31ST MEETING OF THE BOARD OF DIRECTORS

HELD AT	ON	TIME
Karachi	Wednesday, the 14th May, 1975	10.00 AM

The 31st meeting of the Board of Directors of State Life Insurance Corporation of Pakistan was held on Wednesday, the 14th May 1975 at 10.00 A.M. in the Board Room of the Corporation at Karachi.

The following were present :

1. Mr. Riaz Ahmad Naik Chairman
2. Mr. S.Hasan
3. Mr. D.M.Quraishi
4. Mr. P.Sequeira
5. Mr. S.A.Walajahi
6. Mr. M.Zulqarnain

Leave of absence was granted to Mr.S.F.Alam.

Mr.Nisar Hussain, Asstt:General Manager (Admin.) and Mr.M.Sadiq Khan, Secretary Board were also present.

The following business was transacted:

ITEM I: CONFIRMATION OF THE MINUTES OF THE 30TH BOARD MEETING HELD ON 19.2.1975.

The minutes of the 30th meeting of the Board held on 19-2-1975 were confirmed, subject to the following amendments:

(1) Item XVI(2)(iv):- "Cash Remittances from the three Units of State Life during the year ended 31st December, 1974.

(a) Third paragraph, under this item was amended to read as follows:

"Mr.S.Hasan remarked that the real problem was that the growth of the life fund was only about 18% of the premiums. This being the case, the Units could not be expected to remit more than 18% of the premiums. The balance was needed to meet their outgo on claims, surrenders and expenses. Main attention should be directed to increasing the growth of the life fund by reducing expenses, surrenders and lapses, and increasing the premium income. The delay in remittance, as such, appeared to be a relatively minor problem."

(b) Last paragraph under this item was deleted.

(2) Item XVI(4):- "Area Managers".

In the beginning of the Note, under A(i), after the words 'This requirement' the words and comma "mutatis mutandis," were added, making it read thus -

CHAIRMAN'S INITIALS

...TORS	HELD AT	ON	TIME
... BOOK	Karachi	Wednesday, the 14th May, 1975	10.00 AM

"Note: This requirement, mutatis mutandis, is already incorporated in the Appointment Letters of Area Managers under the New Scheme."

ITEM II: TO CONSIDER AND APPROVE THE BUDGET FOR 1975.

The revenue budget of the Corporation for 1975, together with the corresponding 14 months audited figures for 1973 and the unaudited figures for the year 1974 were presented to the Board.

In the last Board meeting held on 19.2.1975, the consideration of the Budget was deferred pending further scrutiny and examination with a view to achieving economy in expenditure. However, the Units did not revise either their original estimates of income or of expenditure.

The Board then took up for consideration the estimates of premium income and expenditure for the year 1975. Viewed against the background of actual performance during 1974, the Board felt that the projections of FYP were rather on the high side in the case of some Units. While the income projections were corrected somewhat to be more realistic, for purposes of projections of expenditure a growth rate of 12½% in FYP was taken as the bench-mark for 1975. Based on these estimates of income and taking their proposed expenditure as given, the renewal expense ratio worked out at roughly 28% which was considered to be on the high side. In order to keep the expenses within reasonable limits the expenditure budgets of 'A' & 'B' Beema Units, were reduced by Rs.40 lac each and of 'C' Beema Unit by Rs.30 lac. This was expected to contain the Units' renewal expense ratio at 20%. Similarly, in order to reduce the loading of expenses of the Principal Office, the Budget of the Principal Office, excluding Overseas, Investment and Real Estate Departments, was cut down by Rs.21 lac. For group insurance business, assuming that the overall premium income, old as well as new, will be at least Rs.6 crore, the expenses were expected to be reduced from 8.97% to around 7%, thus making a saving of Rs.12 lacs in the budgeted expenditure. These reductions will be over and above the reduction in expenses arising as a result of the implementation of the recommendations of the Review Committee appointed by the Government. The position of savings to be effected in the proposed Budgets is summarised below :-

'A' Beema Unit	Rs.40 lacs
'B' Beema Unit	Rs.40 lacs
'C' Beema Unit	Rs.30 lacs
Principal Office	Rs.21 lacs
	Rs.1.31 crores

In the light of these recommendations the Principal Office and the General Managers, were required to make necessary adjustments in their respective budgets. Although the expense ratio is projected on a growth rate of 12½% in FYP, the Board emphasised that the Units should make every endeavour to achieve a growth rate of at least 15% over 1974. Based on the actual FYP during 1974 each Unit was required to fix a target of 15% increase during 1975.

