. PACRA and NESPAK have jointly assigned the Project Grading of "PG3+" to Centrepoint, Karachi, the highest rating given to any project.

91. A copy of the minutes of the 3rd meeting held on 1st March, 2010 was duly signed by all the present members i.e. Mr. Rasheed Y. Chinoy, Syed Hur Riahi Gardezi and Mr. Ansar Hussain was presented before the Board. The other members of the Committee i.e. Mr. Amin Qasim Dada and Mr. Mohammad Yahya were absent.

92. Mr. Akbarali Hussain, the Secretary of the Committee recorded the proceedings of the meeting of the Real Estate and Investment Division Committee on Centre Point Project as per his assignment as Secretary to the Committee given by the Chairman without any participation in the proceedings and decision arrived at by Real Estate and Investment Division Committee.

93. It is mentioned in the minutes that Mr. Ali Jameel had submitted that a partner from M/s. E & Y FRSH & M/s. Rivzi, Isa, Afridi and Angell would be available for further query if any by the Board.

94. It was further stated in the minutes that Mr. Ali Jameel had informed that at present M/s. TPL Properties (Pvt) Ltd has two Directors i.e. M/s. Jameel Yousuf and Mr. Ali Jameel out of which one of the Directors would resign and his place would be filled by the Chairman, State Life. Subsequently request would be submitted to SECP for conversion of the above company into a public limited company consisting of six Directors out of which three Directors would be from State Life and three Directors from M/s. TPL Properties (Pvt) Ltd. The Chairman of the company would always be from State Life whereas the CEO would be from M/s. TPL Properties (Pvt) Ltd.

95. The Members of the Committee in the meeting of 1st March, 2010 unanimously recommended to the Board to approve a price of Rs.2.95 billion for the above project in which State Life and M/s. TPL Properties (Pvt) Ltd would form a joint venture company with 50% share holding each with transfer cost of the property not exceeding Rs.20 million. The Members of the Committee also decided to have all the documents of the project vetted by M/s. Mandviwalla at a fee of Rs.300,000.

96. Mr. Rasheed Y. Chinoy informed that the property was valued by M/s. NESPAK at Rs.14,875 per sq. ft. of rentable area totaling Rs.2,854,988,500

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whereas M/s. E Y FRSH had valued the property at Rs.2,941,400,000. The value worked out by Oceanic on rentable area of 191,932 sq.ft. at Rs.15,000 per sq.ft. was Rs.2,878,980,000. These values were on the lower side whereas the average value worked out was Rs.3,122,513,000. The total covered area of the project would be 347,976 sq.ft. The Investment Division of State Life had carried out its own estimation of appraisal price of Centre Point by NOI Method and determined share value at Rs.30 per share.

97. Mr. Ali Jameel was called in the Board meeting where he explained to the Board that there would be three Directors from M/s. TPL Properties (Pvt) Ltd and three Directors from State Life, the CEO would be from M/s. TPL Properties (Pvt) Ltd and that he would be a deemed Director with voting right. The Chairman of the Joint Venture Company would be from State Life. The State Life Board felt that in this case the control of the joint venture company would be retained by M/s. TPL Properties (Pvt) Ltd however it desired that there should be equal number of Directors including the Chairman from State Life and M/s. TPL Properties (Pvt) Ltd and the CEO would not be a deemed Director with voting right. Alternatively the CEO who would be from M/s. TPL Properties (Pvt) Ltd could be a Board Director within the limit of three Directors from M/s. TPL Properties (Pvt) Ltd.

98. Mr. Ali Jameel drew the attention of the State Life Board to clause-10 and 13 of the share holders agreement regarding termination and the event of dead lock in which case details have been mentioned as to exit strategy without hindrance by either party. Mr. Ali Jameel further mentioned that the exit strategy would allow either party of the joint venture company to buy each other out at a price to be determined by the auditors and that either of the party would have the right of first refusal.

