MINUTES OF 243RD MEETING OF THE BOARD OF DIRECTORS

DIRECTORS	HELD AT	ON	TIME
MINUTE BOOK	KARACHI	20TH FEBRUARY, 2016	

CONFIDENTIAL AND RESTRICTED

The 243rd Emergent Meeting of the Board of Directors of State Life Insurance Corporation of Pakistan was held on Saturday, 20th February, 2016 at 2.00 p.m. in the Board Room, State Life Building No.9, Dr. Ziauddin Ahmed Road, Karachi.

PRESENT:

1.	Ms. Nargis Ghaloo	Chairperson
2.	Mr. Saeed Chaman	Director
3.	Mr. Saad Amanullah Khan	Director
4.	Mr. Shafqaat Ahmed	Director
5.	Mr. Naved Arif	Director
6.	Dr. Aliya Hashmi Khan	Director
7.	Mr. Rizwan Bashir Khan	Director
	Mr. Akbar Ali Hussain	Company Secretary

2. The following officers also attended the meeting at the time of presentation and discussion of items of their respective Divisions:

1. Mr. Muhammad Izqar Khan, ED(HI/INV/BANC)
2. Mr. Faisal Mumtaz, DH(Actuarial)
3. Mr. Fazal-ur-Rehman DH(Legal Affairs)
4. Mr. Shujat Siddiqui, Appointed Actuary
5. Mr. Muhammad Irfan Khan, Manager(CAD)

3. The meeting started with recitation of verses from the Holy Quran by Mr. Saeed Chaman, Director.

4. The Board welcomed Mr. Rizwan Bashir Khan, Additional Secretary, Ministry of Commerce/Director, as new member of the Board and looked forward to his valuable contribution for the benefit of the Corporation and the policyholders its serves.

ITEM (1) CONFIRMATION OF MINUTES OF 242ND MEETING OF THE BOARD OF DIRECTORS.

5. The minutes of the 242nd meeting of the Board of Directors held on 8th December, 2015 were placed before the Board.

6. Ms. Nargis Ghaloo, Chairperson proposed that Mr. Saad Amanullah Khan be also made a member of the Board Investment Committee and Mr. Rizwan Bashir Khan be made a member of the Risk Management Committee and Ethics & Compliance Committee.

7. Mr. Saad Amanullah Khan, Director proposed and Mr. Shafqaat Ahmed, Director seconded that the minutes of 242nd meeting of the Board of Directors be confirmed.

8. Accordingly, it was resolved as under:-

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MINUTES OF 243RD MEETING OF THE BOARD OF DIRECTORS

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Action:
Company Secretary
DH(P&GS)
DH(Act)
DH(Inv)
DH(LAD)

RESOLVED:
"that the Minutes of 242nd meeting of Board of Directors held on 8th December, 2015 be and are hereby confirmed with the following amendments that Mr. Saad Amanullah Khan would also be a member of the Board Investment Committee and Mr. Rizwan Bashir Khan would also be a member of the Risk Management Committee and Ethics & Compliance Committee."

ITEM (2) PRESENTATION OF IMPLEMENTATION REPORTS ON DECISION TAKEN IN 238TH, 239TH, 240TH, 241ST AND 242ND MEETINGS OF BOARD.

Action:
Company Secretary

9. Due to paucity of time, the above item was deferred and will be submitted in the next meeting of the Board of Directors.

ITEM (3) CONSIDERATION AND APPROVAL OF MINUTES OF 1ST MEETING OF RISK MANAGEMENT/ETHICS AND OR COMPLIANCE COMMITTEE HELD ON 16-02-2016 TOGETHER WITH RECOMMENDATION.

10. Secretary, Risk Management/Ethics and or Compliance Committee presented before the Board the minutes of 1st meeting of Risk Management/Ethics and or Compliance Committee held on 16-02-2016 for consideration and confirmation and approval of decisions/recommendations made by the Committee.

11. Accordingly, the Board resolved as under:

Action:
DH(Act)
DH(LAD)
DH(P&GS)

RESOLVED:
"that the minutes of 1st meeting of Risk Management/Ethics and or Compliance Committee held on 16-02-2016 together with the observations/recommendations therein, placed at Annexure-A to the Board minutes be and are hereby approved."

"that the recommendation of the Risk Management Committee to form a separate Committee for Ethics and Compliance in accordance with the requirement given in draft Code of Corporate Governance for Insurers, 2015 having the composition as follows:-

1. **Mr. Saad Amanullah Khan, Chairman**
2. **Mr. Saeed Chaman, Member**
3. **Mr. Shafqaat Ahmed, Member**
4. **Mr. Naved Arif, Member**
5. **Mr. Rizwan Bashir Khan, Member**
6. **Divisional Head (Legal Affairs), Member/Secretary**

"that to constitute a quorum at the meeting of the Ethics and Compliance Committee, not less than four Members including three Directors and representing more than 50% of the number of Members of the Committee shall be present."

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"that the terms of reference for the Ethics and Compliance Committee recommended by the Risk Management and Ethics & Compliance Committee given below be and is hereby approved:-

<u>TERMS OF REFERENCE FOR THE ETHICS AND COMPLIANCE COMMITTEE</u>

- Monitor the compliance function headed by the Compliance Officer in respect of compliance with the statutory laws and procedures of all type.
- Review reports from Compliance Officer detailing the compliance activities undertaken proactively aiming at determination of the SLIC's ability to meet its legal and ethical obligations.
- Review reports from Compliance Officer on identified weaknesses, lapses, breaches or violations and the controls and other measures in place to help detect and address the same.
- Review the matters reported by Compliance Officer for employees and others to report ethical and compliance concerns or potential breaches, violations or frauds.
- Advise the Board on the effect of the above on the SLIC's conduct of business and shall assist the Board in setting up adequate controls.
- Take approved measures so as to mitigate any risks relating to compliance, ethics and/ or potential breaches, violations or frauds.

