
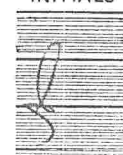


MINUTES OF 227TH MEETING OF THE BOARD OF DIRECTORS

| DIRECTORS | HELD AT | ON | TIME |
|--|-----------------|------------------------------|---|
| MINUTE BOOK | KARACHI | 7 TH AUGUST, 2012 | |
| <u>CONFIDENTIAL AND RESTRICTED</u> | | | |
| <p>The 227th Meeting of the Board of Directors of State Life Insurance Corporation of Pakistan was held on Tuesday, 7th August, 2012 at 11.00 a.m. in the Board Room, State Life Building No.9, Dr. Ziauddin Ahmed Road, Karachi.</p> | | | |
| <u>PRESENT:</u> | | | |
| 1. Mr. Shahid Aziz Siddiqi | Chairman | | |
| 2. Mr. Fazal Abbas Maken | Director | | |
| 3. Mr. Farooq Hadi | Director | | |
| 4. Mr. Wazir Ali Khoja | Director | | |
| 5. Mr. Nihal Anwar | Director | | |
| 6. Mr. Tufail Shaikh | Director | | |
| 7. Mr. Furqan A. Shaikh | Director | | |
| Mr. Akbarali Hussain | Secretary Board | | |
| <u>LEAVE OF ABSENCE:</u> | | | |
| 1. Mr. Husain Lawai | Director | | |
| 2. The meeting started with recitation of verses from the Holy Quran by the Chairman. | | | |
| 3. The Chairman welcomed Mr. Fazal Abbas Maken, the new Member of the Board and thanked him for sparing his valuable time in agreeing to serve on the Board of State Life Insurance Corporation of Pakistan. He looked forward to a smooth and productive working relationship in the Board in the interest of the Corporation and the policyholders it serves. Mr. Fazal Abbas Maken extended his fullest cooperation to the Chairman and assured him of all support and assistance that will be required in the smooth running of the Corporation. | | | |
| 4. The Board appreciated the services rendered by Mr. Kamran Ali Qureshi for services rendered by him on the Board of State Life and wished him well in his future endeavors. | | | |
| <p>ITEM (1) CONFIRMATION OF MINUTES OF 226th MEETING OF THE BOARD OF DIRECTORS.</p> | | | |
| 5. The minutes of the 226 th meeting of the Board of Directors held on 4 th July, 2012 were placed before the Board. | | | |
| 6. Mr. Farooq Hadi, Director proposed and Mr. Wazir Ali Khoja, Director seconded that the minutes of 226 th meeting of the Board of Directors be confirmed. | | | |
| 7. Accordingly, it was resolved as under:- | | | |
| <u>RESOLVED:</u> | | | |
| "that the Minutes of 226 th meeting of Board of Directors held on 4 th July, 2012 are confirmed." | | | |
| Action: Secretary (Board) | | | CHAIRMAN'S INITIALS  |

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| <p>ITEM (2) CONSIDERATION OF LETTER OF GOVERNMENT OF PAKISTAN, MINISTRY OF COMMERCE DATED 20TH JULY, 2012 REGARDING IMPLEMENTATION OF DECISION TAKEN BY THE CABINET SUB COMMITTEE FOR RE-INSTATEMENT OF 52 AREA MANAGERS AND SUBMISSION OF COMPLIANCE REPORT WITHIN THREE DAYS.</p> <p>8. Executive Director(P&GS) presented before the Board, a Memorandum dated 30th July, 2012 on the above subject.</p> <p>9. The directives of Cabinet Sub-Committee on regularization of Contract / Sacked Employees regarding reinstatement of 52 Ex-Area Managers within 3 days was received vide Ministry of Commerce letter No. 6(28)/2010-Insurance-V dated 20.07.2012. An interim reply dated 25.07.2012 (copies enclosed, pages 4-6).</p> <p>10. Government of Pakistan promulgated Sacked Employees (Reinstatement) Ordinance 2009 and Act, 2010 for providing relief to persons who were appointed during the period from 01.11.1993 to 30.11.1996 and dismissed during the period 01.11.1996 to 12.10.1999 (copy enclosed, pages 7-21). Accordingly about 249 sacked Daily Wages, Contract and Trainee Executives were reinstated. The Corporation has already paid pay compensation of Rs. 145,293,844/- to 249 reinstated sacked employees incurring expenditure of Rs.7.26 million per month and annually Rs. 87.12 million.</p> <p>11. A large number of Ex-Area Managers who were terminated / downgraded on the basis of Poor Business Performance applied for the reinstatement on the basis of Ordinance 2009 and Act 2010 but their request were not considered as they do not fall within the ambit of Act 2010 on the following grounds:</p> <ul style="list-style-type: none"> ➤ An Area Manager starts his career as Sales Representative purely on Commission basis, on achievement of business targets and completion of at least two years is promoted and given contract of Sales Officer then Sales Manager and thereafter promoted / appointed as Area Manager. It takes at least 7 years for SR to become Area Manager. An Area Manager is never appointed from outside this hierarchy thus they do not fall within the ambit of Sacked Employees (Reinstatement) Act, 2010. ➤ The job of Area Manager is business oriented and their existence depends on the business procured by them as determined in the appointment letter issued to them under Regulation No. 4 of State Life Employees (Service) Regulations, 1973. The performance of an Area Manager is required to be reviewed as determined by the Board of Directors from time to time (copy enclosed, page 22). ➤ The performance of Area Managers is reviewed as per terms of appointment and directives of the Board of Directors. The performance of those Area Managers if found unsatisfactory then they are demoted as Sales Manager/terminated as Area Manager (copies enclosed pages 23-32). ➤ In case these Sales Managers again qualify the promotion criteria based on business procurement they are once again inducted as Area Managers. | | | |