99. Mr. Ali Jameel mentioned that since in the joint venture company State Life would be a equal share holder of 50% ownership, the total payment of State Life share would be made to M/s. TPL Properties (Pvt) Ltd in one go and would not be earmarked with milestones and that the joint venture company would be responsible for any cost over runs which M/s. TPL Properties (Pvt) Ltd would have otherwise borne to the extent of 25% in case of out right purchase of the property of State Life. The Members of the Board observed that the payment should be linked with the value of the project completed todate and sufficient upfront payment be made to enable M/s. TPL Properties (Pvt) Ltd to complete the work on time. The payment by State Life could be made at intervals of five months starting with an upfront payment.

100. Mr. Ali Jameel suggested that State Life could appoint a project manager and get all works done be certified by chartered surveyors before payment is released to the contractor. An audit can also be done of payment made todate. Mr. Ali Jameel also submitted that todate he has invested a sum of Rs.1.7 billion in the project civil work of which is complete upto 17th floors.

101. The Directors of State Life mentioned that they should be three separate agreements to cover the period a) from entering into agreement till completion, b) completion onwards and c) the maintenance agreement.

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102. The State Life Board desired that there should be two separate companies i.e. joint venture company in which State Life and M/s. TPL Properties (Pvt) Ltd would be equivalent share holder whereas there would be a wholly owned subsidiary company of the joint venture company to be jointly owned by SLIC and M/s. TPL Properties (Pvt) Ltd which would be responsible for maintenance of the building and it could also be involved in sale of excess power generated to KESC.

103. Mr. Ali Jameel of M/s. TPL Properties (Pvt) Ltd further informed that Mr. Ernst & Young would be the first auditors of the joint venture company. They would also be tax advisors. One of the members of the State Life Board suggested that it would be appropriate to consider that the tax advisor and the auditor should be different firms.

104. Mr. Ali Jameel also submitted before the Board that in case of time over runs M/s. TPL Properties (Pvt) Ltd would pay a monthly penalty not exceeding Rs.20 million equivalent to rent lost on the rentable area for non completion of the building within the prescribed time.

105. After deliberation, the Board decided as under:

Action: Mr.Rasheed Y. Chinoy ED(Legal) DH(Inv) DH(Legal)

> that Mr. Rasheed Y. Chinoy, Convenor of Real Estate and Investment Division Committee, Mr. Ansar Hussain, SGM(Investment) and Mr. Shahid Aziz Khan, DH(Legal Affairs) jointly have a meeting with Mr. Mahmood Mandviwala State Life Legal Consultant alongwith Mr. Ali Jameel of TPL Properties (Pvt) Ltd and their legal consultant and discuss the drafting and finalization of the documents to protect the interest of State Life as to a) management control, b) exit strategy spelling out in detail the step by step methodology of making of exit by either party without any hindrance , c) payment schedule and benchmark amount and date of payments on the agreed purchase price, d) penalty clauses, e) obligations and rights as to risk and rewards in case of conflict of interest during the period upto completion, after completion and the maintenance of the building, f) taxation matters, g) formation of wholly owned subsidiary for maintenance of the building. The maintenance company should be completely distinct from the owning company and the contract with the management company for maintenance of the building could be for five years which could be renewed for further period of 5 years. The maintenance company should be professionally managed which would allow tenancy by multi national companies.

Action: Mr.Rasheed Y. Chinoy ED(Legal) DH(Inv) DH(Legal)

106. The above Committee would submit its joint report of meeting with the legal experts together with a final report as per its terms of reference to the Board for its review and finalization of the deal.

ITEM (10) ESTABLISHMENT OF NEW ZONES BY UPGRADING <u>SECTORS/SUB-ZONES.</u>

Action: ED(Mkt) DH(Mkt)

107. Due to paucity of time, the above item was deferred to the next meeting of the Board of Directors.

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ITEM (11) DETAILED REPORT ON INVESTMENT STRATEGY AND SYSTEMS PREPARED BY M/S. SIDAT HYDER MORSHED ASSOCIATES (PVT) LIMITED.

108. SGM(Investment) presented before the Board, a Memorandum regarding detailed report on investment strategy and systems prepared by M/s. Sidat Hyder Morshed Associates (Pvt) Limited.

109. Board Audit Committee in its 31st meeting held on 21st December, 2009 decided that a copy of "Investment Strategy and Systems Detailed Report" prepared by M/s. Sidat Hyder Morshed Associates (Pvt) Ltd in February 2007 be circulated to all the Board members for their perusal which was agreed to by the Board in its meeting held on 22nd December, 2009.