"that the terms of reference for the Role of Compliance Officer given below, recommended by the Risk Management/Ethics and or Compliance Committee be and is hereby approved:-

<u>TERMS OF REFERENCE FOR THE ROLE OF THE COMPLIANCE OFFICER</u>

- Conducting compliance analyses;
- Preparing compliance policies, procedures, and controls and administering them;
- Devising communications, training and other strategies to increase sensitivity to the importance of compliance and ethics, as well as employee awareness of and competence in specific areas of legal and regulatory obligation;
- Putting in place mechanisms to encourage and facilitate employee reporting of compliance concerns or potential violations; these mechanisms are accompanied by a policy of non-retaliation against employees who report in good faith;
- Designing ways to help detect, investigate and address any compliance deficiencies or violations and assisting employees in respect of specific obligations under applicable laws and internal procedures/ policies;
- Regularly reviewing the adequacy of compliance system and overall compliance efforts;
- Regularly reporting to the compliance committee in respect of progress on all of above, as well on specific compliance issues or violations.

"that the terms of reference for the Risk Management Committee recommended by the Risk Management/Ethics and or Compliance Committee given below be and is hereby approved:-

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TERMS OF REFERENCE FOR THE RISK MANAGEMENT COMMITTEE

- Oversee the activities of the risk management function/department of SLIC.
- Ensure that the risks, to which the Corporation is exposed to, are assessed, quantified, monitored and controlled/managed adequately.
- Ensure the effective operation of the risk management system and its integration into the organization's structure, decision making process and corporate culture of the Corporation.
- Report the details on the risk exposures and the actions that have been taken (or should be taken) to manage the exposures.
- Advise regarding risk management decisions, in relation to strategic and operational matters such as corporate strategy, investments and other major activities of an insurer.
- Review the contingency and business continuity plans prepared by the risk management function for risks to which the insurer is (or may be) exposed to.
- Make appropriate recommendations to the Board and assist the Board in the implementation of its decisions regarding mitigation of probable risks falling within the purview of the risk management function/ department.

ITEM (6) MEETING WITH INSURANCE AUTHORITY, UAE.

12. Executive Director (Investment) presented before the Board, a Memorandum regarding meeting with Insurance Authority, UAE.

13. The Insurance Authority of UAE enforced UAE Financial Regulations for Insurance Companies 2014 dated 28th December 2014. The said regulations stipulated new solvency requirements for UAE region which are required to be complied by all local companies as well as branches of foreign companies carrying out insurance business in UAE latest by December 2016.

14. State Life's existing Gulf Investment Portfolio constitutes the highest portion of Pak Euro Bonds (around 63% of Gulf's total invested assets as at 31st Dec 2015) which are currently rated 'B3' by Moody's. They are presently producing a yield of around 5% to 7% which is crucial for maintaining existing bonus rates being offered for State Life's policyholders in Gulf Region.

15. The said bonds however, do not meet the criteria specified in asset distribution and allocation limits as specified in Article (3) under Section 1 of the said regulations as it only accepts the admissibility of at least 'A' rated bonds.

16. Gulf Zonal Accountant has also informed that around 7.5 million US Dollars are available for investments (Flag-'A' to the memorandum). These amounts are currently either placed in Current Account yielding no return or in Call Accounts generating nominal return. Additionally, one Pak Euro Bond of around USD 16.25 million is maturing in March 2016, which will stimulate the investable amount to approximately USD 24 million.

17. As per the information provided by one of our fund managers in UAE (M/S NBD Emirates), the existing secured 'A' rated bonds are producing a yield of around 2.5% while unsecured 'A' rated bonds are providing a yield in a range of 3% - 4%.

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18. Due to the prevalent situation, the course of action for investing surplus amounts could not be decided as investment in 'A' rated bonds will likely pose difficulties in maintaining the existing bonus rates of our Foreign Business due to generation of lower investment incomes.

19. SLIC's external Auditor in UAE, M/s. Nabeel Al Saie is consistently in touch with the Principal Office on the matter. He is insisting SLIC officials to hold a meeting with the UAE Insurance Authority for getting exemption in this respect. Recent email in this regard may be seen at flag-'B' to the memorandum.

20. Meeting could not be arranged with UAE Insurance Authority for this as the Ministry of Commerce has not granted the approval for visit to UAE for more than four months which is not only causing opportunity loss of earning suitable investment income for policyholders but also reducing time to undertake suitable steps in this respect.

21. Accordingly, the Board resolved as under:

<u>RESOLVED:</u>

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

"that as proposed by ED(Investment), keeping in view the exigency of the situation which could seriously affect the business of the Corporation and the bonuses being paid to the policyholders and to protect and safeguard the assets of the Corporation, the Chairperson be and is hereby authorized, to approve the visit to UAE of the relevant officers at Principal Office, Karachi for a meeting with UAE Insurance Authority to find out a way to overcome the impending critical situation that may arise if the issue is not resolved at the earliest."

22. At this point of time, Mr. Rizwan Bashir Khan, Director joined the meeting.

ITEM (4) PRESENTATION ON CURRENT STATUS OF PRIVATIZATION OF STATE LIFE.