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12. FACTS OF THE CASE

Number of terminated Area Managers approached Honorable Supreme Court of Pakistan. The Honorable Supreme Court upheld the decision of State Life regarding termination / down gradation in favor of State Life (copy enclosed, pages 33-56). Some cases are still pending before Lahore High Court and Peshawar High Court, as such the matter is subjudice.

- On promulgation of Sacked Employees (Reinstatement) Ordinance, 2009, Ex-Area Managers approached Review Board. The Review Board did not reinstate any Area Manager. Review Board was of the view that they do not fall within the ambit of Sacked Employees (Reinstatement) Ordinance, 2009 (copies enclosed, pages 57-65).
- As per Sacked Employees (Reinstatement) Act, 2010, Review Board is the only forum to decide the disputed cases. Some of the Ex-Area Managers approached the Review Board. After detailed hearing no order of reinstatement was passed (copy enclosed, pages 66-67).
- Out of 52 Ex-Area Managers referred for reinstatement by Cabinet Sub-Committee, 18 Area Managers were downgraded on detection of financial fraud during 1995-96 in defunct Vehari Zone. Due to this fraud the Zone was merged with Multan Zone. During the course of enquiry it was revealed that business figures of 1995 were maneuvered / manipulated for getting illegal credit of business procured by persons not belonging to their Agency / Channel. On the basis of which 18 Sales Managers were promoted as Area Managers who did not actually qualify for the promotion and were, therefore, liable for demotion as Sales Managers. The decision of State Life was upheld by the Hon'ble Supreme Court of Pakistan (copies of Enquiry Report and decision are enclosed, pages 68-106).

13. In case of reinstatement of Ex-Area Managers, the Corporation would bear the following additional estimated expenses as they have no business related income:

| Pay & Allow. | Initial perks | Total p/m | Salary of 52 Area Managers P.M | Pay compensation as per Act 2010 for 3 yrs. |
|---|---------------|-----------|--------------------------------|---|
| Area Manager | | | | |
| 48,222/- | 25,200/- | 73,422/- | 3,817,965/- | * |
| Manager | | | | |
| 92,202/- | 31,000/- | 123,202/- | 6,406,483/- | 230,622,395/- |
| Pensionary benefit | | | | |
| - | - | 11,525/- | 599,310/- | 179,790,000/- for 25 yrs. |
| TOTAL ESTIMATED FINANCIAL IMPACT | | | | 410,412,395/- |
| Recurring annual expenses | | | | 76,877,796/- |

* They would be reinstated one step higher i.e. Manager and 36 months pay compensation is to be paid as per Sacked Employees (Reinstatement) Act, 2010.

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| <p>14. There is apprehension that in case of reinstatement of Ex-Area Managers mentioned in the above referred letter, there would be also cause of action for rest of Ex-Area Managers in the court of law on the basis of discrimination under article 25 of Constitution of Pakistan. Then, it would be impossible for the Corporation to review the performance of Area Managers in future.</p> <p>15. It is pertinent to mention that there are only two vacant posts of Sector Heads/Manager (Marketing), in case of reinstatement of Ex-Area Managers as Manager (Marketing) whole hierarchy of State Life will be affected.</p> <p>16. Members of the Board of Directors are requested to consider the directives of Cabinet Committee in the light of above observations.</p> <p>17. Executive Director(Marketing) and Divisional Head (Marketing) circulated to the Board of Directors a copy of the presentation on the above item. The salient feature of the presentation is as under:-</p> <ul style="list-style-type: none"> • Detail of all the cases referred by Ministry of Commerce, Government of Pakistan, Islamabad giving therein names of the Ex-Area Managers, date of appointment as SR, SO, SM and Area Managers together with date of termination and reasons of termination. The details of cases rejected by Review Board was also included in the presentation. The Review Board was of the view that the cases of Ex-Area Managers do not fall within Section 5 of Sacked Employees (Reinstatement) Ordinance, 2009. • In case of reinstatement of Ex-Area Managers the Corporation would exceed the expenses ratio fixed by the Security Exchange Commission of Pakistan rather Corporation would have financial as well as legal complication and the dividend income of the shareholders fund (Govt. of Pakistan) would be drastically affected. The shareholder income before tax was Rs.785.581 million. • In case if the above 52 Ex-Area Managers are reinstated as Manager (Marketing) the salary of 52 Ex-Area Managers per month would work out to Rs.6.406 million and pay compensation as per the Reinstatement Act 2010 for three years would work out to Rs.230.622 million. • In case if the above 52 Ex-Area Managers are reinstated as Manager (Marketing) the medical and other expenses of 52 Ex-Area Managers per month would work out to Rs.29.531 million per year. • To date State Life has terminated 263 Area Managers between the year 1998 to 2002 due to poor business and fraudulent. The financial impact of reinstatement of 263 Ex-Area Managers in pay compensation as per 2000 Act for three year would be Rs.1.167 billion and the financial impact of medical and other expenses per annum for 263 Ex-Area Managers would be Rs.149.361 million. • List of Ex-Area Managers terminated due to fraudulent practices. • Extract of Supreme Court decision in Civil Petition No.765 to 768, 798, 1356, 941 and 977 of 1999 decided on 17-4-2000 in the case of SLIC vs. Area Managers, Vehari Zone. • List of Ex-Area Managers terminated on poor performance. • Criteria for termination of Area Managers laid down in the year 2001. | | | |