110. Complying with the above decision, Investment Division submitted a copy of the said report for consideration of members of the Board.

111. Mr. Omar Morshed of M/s. Sidat Hyder Morshed Associates (Pvt) Ltd attended the Board meeting by invitation and explained to the Board the report on investment strategy prepared by the firm. He explained that the report on was prepared two to three years back at the request of Asian Development Bank. It was suggested in the report that certain proportion of State Life fund should be invested in each class of asset so as to ensure that the assets matched the liability of State Life since most of the policies are sold by State Life under conventional guaranteed policy.

Action: DH(Inv)

112. In the light of discussion held Mr. Omer Morshed was requested if the policy statement could be modified to bring it in accordance with the prevalent laws and practices. Mr. Omer Morshed further clarified that investment can be made by State Life in a joint venture company listed on the stock exchange irrespective of nature of business if found viable.

113. Mr. Omer Morshed informed that SECP vide SRO No.149(1)/2009 dated 11th February, 2009 and circular No.22/2009 dated 30th June, 2009 has directed the insurance industries in Pakistan to make full compliance with the requirement of IFRS-4 in the annual financial statements for the year ending December, 31, 2009. SECP is also in the process of making all international financial standards applicable in financial reporting in Pakistan.

114. The majority of funds in State Life is placed under fixed income securities. To a query it was explained that in case of purchase of property it is to be advertised under PPRA Rules.

Action: DH(Inv)

115. Mr. Ansar Hussain, SGM(Investment) explained that State Life can invest in unlisted securities to the extent of 2.5% of life fund and to this extent it would be an investment decision to be cleared by the Investment Committee.

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ITEM (12) <u>FINALIZATION OF INVESTMENT POLICY FOR REAL ESTATE DIVISION.</u>

116. Senior General Manager(Investment) presented before the Board, a Memorandum for finalization of Investment Policy for Real Estate Division.

117. The Board confirmed minutes of 7th and 8th meeting of Real Estate Committee held on 10.10.2009 and 04.12.2009 respectively in its meeting held on December 22, 2009 and advised Investment Division to submit the Real Estate Investment Policy to the Board in its next meeting. Accordingly, policy for investment in properties prepared by M/s Sidat Hyder Morshed Associates (Pvt) Ltd submitted earlier was discussed with Mr. Omer Morshed. The revised policy prepared by Investment Division based on the report by M/s Sidat Hyder Morshed Associates (Pvt) Ltd is annexed herewith. The salient features of the policy are narrated as under:

1. **Investment Goals**
   The primary goal of investment in properties is to provide a long term return on investments, to achieve diversification and to provide a hedge against inflation besides providing income through rental yields. The secondary goal is to own offices and reduce impact of rental inflation. The target return net of direct cost is between 13 ti 15%.

2. **Allocation in form of investment**
   The Corporation's overall strategy provides for 9% of the fund for investment in properties at market value of the assets. The investment in properties can be in the form of outright ownership or real estate investment trust. The investment should be made without taking any loans.

3. **Properties suitable for investment**
   The Corporation can invest in commercial buildings construction projects, land and REITs. The minimum amount to be invested should be Rs 100 million. The properties should be purchased where there is a market and only in urban areas. The Corporation will not invest in buildings to be used for hotels, warehouses and industrial concerns.

   The Corporation can also invest and construct buildings for sale. The following limits shall apply to all the avenues as a percentage of real estate investment at market values:

Commercial building	No limit
Construction projects	10%
Land	15%
REITs	20%

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4. **Valuation of Properties**
The following methods have been proposed for valuation of properties:

- Replacement cost method
- Sales comparison method
- Discounted value of income method.

5. **Responsibility for investment decisions**
This section of the report defines role of Real Estate and Investment Division as under:

a) **Real Estate Division**
This Division shall be responsible for identifying suitable tenants negotiating rent, managing leases and maintenance of buildings.

b) **Investment Division**
This Division shall be responsible for record keeping of properties, monitoring market values for sale, purchase, modification decisions, monitoring rental yields and providing support for buy sell decisions in respect of new properties.