Action:
ED(Inv)
Focal Person(Privatization)

23. Mr. Izqar Khan, ED(Investment) informed the Board that the terms of reference was issued by the Privatization Commission vide letter No.PC/SLIC-IPO/B&U/PC/04 dated 24th June, 2015 regarding appointment of Lead Manager and Book Runner for the offering of minority equity shareholding in State Life by means of Initial Public Offering(IPO) through domestic Stock Exchange transaction which was placed before the Board of Directors of State Life and was accordingly approved in its 240th meeting held on 11th August, 2015. The Board approval was conveyed through the Privatization Commission through Ministry of Commerce.

24. Mr. Izqar Khan further informed that the Chairman , PC constituted an Evaluation Committee to Evaluate Technical & Financial Proposals of the interested parties, to act as Lead Manager and Book Runner(s) for the offering of minority shareholding in SLIC. Mr. Izqar Khan has been nominated as SLIC Representative with the approval of Chairperson.

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25. An advertisement for hiring Lead Manager and Book Runner was published in Daily issue of Dawn and Jang dated 3rd November, 2015. The last date for submission of Technical and Financial proposals was Friday, December 4, 2015. In the bidding process, three consortiums(IPs) applied for the assignment. Chairman(PC) called meeting of the Committee on 21st December, 2015 for evaluation of Technical Proposals of the IPs. Bids were received from three IPs:-

- MCB Bank, Allied Bank & AKD Securities.
- HBL, Bank Alfalah, Arif Habib and Elixir Securities.
- JS Global Capital, Topline Securities, Next Capital & UBL.

26. The evaluation process/marking by each member of the Committee to the IPs was conducted at PC. Sealed financial bids were kept by PC and were opened by Director General PC which were later sent to the members of the Committee on the basis of financial evaluation carried out by PC officers for signing. PC Board appointed consortium of HBL, Bank Alfalah, Arif Habib and Elixir Securities as Lead Manager and Book Runner.

27. The Board was further briefed that unit certificates have been issued to the employees of State Life whereas shares have not yet been transferred or put up to the Board of Directors for approval before transferring the 12% Government shareholding to the Trustees of BESOS, however the dividend in respect of such unit certificates have been withheld by the F&A Division for distribution as and when the shares are transferred and approval for distribution of dividend is received from the Government of Pakistan.

ITEM (5) CONFIRMATION OF RESOLUTION PASSED BY WAY OF CIRCULATION APPROVING THE COMMENTS/FINDING OF THE COMMITTEE IN RESPONSE TO MOC'S LETTER NO.1(1)/2015-INS DATED 22ND JANUARY, 2016 ON CORPORATIZATION STRATEGY OF STATE LIFE WITH REGARD TO DRAFT SLIC RE-ORGANIZATION AND CONVERSION ACT, 2016.

28. The Company Secretary presented before the Board, a Memorandum dated 1st February, 2016 of Divisional Head (P&GS) placed at Annexure-B to the minutes for confirmation of resolution passed by way of circulation approving the comments/finding of the Committee in response to MoC's letter No.1(1)/2015-Ins dated 22nd January, 2016 on Corporatization Strategy of State Life Insurance Corporation of Pakistan with regard to Draft SLIC Re-Organization and Conversion Act, 2016.

29. The Memorandum was signed by circulation by all the Members of the Board of Directors. Comments were given on the Memorandum by Mr. Rizwan Bashir Khan, Director, Mr. Saeed Chaman, Director and Mr. Saad Amanullah Khan, Director. In the comments, the Directors had desired to discuss all aspects thoroughly in a full Board Meeting.

30. Accordingly, after deliberations in the 1st Board Risk Management Committee meeting held on 16-02-2016, a meeting of the Board of Directors was held on 20th

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February, 2016 in which the above memorandum was discussed and presentation on current status of privatization and corporatization strategy was given to the Board for their review and thorough discussion.

31. Divisional Head (Actuarial) gave a presentation on Corporatization Strategy of State Life Insurance Corporation of Pakistan which was noted by the Board. The salient features of the presentation on corporatization strategy of State Life was given which comprised of i) Brief history of applicable legal statutes, ii) Corporate Governance Regulations, iii) Key features of LINO 1972, iv) World Bank Report on Corporatization, v) Draft SLIC Reorganization & Conversion Act 2016 to repeal LINO 1972, vi) Issues to be considered before Corporatization.

32. Divisional Head (Actuarial) informed the Board that Life Insurance Nationalization Order, 1972 was given constitutional protection from the operation of Article 8(1) & (2) of the constitution regarding fundamental rights. Board of Directors were briefed on the legal frame work under which State Life operates.

33. The key points in Draft SLIC Re-organization and Conversion Act and comments thereon and the issues to be considered before and after corporatization and major risk issues were also presented. The opinion of the Appointed Actuary and extract of World Bank Report and SLIC key comments thereon was also submitted to the Board.

34. Divisional Head (Legal Affairs) gave a detailed presentation on matters relating to certain properties in Lahore which was inherited at the time of nationalization i.e. Cooperative Insurance Building situated at 23, Shahrah-e-Quaid-e-Azam, Lahore and Haider Road, Rawalpindi which is pending for adjudication before the Senior Civil Judge, Lahore. Since the said building title is in dispute and under litigation, so it is requisite to give specific protection to the Articles of LINO which have conferred powers upon the Trustees and also the Life Insurance Nationalization Rules, 1972 framed under the LINO.

35. To a query from Dr. Aliya Hashmi Khan, Director, the Additional Secretary, MOC informed that while the comments should be sent as soon as possible and the passage of Act or Ordinance for corporatization is scheduled to be completed by the end of March, the registration of the company with SECP would be subject to the time stipulation as provided in the Act or Ordinance which is currently given as six months in the draft. He further opined that it would be useful if the management, in consultation with Board, addresses these comments/concerns expressed in the presentation in a revised proposed draft of the Ordinance/Act for the consideration of the Government. However after discussion, the Board decided that being a strategic issue, the matter be directly dealt by MOC in consultation with Ministry of Law, Justice and Human Rights.