CHAIRMAN'S INITIALS

31ST MEETING OF THE BOARD OF DIRECTORS

HELD AT	ON	TIME
Karachi	Wednesday, the 14th May, 1975	10.00AM

In the case of Overseas Division, the FYP for 1975, excluding Gulf business, was estimated at Rs.17 lac and renewal premium income at Rs.44 lac. The renewal expense ratio was estimated at last year's level viz.nearly 14%. Should, however, the Overseas Division were to open branches in the Gulf States, the increase in expenditure was left to be decided by the Chairman in consultation with Executive Director (Overseas).

The Board did not approve the proposed capital budget. However, any capital expenditure to be incurred by the Units and the Principal Office during 1975 was required to be approved by General Managers/Executive Directors on a case to case basis from the Chairman.

ITEM III: TO CONSIDER NOTES FROM MR.S.HASAN REGARDING:-

(i) Financial Problems of the Corporation:

The Board took up for consideration, Executive Director (Actuarial)'s note on the above subject. It was resolved that immediate steps should be taken to restore the bonus earning power of the premium rates by (a) bringing the expenses down to the bare minimum and (b) increasing the premium income - new and renewal - vigorously, including introduction of new plans. While preparing new plans, account should be taken of the current trends both at home and abroad.

(ii) Group Term Insurance Scheme for Peasants & Agricultural Land Tenants.

The Board considered the Scheme and deferred it until the land tenancy records and revenue system were modernised on the lines being planned by the Government.

(iii) Habib Bank Group Staff Policy - East Pakistan Claims:

The Board considered the note by Executive Director (Actuarial) on the above subject. The policy excluded only "war and hostilities."

The deaths entirely happened in East Pakistan between 26th March and 27th June 1971. It was decided that this period was not excluded from cover.

The Board, therefore, approved the suggestion that the claim may be settled and adjusted out of the 1971 profit commission account, in respect of West Pakistani claimants only. The effect of this will be that the bank will bear 70% and State Life 30% of the amount of claims.

CHAIRMAN'S INITIALS

RECTORS	HELD AT	ON	TIME
UTE BOOK	Karachi	Wednesday, the 14th May, 1975	10.00AM

(iv) American Life Dividends:

Since the valuation upto 1974 is expected to be finalised in the near future, it was decided that special interim dividends on ALICO policies for 1974 should not be announced.

(v) Suggestion to provide for car rental to Directors in lieu of State Life cars:

The Board deferred consideration of this item.

ITEM IV: INVESTMENT:

(i) Application of Consolidated Sugar Mills Limited for a debenture loan of Rs.25 lac.

Executive Director (Investment) placed before the Board his memo No.INV-8/75 on the above subject.

The Board was informed that Consolidated Sugar Mills Ltd., has applied to State Life for purchase of its debentures amounting to Rs.25 lacs, out of a total issue of Rs.1.30 crores. The proceeds of the debentures would be utilised to meet the construction cost and permanent working capital requirements of the Company's Sugar Mill project to be set up near Gambat in district Khairpur (Sind). It will have a crushing capacity of 2,000 tons of sugar cane per day.

The total cost of the project is estimated to be Rs.1,587.26 lacs including net working capital requirements of Rs.60 lacs. The plant and machinery will be imported from France, against PICIC and IDBP Foreign currency loans totalling Rs.1,127.36 lacs equivalent.

The authorised capital of the company is Rs.5.50 crores and paid-up capital Rs.3.30 crores,-50% of which will be invested by Hyesons Sugar Mills Limited and Hyesons Group.

The projection of the Company's production, sales and profits in the future indicates a satisfactory position. The Company has agreed to arrange a continuing Bank guarantee for the proposed debentures, which will qualify as an "approved investment" under the Insurance Act 1938.

The Board approved State Life's subscription to the Company's debentures to the extent of Rs.25 lacs on the following terms and conditions:-

1. Project examination and professional assistance fee @ ½% of the nominal amount of debentures to be taken up by State Life.