Responsibility for all investment decisions and of monitoring yield shall rest with Real Estate Investment Committee which shall comprise of:

- Chairman State Life
- Executive Director (responsible for investment and real estate)
- General Manager Investments
- Head of Real Estate section of Investment Division (Secretary of Committee)
- General Manager Real Estate
- Three non-executive Board Members (other than the Chairman)

The Real Estate Committee at its discretion can appoint independent advisors to assist them with the requisite technical support when making buy, sell or hold decisions.

Investment proposals received from third parties will be analyzed by Investment Division and submitted to the Committee.

Final approval of any buy or sell decisions or decisions relating to construction of buildings on land shall be given by the Board of Directors.

6. **Portfolio Review and Triggers for Investment Decisions**
Real Estate portfolio shall be reviewed by Investment Division at least once a quarter and may call meeting of the Real Estate Committee in case there is an opportunity which requires urgent consideration. Whenever meeting of Committee is held, Investment Division will prepare a report containing the following:

- An overview of real estate market in the country.
- Movements in any benchmarks
- A summary of portfolio major in terms of market value.
- A summary of rental yields of existing rental properties
- Issues relating to investment performance of Real Estate Portfolio
- Recommendations of Investment Division

Transactions relating to acquisition, disposal or change in the form of real estate assets to acquire a property for less than its market value, and interested purchaser of an existing property for more than Corporation's estimated value, rebalancing of portfolio or simply disposing of an under-performing asset.

7. Process of acquisition or disposal

a) Acquisition

First step in acquiring a new property will be identifying the need for it, followed by locating suitable asset to invest. It may be offered by a third party or will be advertised. In case, where Corporation is looking to invest properties in a particular location without having readily identified, Investment Division will ascertain general market conditions including benchmark prices.

All property purchases will be made under the rules published by the Public Procurement Regulatory Authority. Offers will be received and evaluated by Investment Division and a recommendation will be made to the Real Estate Committee for decision. The Committee may take assistance of a firm of consulting firm of engineers, if necessary. Legal Affairs Division will also be consulted to ensure that the seller has valid title to the property and free from any encumbrance.

Precise valuation of actual property be carried out to arrive at the decision whether to accept the offer or not and if so, the highest price at which this can be accepted. Negotiations will be carried out by at least three members of the Real Estate Committee to try to finalize the proposal within the price limit approved by the Committee. The finalized proposal will be put up to Board of Directors for approval. Once the approval has been obtained the remaining transaction will be completed using the Corporation's standard procedures for acquisitions of this size.

b) Disposal

At the time of disposal, the Corporation will establish a minimum price which will be approved by the Committee. Disposal will be through open tender.

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8. **Comments on the proposed policy**

At present records of properties are maintained at Real Estate Division, it is suggested that the same be continued.

The word market value has been stressed in the policy for calculation of overall asset allocation strategy i.e. 9% which will be creating difficulty in obtaining market values of properties from time to time. Further the ratios of properties in the overall investment portfolio at market price as at 31.12.2009 exceeds 9% threshold and will require sale of existing properties instead of additional investment.

There is already a Real Estate Committee of the Board which may be reconstituted to cater to the proposals made in the report.

Average historical returns on the investments in real estate for the last three years is submitted hereunder:

Rs in million

Closing period	Property Cost WDV	Net Income	Yield
31.12.2007	2331	316	14.52%
31.12.2008	2437	342	15.45%
31.12.2009*	2510	335	14.53%

*Estimated.

Action: DH(Inv)

118. The above draft policy along with the comments of the Investment Division was submitted for perusal of the Board.

ITEM (14) REVISION OF PROFIT/RETURN CHARGED ON POLICY LOANS AND OUTSTANDING PREMIUM FOR PAKISTAN RUPEE POLICIES.

119. Divisional Head(PHS) presented before the Board, a Memorandum regarding revision of profit/return charged on policy loans and outstanding premium for Pakistan Rupee Policies.

120. Mr. Faisal Mumtaz, DH(PHS) informed the Board at currently SLIC charges interest rate @ 10% per annum on the policy loans that are granted to the policyholders. In the same manner State Life levies late fee @ 10% per annum on outstanding premiums which are not paid by the policy holders beyond their due dates. State Life has been revising the interest rates from time to time based on the recommendations of the Board of Directors.