36. After deliberations, the Board resolved as under:

<u>RESOLVED:</u>

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

"that as proposed by Divisional Head (P&GS) in his Memorandum dated 01-02-2016, the comments/findings of the Committee constituted by the Chairperson to give response to the MOC's letter No.1(1)/2015-Ins dated 22-01-2016 be and is hereby agreed to/approved subject to the following clarification to be sought and further recommendation given below:-

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i. The exact meaning and effective date of privatization which would either be the date of launching of IPO after listing of the shares on stock exchange or 100% privatization or any other option may be got clarified.

ii. The position of post-retirement medical benefits etc. already being extended to the officers of the corporation and to the treatment to be given to the employees who are under gratuity scheme/pension scheme at the time of retirement be got clarified.

iii. The guarantees given by Article 35 of LINO 1972 in respect of already issued policies should not end rather it should continue till their maturity or termination as the case may be in accordance with the terms and conditions of the policy.

iv. The share of percentage of surplus allocation between the shareholders and the policyholders should remain 2.5% and 97.5% respectively even in the future years in respect of profit policies issued upto the privatization date.

v. A specific protection should be given to the Article of LINO and also the Life Insurance Nationalization Rules 1972 which have conferred powers upon the trustees. Continuity be given to the assets already owned by the Corporation or inherited at the time of nationalization, as some of the old properties due to title dispute are in litigation and repealing of LINO 1972 could impact the decision.

vi. Inclusion of the following clause that all contracts agreement, power of attorneys, grant of legal representation and all other instruments of whatever kind in each case subsisting or having effect immediately before the effective date or to which the corporation may have been a party before the effective date shall be deemed to have been made with the company as if instead of corporation, the company had been a party thereto.

vii. Strengthening of the role of State Life rather than weakening in spreading of insurance to the lower segment of the society as given in LINO and adding of value to the corporation as a result of corporatization and continue to make life insurance a more effective mean of mobilizing national savings and to remain the leading insurer in the country by extending the benefits to life insurance to all sections of the society from comparatively more affluent sections of society to the common man in town and villages.

viii. Continuation of the role that would be played by SLIC to accomplish various objectives being currently exercised as part of its public policies.

Action:
DH(P&GS)

"that the above resolutions of the Board of Directors seeking clarification and recommendation made be communicated to Ministry of Commerce by Divisional Head (P&GS) and reply to the queries be solicited and the Board be informed accordingly."

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

(CHAIRPERSON)

CHAIRMAN'S INITIALS

DIRECTORS MINUTE BOOK	HELD AT KARACHI	ON 20TH FEBRUARY, 2016	TIME

Annexure-A

MINUTES OF THE 1ST MEETING OF RISK MANAGEMENT/ETHICS AND OR COMPLIANCE COMMITTEE HELD ON 16-02-2016 TOGETHR WITH RECOMMENDATION.

The 1st Meeting of the Risk Management Ethics & Compliance Committee of the Board of Directors of State Life Insurance Corporation of Pakistan was held on Tuesday, 16th February, 2016 at 09.30 a.m. in the Board Room of State Life Building No.9, Dr. Ziauddin Ahmed Road, Karachi.

PRESENT:

1. Mr. Saad Amanullah Khan	Chairman of the Committee
2. Mr. Saeed Chaman	Member
3. Mr. Shafqaat Ahmed	Member
4. Ms. Nargis Ghaloo	Chairperson (On special Invitation)
5. Mr. M. Faisal Mumtaz	Member/Secretary

LEAVE OF ABSENCE:

1. Mr. Naved Arif (Member)

2. The following officer also attended the meeting at the time of presentation and discussion:

   a. Mr. Fazal-ur-Rehman DH(LAD)

3. The meeting started with the recitation of verses from the Holy Quran by the Secretary.

ITEM (1): INTRODUCTION

At the outset of the meeting, Secretary (RMECC) informed the members that in pursuance of the directives of the Board in its 242nd meeting held on December 8th 2015, P&GS Division has notified the constitution of Risk Management, Ethics and Compliance Committee vide office order No. P&GS/PO/32/2016 dated 12/01/2016 consisting of the following members:

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- Mr. Saad Amanuallah Khan (Chairman of the Committee);
- Mr. Saeed Chaman (Member of the Committee);
- Mr. Shafqaat Ahmed (Member of the Committee);
- Mr. Naved Arif (Member of the Committee); and
- Mr. Faisal Mumtaz (Secretary/ Member of the Committee)

The purpose of the committee is to overlook the matters pertaining to Ethics, Compliance and Risk Management. The Committee noted the compliance of the directives of the Board.

ITEM (2): REVIEW AND FINALIZATION OF THE DRAFT TERMS OF REFERENCE OF ETHICS AND COMPLIANCE
&
ITEM (3): DELIBERATION ON THE ROLE OF COMPLIANCE OFFICER & ITS FUNCTION

Secretary gave a presentation on the draft Terms of Reference (TOR) for Ethics & Compliance function of the committee as well as that of Compliance officer. At this point, Mr. Shafqaat Ahmed informed the members that the Monitoring and Reviewing are considered to be two separate functions and these cannot be integrated in the role of compliance officer. Further, the role of the Compliance officer & the committee should be restricted to the monitoring of the compliance of all the statutory regulations, internal policies and procedures rather than reviewing it. This was also seconded by other members. The committee asked the secretary to incorporate the changes suggested by the members.