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| <p>18. The Chairman also briefed the Members of the Board that the Ex-Area Managers were not regular employees of the Corporation and were compensated partly through commission and partly through salary. There was no victimization of the terminated Area Managers and their termination was because of their not meeting the targets or because of fraudulent acts. The reinstatement of the Ex-Area Managers would open flood gates for others who have been terminated on similar grounds. The Ex-Area Managers are not newly appointed but go through a promotion process having joined State Life as a Sales Representative and then promoted as Sales Officer and Sales Manager subsequent to which on meeting targets they are promoted as Area Managers. The reinstatement of the Ex-Area Managers would undermine the business mechanism of the Corporation laid down in the form of field structure and would result in major losses which would affect the overall performance of the Corporation and the shareholders fund and disturb the cost expense ratio laid down by the Security Exchange Commission of Pakistan to be complied with by the Insurance Companies registered under the Insurance Ordinance, 2000.</p> <p>19. After due deliberations, the Board of Directors unanimously agreed as follows:-</p> <p>RESOLVED:</p> <p>1) "That the said 52 Ex-Area Managers do not fall within the purview of the Sacked Employees Reinstatement Act 2010, for the following reasons:-</p> <p>a) That the said Ex-Area Managers were not appointed between the period 1st November 1993 to 30th November 1996 and were commissioned as Sales Representatives by SLIC long before November 1993 - some as far back as in 1986; they were only promoted as Area Managers during the period November 1993 to December 1996. As such, they cannot be treated as having been freshly appointed during the aforementioned period.</p> <p>b) That services of all the 52 Ex-Area Managers were terminated either on account of fraudulent practices or on poor performance based on standard criteria laid down by the Board of Directors.</p> <p>In case the aforementioned employees feel aggrieved by the decision of not being reinstated under this Act, the only relief available to them is to approach the Employees' Review Board as provided under Section-11 of the same Act. Further it was noted that 12 of these Ex-Area Managers did approach the Review Board and cases of 4 of them were decided against them. The other 8 employees did not pursue the matter any further. Section 13 (8) of the said Act specifically states that the order of Sacked Employees Board in a review petition shall be final and shall not be called in question in any court, authority or tribunal. By implication, this decision would apply to all 52 Ex-Area Managers.</p> | | | |

Action:
P&GS
Marketing
F&A
Legal
Affairs
Divisions

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| <p>II) The Board of Directors also noted that the financial implications of this decision will result in an immediate impact of Rs. 410 million in the first instance with recurring annual expenses of Rs. 77 million per annum. It is also relevant to underline, that based on this decision as many as 263 Ex-Area Managers who have been removed through due process on the basis of poor performance, misconduct or on other disciplinary grounds during the period beyond 1996 will have sufficient grounds to seek redress through courts on the basis of fundamental rights. In such a situation the financial impact would amount to another Rs. 2.5 billion, approximately.</p> <p>III) The reinstatement of these Ex-Area Managers will totally undermine the business principles of the Corporation and the structure of the hierarchy within the Marketing Division of the Corporation. This will result in major financial losses to the Corporation, adversely affecting the Cost Expense Ratio, which would result in the loss of all actuarial surplus, thereby impacting the Government dividend and taxes which amounted to Rs. 785.5 million this year.</p> <p>IV) Under the circumstances, the Board of Directors are strongly of the view that neither these Ex-Area Managers are legally covered by the Sacked Employees Act nor would their reinstatement be financially sustainable for the Corporation.</p> <p>V) On the basis of above, the Cabinet Sub Committee may consider reviewing its earlier decision on the subject in view of its impact on the life savings of over 4.3 million policyholders which include widows, orphans and retired people who are the legitimate owners of the assets of State Life Insurance Corporation of Pakistan."</p> <p>20. The meeting ended with vote of thanks to the chair.</p> <p style="text-align: right;"><i>Sanjida</i> (CHAIRMAN)</p> | | | |
| <div style="text-align: right;">CHAIRMAN'S INITIALS</div> <div style="text-align: right;"> <div style="border: 1px solid black; width: 100px; height: 100px; margin: 0 auto;"></div> </div> | | | |