121. The last downward revision in interest rates was made by the Board of Directors in its 172nd meeting held on 20th September, 2003. It was decided at this time that profit or return charged on policy loans and outstanding premiums on policies issued in Pakistan be reduced from 13% per annum to the rate of interest equal to previous calendar years' average of State Bank of Pakistan discount rate

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plus 2.5% per annum. Consequently, the interest rate was revised to 10% per annum with effect from 1st October, 2003. Since then, SLIC has been charging the same profit or return @ 10% per annum on policy loan or outstanding premium.

122. DH((PHS) explained that Increase in interest rates on policy loans generally help in maintaining a high investment return on the life fund which would also help in maintaining high bonus rates for with profit policy holders. Maintaining high bonus rates also assist in sustaining a healthy new business growth rate. In case the interest rates are not increased it may reduce the bonus rates for all those policyholders who have not taken a loan or encourage policyholders to take loans to invest the amount in other avenues offering high yield. On the other hand the increase in interest rate may have a little impact on the policyholders to surrender their policies instead of taking loans to meet their financial necessities.

123. Historically, the profit or return charged on policy loan and outstanding premium has been adjusted to maintain parity with the yield on life fund. A comparison of two may please be seen as below:-

Effective Date	Rate charged on Loans and Premium	Yield on Life Fund
Upto Sep. 1973	7% pa	6.6% pa
October 1973	9% pa	6.6 pa
July 1, 1982	10% pa	13.1% pa
January, 1, 1989	12% pa	13.5% pa
January 1, 1996	15% pa	15.2% pa
July 1, 2000	13% pa	12.8% pa
October 1, 2003	10% pa	11.9% pa
December, 2008	10% pa	12.2% pa
December, 2009	10% pa	

124. It is pertinent to note here that for each 1.5% increase in interest rate on policy loans, it is expected to change the reversionary bonus rates for all policies by Rs. 1 per thousand sum assured per annum. For example, in case the interest rate is revised from 10% to 11.5%, it would result in the increase of Rs. 1 per thousand sum assured per annum in the Reversionary Bonus rates for all with profit policies.

125. It may also be noted here that for each 1% change in the interest rate on policy loans it is expected to cause about 0.5% change in the total investment income.

126. In the money market, there is a downward trend in the State Bank discount rate which started at 15% in the current year and is currently present at 12.5%. The latest State Bank discount rate is 12.5%. In case a spread of 1% is used, the interest rate will become 13.5%. In case, a spread of 1.5% is used, the interest rate would become 14%.

CHAIRM. INITIA

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127. DH(PHS) proposed that interest on policy loan and late fee on outstanding premium be charged as per latest discount rate of State Bank with a spread of 1 or 1.5%

128. Accordingly, the Board resolved as under:

Action:
ED(PHS)
DH(PHS)

<u>RESOLVED:</u>
"that as proposed by DH(PHS), that the interest on policy loan and late fee on outstanding premium be charged at 12.5% p.a. which is also the currently prevailing discount rate of State Bank of Pakistan is approved. PHS Division may refer any change in the approved rates of 12.5% p.a. as and when it deemed necessary to the Board for approval."

TEM (15) FUND MANAGEMENT AT UAE

129. Senior General Manager(Investment) presented before the Board, a Memorandum in respect of Fund Management at UAE and gave details of placement of overseas funds in various investment avenues and returns thereon.

130. At present M/s. ABN AMRO Bank is acting as State Life Funds Manager at UAE on a non-discretionary Fund Management Agreement which was signed in 1987 and is continuing since then. According to this arrangement, the bank provides buy and sale recommendations which are studied at Investment Division of State Life and thereafter submitted to Investment Committee for a decision. The recommendations if found suitable are approved.

131. The total size of fund under management of the bank is US$:24 million at present which includes a bond portfolio of US$:22 million while the remainder amount has been invested in deposit with the said bank, shares and placement in various funds.

132. The shares portfolio requires more close monitoring than the bond portfolio due to the reason that there is more price volatility in equities.