Mr. Shafqaat Ahmed also suggested that the functions of Risk Management and Ethics & Compliance are totally different and as such these need not to be placed under the same committee. It would be more beneficial if there is a separate committee for each of the functions. He also added that though Compliance is a new concept in the insurance industry but it is already in vogue in the banking industry and is very useful in the monitoring of overall compliance of laws & procedures. At this point, Mr. Saeed Chaman also added that both these areas need to be looked separately as the Terms of Reference of one are totally different from that of the other. Mr. Saad Amanullah told the members that

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in view of above circumstances, a need arises to form a separate committee for Ethics and Compliance function. Chairperson SLIC also added that this step would also be in conformity with the draft code of Corporate Governance 2015 and will result in better governance as a result of careful monitoring by the Compliance Officer. At this point, Secretary informed the participants that the Board of Directors has already appointed DH (Legal Affairs) as Compliance Officer and he may be included as a member & Secretary of the Committee. Further, the constitution of a separate committee for Ethics and Compliance comes under the purview of the Board of directors and hence, their approval is also required.

After thorough deliberations by the members, Committee decided as under.

RESOLVED:

That the committee recommends to the Board of Directors (BoD) for the approval of revised draft Terms of Reference attached at Annexure ' A1' and ' A2' of the attached minutes for the Ethics and Compliance function of committee and compliance officer are hereby approved and recommends it to Board of Directors for approval.

That the committee further recommends to the Board of Directors for approval, to form a separate committee for Ethics & Compliance in accordance with the requirement given in draft Code of Corporate Governance for Insurers, 2015 having the composition as follows: (1) Mr. Saad Amanullah Khan, Chairman, (2) Mr. Saeed Chaman, Member, (3) Mr. Shafqaat Ahmed, Member, (4) Mr. Naved Arif, Member and (5) Compliance Officer (DH(Legal Affairs)), Member/Secretary.

That the Committee recommends to the Board of Directors for approval that henceforth, the Risk Management Ethics & Compliance Committee will be called as Risk Management Committee and shall cover all the matters that come under the ambit of the Terms of References for the Risk Management.

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ITEM (4): REVIEW AND FINALIZATION OF THE DRAFT TERMS OF REFERENCE FOR RISK MANAGEMENT

&

ITEM (5): CREATION OF RISK MANAGEMENT DEPARTMENT & ITS FUNCTIONS

Secretary gave a presentation before the committee regarding the proposed Terms of Reference for Risk Management Committee. Mr. Shafqaat Ahmed pointed out that though Risk Management is fairly a new concept in Pakistan insurance industry but most of its components are already being implemented in different forms and it is very vital to have a comprehensive Risk Management system at State Life. Mr. Saeed Chaman emphasized to have a separate dedicated Risk Management Department. At this point, Secretary told the members that for creation of a new Risk Management Department, approval of Board of Directors is required. Mr. Saad Amanullah khan asked the Secretary to work out the costs including the proposed structure required for having a separate Risk Management Department. The Committee deliberated on the proposed Terms of Reference of Risk Management Committee as well as the functions of Risk Management Department and decided as follows.

RESOLVED:

That the committee recommends to the Board of Directors (BoD) for the approval of the draft Terms of Reference attached at Annexure ' B' of the Minutes for the Risk Management function of the committee is hereby approved and recommends it to the Board of Directors (BoD) for approval.

That the committee further recommends to the Board of Directors for approval, to form a separate Risk Management Department in accordance with the requirements given in draft Code of Corporate Governance for Insurers

The committee also directed Secretary to present before the Board the proposed structure for the Risk Management Department.

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ITEM (6): NEW REGULATIONS IN KUWAIT

Secretary gave a presentation on the developments of regulatory framework in the Kuwait for foreign branches of insurance companies after taking permission from the Chairman keeping in view the presence of risks inherent in it. He informed the members that In Kuwait, State Life started its business in 1983 under a sponsorship agreement with a local Kuwaiti citizen Mr. Abdul Majeed Abdul Razak Zalzalah. To cope up with various legal requirements, State Life replaced the sponsor agreement by signing an insurance service representative agreement with a local insurance company Warba Insurance company in 1999 (Last revised in 2015 with the concurrence of Board).

The CEO of Warba Insurance has now written a letter to State Life on 27/01/2016 regarding the Ministerial Decision on operation of Foreign Insurance Companies in Kuwait. In his letter, CEO has referred to the Ministerial decision no. 158/2015 pertaining to operations of foreign insurance companies in Kuwait and has asked to State Life to carry out following steps in order to proceed with the establishment of branch in Kuwait.

a. Memo to Ministry of Commerce & Industry (MOCI), Kuwait from State Life to allow branch in State of Kuwait for SLIC under the sponsorship of Warba Insurance Company

b. Memo should give details about the company, paid up capital with supporting documents

c. Last year financial statement in English & Arabic

d. Last three years audited account statement in English & Arabic

e. To deposit 500,000 Kuwaiti Dinars in the name of Ministry of Commerce & Industry

Secretary informed the members that with the promulgation of new regulatory regime, it may not be possible for State Life to continue its operations in Kuwait legally without registering itself as a branch of foreign insurance company. In case State Life does not register itself under the new laws, there is a risk that an

Sal
CHAIRMAN'S INITIALS

already established market will be lost. However, being a strategic decision, approval of Board of Directors is a must before moving further. Legal advice has also been sought from a local Kuwaiti law firm regarding the letter. At this point, Mr. Shafqaat Ahmed also agreed with the view point and suggested that State Life should take up the matter and priority basis. The matter was deliberated in detail and the committee decided as under:

RESOLVED:

That the committee recommends to the Board of Directors for approval, to allow the SLIC management to take every possible action so that the life insurance operations of SLIC in Kuwait be continued legally without any interruption and the Board be apprised about the developments regularly by the concerned Division till the matter is resolved completely.