133. Due to active oversight of Chairman State Life and other officials of the Corporation the bond portfolio has performed very well and its market price has appreciated by US$:6.444 million in 2009 over the price in 2008. The market value of equities portfolio has however fallen by US$:0.305 million due to adverse international equity market.

134. The officials of the ABN Bank during their recent visit have proposed that they should be allowed to manage State Life equities portfolio on a discretionary basis thereby meaning that they can buy and sell equities without State Life consent. They feel that with this arrangement State Life can get a return of Liber + 3% as a benchmark. The fund manager will charge 1% set up fee and 1% annual fund management charges. In case of better performance they will charge a performance bonus of 20% of the amount over benchmark if their performance exceeds the benchmark.

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135. To a query, SGM(Investment) informed that USD:22 million are invested in Pak Euro Bonds which gives a return of 7 to 8% whereas another USD 2 million are invested in Abu Dhabi and Qatar Sovereign Bonds which gives a yield 7.25% and 6.25% respectively. About 32 million Dirhams are placed in bank deposit with UBL.

Action: DH(Inv)

136. The above information was noted by the Board.

ITEM (16) ANY OTHER ITEM WITH THE PERMISSION OF THE CHAIR

(I) IN-HOUSE TRAINEE OFFICERS SCHEME IN ACCORDANCE WITH CBA AGREEMENT 2009-2010.

137. Executive Director(P&GS) presented before the Board, a Memorandum regarding In-House Training Officers Scheme in accordance with CBA Agreement 2009-2010.

138. The subject Memorandum was submitted in the 3rd meeting of Human Resources Committee of the Board of Directors held on 4th December, 2009 (Annexure-AA to the Memorandum).

139. The Committee recommended the proposal contained in the Memorandum and desired that it may be submitted to Board of Directors meeting alongwith Financial Impact worked out jointly with F&A Division.

140. Accordingly, the financial impact as endorsed by F&A Division is as under:-

i. **During Training:**

(a) Pay & Allowance

During six months training, the Trainee Officers shall be paid existing pay and allowances of their Staff grades along with Rs.3,000/- as displacement allowance monthly in lieu of TA/DA and Boarding/Lodging Expenses, if required during the training period. Therefore monthly financial impact will be Rs.3000/- per trainee for 40 Trainee Officers(20 AMs & 20 EO) as under:-

Monthly Displacement Allowance to one Trainee Officer	Rs. 3,000/-
Monthly Impact of Forty Trainee Officers	Rs.120,000/-
Financial Impact for six months	Rs.720,000/-

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(b) Training Expenses

The Training will be imparted in Karachi arranged by P&GS Division. The following training expenses are expected:

Meal & Tea Expenses	Rs.1,000,000
Stationery & photocopy expenses	Rs. 50,000
Course Material Development/Purchase expenses	Rs. 50,000
Trainer Fee(invited from outside) @ Rs.5000 per lecture	Rs. 100,000
Trainer Incentive Expenses (Organization Employees) @ Rs.3,000/- per lecture.	Rs. 200,000
Total Training Expenses	**Rs.1,400,000**

(c) Study Tour Expenses

During the six months training, at least one study tour will be arranged under the guidance of Trainers/Organizers of the training programme. The destination of the study tour shall be one of the larger Zones other than located in Karachi. A lump sum of Rs.1,350,000/- is expected to be incurred, however, this amount may increase depending upon destined distance, type of transport used i.e. by Air or by Train and boarding/lodging facilities.

ii. **After Training**

After successful completion of the training, the services of the Trainee Officers shall be absorbed in regular cadre of Executive Officer or Assistant Manager. Their pay shall be fixed in the respective stage of Officers' grade by protecting their pay in accordance with the CBA Agreement. The displacement allowance will be withdrawn upon their absorption in Officers' grade.