ITEM (7): NEW REGULATIONS IN UAE INSURANCE MARKET

Secretary gave a presentation on the developments of regulatory framework in the UAE. He informed the members that in December 2014, UAE Insurance Authority issued the Financial Regulations for Insurance Companies. Due to stringent regulatory requirements involved, State Life has been finding it difficult to comply with the requirements given in these regulations. These regulations need to be implemented phase wise up to a maximum period of 3 years.
He further informed that recently, Insurance Authority, UAE organized a workshop to discuss the said regulations. The said workshop was attended by Appointed Actuary on behalf of State Life who highlighted the key issues as under

- Under the Financial Regulations, Government securities/instruments issued only by ' A' rated countries up to 80% of the investment portfolio are treated as admissible assets. As the Pakistan is not rated A, resultantly, the Government bonds which comprise over 80% of the investment portfolio will be rendered inadmissible. The premature encashment would drastically reduce the investment yield affecting the portfolio yield also.

- Insurance authority, UAE has introduced the submission of key financial information etc. through prescribed e-Forms. There are some technical issues

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which need to be clarified. These issues need to be looked by the concerned Divisions

- The regulations require timely submission of Quarterly Reports whereas Insurance Authority UAE is not willing to relax time limits for State Life. As such, there is a strong need to make same changes in internal system to ensure timely completion of tasks and submission.

Secretary informed the participants that Appointed Actuary has strongly suggested that the Chairperson & concerned senior officials of the Corporation may visit the Insurance Authority, UAE to seek a waiver from the admissibility conditions as well as to resolve the remaining issues. At this point, Chairperson SLIC informed that SLIC management has already written to Ministry of Commerce for approval regarding the proposed meeting but so far no result has been obtained.

Mr. Saeed Chaman suggested that keeping in view the risks involved, SLIC team should visit UAE as soon as possible. After thorough deliberations by the members, Committee decided as under

RESOLVED:

That the committee recommends to the Board of Directors for approval, to allow the senior management of SLIC to visit UAE so as to meet the Insurance Authority in order to resolve the issues on top priority basis.

ITEM (8): MISCELLANEOUS ITEM

The committee offered condolence to the Chairperson SLIC on the sudden death of her sister and recited Fateha and prayed that AlMighty Allah may rest her soul in eternal peace.

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

Minutes Approved by:

Sd/-

Chairman

(RMECC)

CHAIRMAN'S INITIALS

Annexure A1

TERMS OF REFERENCE FOR THE ETHICS AND COMPLIANCE COMMITTEE

1. Monitor the compliance function headed by the Compliance Officer in respect of compliance with the statutory laws and procedures of all type.
2. Review reports from Compliance Officer detailing the compliance activities undertaken proactively aiming at determination of the SLIC' s ability to meet its legal and ethical obligations.
3. Review reports from Compliance Officer on identified weaknesses, lapses, breaches or violations and the controls and other measures in place to help detect and address the same.
4. Review the matters reported by Compliance Officer for employees and others to report ethical and compliance concerns or potential breaches, violations or frauds.
5. Advise the Board on the effect of the above on the SLIC' s conduct of business and shall assist the Board in setting up adequate controls.
6. Take approved measures so as to mitigate any risks relating to compliance, ethics and/ or potential breaches, violations or frauds.

Annexure A2

TERMS OF REFERENCE FOR THE ROLE OF THE COMPLIANCE OFFICER

1. Conducting compliance analyses;
2. Preparing compliance policies, procedures, and controls and administering them;
3. Devising communications, training and other strategies to increase sensitivity to the importance of compliance and ethics, as well as employee

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awareness of and competence in specific areas of legal and regulatory obligation;

4. Putting in place mechanisms to encourage and facilitate employee reporting of compliance concerns or potential violations; these mechanisms are accompanied by a policy of non-retaliation against employees who report in good faith;

5. Designing ways to help detect, investigate and address any compliance deficiencies or violations and assisting employees in respect of specific obligations under applicable laws and internal procedures/ policies;

6. Regularly reviewing the adequacy of compliance system and overall compliance efforts;

7. Regularly reporting to the compliance committee in respect of progress on all of above, as well on specific compliance issues or violations.

Annexure B

TERMS OF REFERENCE FOR THE RISK MANAGEMENT COMMITTEE

1. Oversee the activities of the risk management function/ department of SLIC.

2. Ensure that the risks, to which the Corporation is exposed to, are assessed, quantified, monitored and controlled/ managed adequately.

3. Ensure the effective operation of the risk management system and its integration into the organization' s structure, decision making process and corporate culture of the Corporation.

4. Report the details on the risk exposures and the actions that have been taken (or should be taken) to manage the exposures.

5. Advise regarding risk management decisions in relation to strategic and operational matters such as corporate strategy, investments and other major

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activities of an insurer.

6. Review the contingency and business continuity plans prepared by the risk management function for risks to which the insurer is (or may be) exposed to.

7. Make appropriate recommendations to the Board and assist the Board in the implementation of its decisions regarding mitigation of probable risks falling within the purview of the risk management function/ department.

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Annexure-B

State Life Insurance Corporation of Pakistan
Principal Office, Karachi
Memorandum to the Board of Directors

From: Divisional Head (P&GS)

Sub: Corporatization Strategy: State Life Insurance Corporation of Pakistan

PUC is a paper prepared by World Bank regarding the Corporatization Strategy of State Life along with the draft SLIC Reorganization and Conversion Act, 2016. The said paper was sent through Ministry of Commerce vide their letter dated 22nd January 2016 to SLIC for comments.