(a) Pay & Allowances and other benefits

i. The staff members being promoted as EO or AM will be fixed in the scales and their salary will be protected as per CBA Agreement. The Additional Financial Impact will be the difference of the gross salary in the existing and the upgraded scale. As a base figure F&A Division has taken the example of the lowest grade ie. Grade-4 with 13 increments(1995 to 2009) and has fixed the employee in EO as well as AM grades. The incremental effect of each employee is calculated as under:

Details	Staff Member	EO	AM
Gross salary p.m.	17,256	18,252	22,514
Incremental effect p.m.	-	996	5,258
Incremental effect per year per employee	-	11,952	63,096
Incremental effect per year for 20 employees in each category	-	~~239,040~~	~~1,261,920~~

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Total additional financial impact of pay Fixation (EO + AM)		**1,500,960**
ii. Additional financial impact of bonus @ 2 per year {(10485 + 13235)/2} X 2 X 40=	948,800	
Less:Staff bonus @ 3.5 per year 6968 X 3.5 X 40 =	(975,520)	(26,720)
iii. Additional financial impact on leave Encashment: {(18252 + 22514)/2} X 24/30 X 40	652,256	
Less:leave encashment as staff Member 20856 X 24/30 X 40	(667,392)	(15,136)
iv. Telephone (residence) (5172 X 20) + (5724 X 20)		217,920
Total additional financial impact of Pay & Allowance after training.		**1,677,024**

Summary of Expenses

i.	Total additional financial impact during training (6 months)	3,470,000
ii.	Total additional financial impact after training(per year)	
	Pay & Allowances	1,667,024
	P.F. & Gratuity (10485 + 13235) x 40	948,800
	Corp. Contribution & existing 20% pension (6968 x 12 x 40 x 20%)	668,928

(b) In addition to above, EOs and AMs are also entitled for medical facility as admissible to other officers of the Corporation. However, their existing facilities as staff member in this regard will be withdrawn.

141. The matter was placed before the Board of Directors for consideration and approval of the Scheme as recommended by the Human Resources Committee at its 3rd meeting held on 4th December, 2009 in the light of agreement made in CBA Agreement 2009-10.

142. The HR Committee has directed that the eligible candidates would be selected through written test and interviews conducted by IBA Sukkur or any other reputable institute(s).

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143. Accordingly, the Board resolved as under:

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

RESOLVED:
"that as proposed by ED(P&GS) and recommended by HR Committee at its 3rd meeting held on 4th December, 2009, the above scheme of in-house *trainee officers to comply with CBA agreement 2009-10 is approved.*"

The financial impact during training in respect of pay and allowances would be Rs.720,000 for six months whereas the training expenses would be Rs.1.4 million and the study tour expenses would be approximately Rs.1.35 million. *After training expenses in respect of pay and allowances,* PF and Gratuity and Pension would be Rs.1,667,024, Rs.948,800 and Rs.668,920 respectively. In addition Eos and AMs would also be entitled for medical facility as admissible to other officers of the Corporation, however their existing facility as staff member in this regard will be withdrawn. The main feature of the scheme are as under:-

(i) <u>ELIGIBILITY</u>

(a) Upgradation as Assistant Manager

Staff Members (Grade 4 to 7) serving with the SLIC for at least 10 years, having a unblemished service, good rating in last three ACRs and acquired / possessing qualifications MBA / MPA / MCS / MIT / M.Com./M.Sc.(Mathematics/Statistics)/LLB/LLM/MA(Economics) from HEC recognized institution / body may be considered as Trainee Assistant Manager.

(b) Upgradation as Executive Officer

Staff Members (Grade 4 to 7) serving with the SLIC for at least 10 years, having a unblemished service, good rating in last three ACRs and acquired / possessing qualification BS/BCS/BBA/BIT (four years or three years honours) / MA (other than Economics) from HEC recognized institution / body may be considered as Trainee Executive Officer.

(II) **Selection Criteria**

Written test (both subjective and objective) of following subjects:
(i) English, (ii) Arithmetic, and (iii) Specific Subject of qualification.

(III) Training duration and procedure

Those qualifying test/interview will be selected for sox months training. The training may comprise on-the-job training, class room training and at least one study tour to any SLIC Regional/Zonal Office as under:

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(i) **Class Room Training (Four months):**

The class room training of four months may be imparted to enhance awareness, understanding, and working knowledge of the following areas/subjects:

LINO, State Life Employees (Service) Regulations 1973, Leave Rules, State Life Employees(Medical) attendance Regulations, General Laws governing services, Insurance Ordinance 2000 and other rules/regulations related to Life Insurance.