2. Considering the importance of matter, a committee was constituted BY Chairperson consisting of Divisional Heads of Investment, Finance & Accounts, Legal Affairs Divisions, P&GS, RED, Actuarial and Focal Person to Privatization Commission vide SLIC notification dated 28/01/2016. The finding/comments were prepared after taking the input of committee and Appointed Actuary. The comments/findings are given as under:

3. Comments on the Corporatization Strategy Report

I. Para 14 & 16 of Report:

The Section 14, "Functions of Corporation" of LINO 1972, states as follows:

" Subject to the above rules, if any, made by the Federal Government in this behalf, it shall be the general duty of Corporation to carry on life insurance business, whether in or outside Pakistan, and the Corporation shall so exercise its powers under this Order as to secure that **life insurance business is developed to the best advantage of community**".

a. We understand this particular clause of LINO 1972 forms the basis of a Government policy. Considering this prime objective, accordingly, Corporation made its five main objectives and mission statement. The direct relevance of these with the Section 14, of LINO 1972 is evident from the following portion of objectives and mission statement, which is reproduced as below:

b. To widen the area of operation of life insurance and making it available to as large a section of the population as possible extending it from comparatively more affluent sections of society to the common man in town and villages.
c. To make life insurance a more effective mean of mobilizing national savings
d. To remain a leading insurer in the country by extending the benefits of life insurance to all sections of society and meeting our commitments to our policyholders and nation

e. In view of above, we understand that the rationale for Corporatization as outlined in para 14 is not defined properly as LINO forms the basis of Government policy i.e. to serve in the best advantage of the community. This fact is also missing from the draft reorganization and conversion act keeping in view the fact that government still wants to remain the clear majority shareholder after corporatization and give business policies and strategies as mentioned in para 16 of the instant report.

f. It is pertinent to note that in past Government has been relying upon SLIC to accomplish various objectives defined as a part of its public policy. These initiatives include launching of various Mega schemes such as National Accidental Insurance scheme in 1986 for the entire nation, Benazir Income Support program (BISP) Life insurance for the recipients of BISP beneficiaries, BISP health insurance and Prime Minister National Health Insurance program

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recently. Further, on various occasions, Government had asked SLIC to support Stock exchanges to avoid crash and heavy losses so as to maintain the financial stability in the country. We understand these needs to be properly reflected in the Draft SLIC Reorganization & Conversion Act as well as in the report.

II. Para 19 of Report:

The distribution of Actuarial surplus to the policyholders is done in accordance with clause 22(7) of Insurance Ordinance 2000 which is stated as below.

" The surplus earned on participating contracts shall be allocated as follows between the A Account and the B Account:

a. Not less than ninety per cent of the amount of surplus earned on participating contracts shall be allocated to the A Account and
b. The amount represented by the difference between the surplus earned on participating contracts and the amount referred to in clause a) shall be allocated to the B account.

The above clause does not restrict the percentage of distributed surplus to policyholders at 90% rather it puts a minimum limit of 90%. Insurer have the option to distribute more than 90%, which is still happening in the case of State Life where it distributes 97.5% to policyholders and 2.5% to the shareholder in accordance with clause 31 of LINO 1972. Considering the fact that in case of private insurance companies, shareholder wants to retain at least 10% with themselves to operate, this condition should not be viewed as against the free competition rather it is the decision of shareholder to pass on more benefits to the policyholders.

The second important thing relates to the guarantee given by Federal Government. Though the government guarantee is of significant importance but State Life is subject to same solvency regulations of SECP as other life insurance companies are complying with. In addition, from the clause 8 of the draft reorganization and conversion act, it appears that the guarantee of Federal government will remain valid until the date of privatization. It is also not clear what exactly does privatization means in this order. Does it mean the date of launching of IPO or 100% privatization? This clause is also in contradiction with para 19 of the report where it has been mentioned that Government will be the major shareholder and the future customers will continue to be protected with respect to the guarantees included in their product. Similarly, the clause 8 of the draft reorganization and conversion act is also silent about the treatment to be given to existing policyholders against the revocation of Federal government guarantees and distribution of surplus @ 97.5%.

III. SLIC Governance Revisions:

Though State Life is operating under the umbrella of LINO 1972 and Insurance Ordinance 2000 & applicable rules. As far as compliance is concerned, SLIC has been fully complied with Insurance Ordinance 2000 *(the main Insurance statute)* and its respective rules made under it in the same manner as other companies are complying. From governance perspective, it is voluntarily complying with most of the provisions of the governance laws. For instance, there are regulations such as Sound and Prudent Management regulations, 2012, Code of Corporate Governance for public sector companies and a recently released Code of Corporate Governance for insurers-2015, which are more specific towards the insurance companies and are voluntarily complied

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by SLIC to keep a fair and competitive environment in the insurance industry.

The key provisions which have been referred to in the subject report and are being complied with by State Life include the following:

a. At present, the number of independent directors is 3 out of 7 Directors, i.e. more than 40% of the directors are independent. These directors are appointed following the clearance of SECP which gives approval after the proper evaluation of the potential candidates against the criteria envisaged in the governance rules. Thus, it is not appropriate to say that the governance rules are not being followed by State Life.

b. The directors are encouraged to undergo ongoing training and at present majority of the directors who are on the Board of State Life are not only from diverse background but also are certified directors in accordance with SECP regulations.

c. All the Board committees such as HR, Audit etc. which are required under the relevant SECP governance rules have been formed and are fully operational. Thus, State Life is in compliance with the said regulations also.

d. Whenever, there is a new international standard, it is the practice of the local regulator to adopt it after taking the views of stakeholders. This is the practice which has been in vogue all over the world as regulatory regime varies from region to region and to assume that a certain foreign law will exactly fit in the local standards is also not correct. For instance, the implementation of IAS 39 has been deferred by SECP owing to major changes in the Income Tax ordinance 2001. Thus, the impression that State Life is non-compliant with the international Accounting standards is incorrect as the issues have been indicated by the entire insurance industry.

From the above, it is clear that the post IPO recommended actions have already been complied with by State Life.

As far as pre IPO recommended actions are concerned, the recommended actions have been defined objectively.

IV. Draft SLIC Reorganization & Conversion Act

Under the draft SLIC Reorganization & Conversion Act, some points have been missed which may be added.

a. Post-retirement medical benefits have already been extended to the officers of the Corporation. These have been ignored in the Act and needs to be incorporated. Similarly, some of the employees are under the gratuity scheme. This also needs to be mentioned in the draft along with the treatment to be given to these employees on the similar basis as applicable to the Pension employees.

b. The matter regarding treatment to be given to future retirees is not cleared. It needs to be covered under the clause 6(2) of the draft.

c. The option to discharge employees by paying them admissible relieving benefits as provided in the vesting order has been mentioned in clause 6(4). However, no

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such details have been provided which may please be seen.

d. Under clause 8(2), it has been mentioned that the guarantee given vide Article 35 of LINO 1972 in respect of already issued policies shall remain valid till the date of privatization. It is not clear what exactly does privatization means in this order. Does it mean the date of launching of IPO or 100% privatization? This needs to be clarified. Further, for policies issued upto the date of privatization, the Government guarantee should not end as at the date of privatization rather it should continue till their maturity or termination. For new policies issued after the privatization end, however, the guarantee may not apply.

e. The draft is also silent about the treatment to be given to policies which have been issued already with 97.5% bonus guarantee till their respective maturity date. We understand that for these policies it would be legally difficult to change the committed surplus distribution @97.5% in view of the policy documents issued to them already.

f. It should be clarified in the draft conversion act that for with profit policies issued up to the privatization date, the surplus allocation between the shareholders and the policyholders shall remain 2.5% & 97.5% respectively even in the future years. However, for policies issued after the privatization date, the shareholders may retain up to 10% of the surplus as prescribed in the Insurance Ordinance 2000. This would in effect mean that there will be two sets of bonus rates, one applicable to policies issued up to privatization date and the second applicable to policies issued after the said date.

g. There is no mention regarding share % of surplus distribution in the draft. Though it has been mentioned in the Pre IPO recommended Actions (Refer para 33 xii of the said report) but the draft lacks the appropriate percentage to be used. This will be very crucial as more than 5 million policyholders are already addicted to this distribution and lowering the percentage will have negative consequences.

h. It is also pertinent to note that earlier 12% (4.4% now due to increased paid up capital) unit certificates were distributed to the employees of Corporation in accordance with Benazir Employees Stock option scheme in 2009. The dividend payable under that scheme has not yet been paid owing to the non-completion of formalities regarding trust. However, the provision for payment of dividend to be distributed has been kept in the accounts. This transaction entails that government is not the sole but the major shareholder. The legal treatment to be given to the shares already distributed also needs to be considered in the draft.

i. It is also suggested to include the following clauses in the draft act,

   a. "All contracts, agreement, power of attorneys, grant of legal representation and all other instruments of whatever kind in each case subsisting or having effect immediately before the effective date or to which the corporation may have been a party before the effective date shall be deemed to have been made with the company as if instead of corporation, the company had been a party thereto".

j. Some of the old properties due to title dispute are in litigations. It is anticipated that due to the repealing of LINO 1972, the decision will be impacted. This also

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needs to be taken care of.

Nevertheless, the decision to corporatize rests with the Federal Government. For this purpose, we would like to draw your attention towards the TOR (Terms of Reference) for the appointment of Lead Manager & Book Runner which primarily states that

"Considering the objectives of transaction, capital market trends and SLIC governing legislations/statute, Lead Manager and Book Runner is expected to submit alternate structures for the Transaction and the preferred option including the implementation mechanism, timing for successfully carrying out the Transaction etc......GoP on the basis of the Transaction Structure report will finalize the Transaction modalities, price strategy & mechanism for listing of SLIC".

From the above, it is clear that the responsibility to formulate the appropriate Transaction structure has been given to the Lead Manager and Book Runner which will prescribe the best approach to do so before the Government of Pakistan, which will formally decide the final course of action based on the report. It is not possible for SLIC to give an opinion unless the details of the Transaction report to be submitted by the prospective Lead Manager and Book Runner are examined thoroughly.
Accordingly, the Board is requested to resolve and approve the following by circulation :

"Resolved that as proposed by DH(P&GS), the comments/findings of the committee in response to the MoC letter, ref;No.1(1)/2015-Ins, dated 22/01/2016 be & are hereby agreed to/approved by Board of Directors through circulation for onward submission to Ministry of Commerce & to be confirmed in the subsequent Board meeting"

The above resolution so passed shall be placed before the Board for confirmation at its next meeting as per regulation 3(11) of State Life Insurance Corporation (General) Regulations, 1972.

Riaz Ahmed Sheikh
DH (P&GS)

Karachi, Dated: 01.02.2016

NAME	SIGNATURE
Ms. Nargis Ghaloo:	
Mr. Saeed Chaman:	
Mr. Rizwan Bashir Khan:	
Mr. Saad Amanullah Khan:	
Mr. Shafqaat Ahmed:	
Mr. Naved Arif:	
Dr. Aliya Hashmi Khan:	

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