File Management & maintenance of office record
MS Windows and MS Office
Office Discipline and respective rules of punitive actions
Stress Management
Business Communication
Subject Specific Training on Marketing, Policy Holder Services, Underwriting, Accounting/Auditing, P&GS etc.
Law Matters

The performance of the trainee officer may be evaluated on the basis of fortnightly/monthly tests. In-house training will be imparted at Principal Office, Karachi.

(ii) On-the-Job Training (OJT)

After completion of the class room training, the trainee officers may be required to complete OJT of two months. The training will be carried out in the larger Zones like Karachi South, Rawalpindi, Lahore Central, Faisalabad and Multan. The trainee officers will be posted in their respective department for a major portion of OJT. However, for the sake of developing the understanding of working of other departments, they will also be posted in other departments for some time. The trainee officer will be under direct supervision of Zonal Head & Divisional Head concerned, who will submit report in respect of their performance to P&GS Division, Principal Office on weekly basis.

(iii) Study Tour

The study tour may be arranged during six months training program to motivate and develop a sense of recognition among trainee officers.

(iv) Pay & Allowances

The trainee officers may be paid a lump sum stipend after qualifying interview and notification of their selection. On completion of successful training, they shall be fixed in their respective grades.

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(V) **Seniority**

These Trainee Officers shall be junior most in their respective officers grades and the seniority among the trainee officers for placing them in their respective officers' grade shall be determined according to their previous seniority/grade.

(Vi) **Absorption**

After successful completion of six months training, the trainee officers shall be absorbed in the grades of officers in which they were initially selected and in case of failure they will be reverted back to their original staff grades.

(Vii) Vacancies

It is proposed to create 40 supernumerary posts for such upgradations i.e. 20 posts for AMs and 20 for EOs.

"that as recommended by HR Committee regarding Trainee Executive and Trainee Officers' Schemes, that the selection of the eligible candidates be carried out through written test and interviews conducted by IBA, Sukkur or *any other reputable institute(s) is approved.*"

"that as proposed creation of 40 supernumerary posts for such upgradations i.e. 20 posts for AMs and 20 for EOs under the above scheme is approved."

(II) <u>PURCHASE OF PROTOCOL VEHICLE FOR GULF ZONE.</u>

144. GM(P&GS) presented before the Board, a Memorandum for purchase of protocol vehicle for Gulf Zone.

145. GM(P&GS) explained that the Gulf Zone is very important Zone of State Life as far as business performance is concerned. This is the reason proposals regarding opening of new branches of SLIC in Sharjah and Al Ain is under consideration.

146. The work/assignments of Gulf Zone have increased manifold and it will further increase after opening of offices of SLIC in Sharjah and Al Ain. It is pertinent to mention that senior officers of State Life and Ministry of Commerce pay official visit to Gulf Zone and there is requirement of vehicles to facilitate them in performing official duties.

147. GM(P&GS) submitted that presently, Gulf Zone hires vehicles to facilitate officers to perform their official duties. The process of hiring of vehicles is uneconomical due to high rates and is not advisable most of the time. Therefore, it is

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suggested to purchase a protocol vehicle for Gulf Zone to carry out above mentioned tasks.

148. Quotation for the purchase of Honda Accord EXI SE/Auto, Model 2010 has been called and is attached to the Memorandum. The cost of vehicle is AED 99999.00 with three years unlimited KMs warranty.

149. In order to control expenditure, the protocol car will not be used without the express approval of the Chairman.

150. The matter for this placed before the Board of Directors for approval of purchase of above mentioned vehicle.

150. Accordingly, the Board resolved as under:

<u>RESOLVED:</u>

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

"that as recommended by GM(P&GS) purchase for protocol purpose of a Honda Accord EXI SE/Auto, Model 2010 with cost not exceeding AED 100,000 and three years unlimited kilometers warranty as per quotation of M/s. Trading Enterprises, Dubai is approved."

"that ED(F&A) is authorized to allocate budget to the Gulf Zone to purchase of the above protocol vehicle."

151. The meeting ended with vote of thanks to the chair.

Siddiqi

(CHAIRMAN)

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