CHAIRMAN'S INITIALS

31ST MEETING OF THE BOARD OF DIRECTORS

HELD AT	ON	TIME
Karachi	Wednesday, the 14th May, 1975	10.00AM

2. Commitment charge @ 1½% per annum payable quarterly on the principal amount of debentures remaining undisbursed from time to time, commencing after 30 days from the date of sanction by the State Life's Board of Directors.

3. Interest @ 3½% above the Bank Rate in case of convertible debentures and 4% above the Bank Rate in case of non-convertible debentures. Interest would be payable half-yearly. In case of convertible debentures, 20% of the debenture loan would be convertible into ordinary shares at par value at the option of State Life at any time during the currency of the loan.

4. Penal interest @ 2% over and above the rate of interest specified at (3) above on all sums remaining unpaid on due dates.

5. Security to be first charge on fixed assets and a floating charge on current assets. In addition, debentures to be taken up by State Life would be additionally secured by a continuing bank guarantee in form and substance, acceptable to State Life.

6. Redemption to be in ten half-yearly instalments after a grace period of two years.

7. Prior to the disbursement of the debenture loan:

   a) The sponsors to furnish evidence to the effect that subscription to the share capital proposed to be paid up, has been arranged by the sponsors/underwriters;

   b) The company to furnish evidence that commitments have been made by other institutions for the balance amount of debentures (Rs.1.05 crore);

   c) The company to produce letter of approval by the Controller of Capital Issues for the issue of debentures.

   d) The company to appoint Trustees to the Debenture Trust Deed with the prior approval of State Life.

8. The company to furnish information on its operations as and when required by State Life.

9. Such other terms and conditions as State Life may prescribe.

CHAIRMAN'S INITIALS

31ST MEETING OF THE BOARD OF DIRECTORS

...CTORS	HELD AT	ON	TIME
...TE BOOK	Karachi	Wednesday, the 14th May 1975	10.00 AM

ii) Application of Allwin Engineering Industries for a debenture loan of Rs.15 lac.

Executive Director(Inv.) placed before the Board his memorandum No.INV-9/75 on the above subject.

The Board was informed that Allwin Engineering Industries Ltd. Karachi, a public Limited Co. has applied to State Life for purchase of Mortgage debentures amounting to Rs.15 lacs, out of a total debenture issue of Rs.50 lacs. The proceeds of the debentures would be utilised for meeting the working capital requirements of the company.

The company originally a partnership concern, was organised and incorporated as a private limited company in 1951 and was later converted into a public limited company in February 1970. The paid up capital of the company has since been raised to Rs.50 lacs. It operates for the manufacture of automotive equipments and spare parts and has technical collaboration with Associated Engineering Ltd. of England.

The past performance and long term financial position of the Company has been steady and satisfactory. It has paid dividend regularly since 1970, except for 1972 due to aftereffects of 1971 war.

The company has agreed to provide performance-cum-repayment bank guarantee in form and substance acceptable to State Life. The debentures of the company qualify as an "approved investment" under the Insurance Act.

The Board approved State Life's purchase of company's proposed debentures in the amount of Rs.15 lacs on the following terms and conditions:

1. Project examination and professional assistance fee @ ½% of the nominal amount of debentures to be taken up by State Life.
2. Commitment charge @ 1½% per annum payable quarterly on the principal amount of debentures remaining undisbursed from time to time commencing after 30 days from the date of sanction by the State Life's Board of Directors.
3. Interest @ 3½% above the Bank Rate in case of convertible debentures and 4% above the Bank Rate in case of non-convertible debentures. Interest would be payable half-yearly. In case of convertible debentures, 20% of the debenture loan would be convertible into ordinary shares at par value at the option of State Life at any time during the currency of the loan.
4. Penal interest @ 2% over and above the rate of interest specified at (3) above on all sums remaining unpaid on due date.
5. Security to be a first charge on fixed assets and a floating charge on current assets. In addition debentures to be taken up by State Life would be additionally

CHAIRMAN'S INITIALS

313T MEETING OF THE BOARD OF DIRECTORS

HELD AT	ON	TIME
Karachi	Wednesday, the 14th May, 1975	10.00AM

secured by a continuing bank guarantee in form and substance acceptable to State Life.

6. Redemption to be ten half-yearly instalments after a grace period of two years.

7. Prior to the disbursement of the debenture loan:

   a) the company to furnish evidence that commitments have been made by other institutions for the balance amount of debentures (Rs.35 lac);

   b) the company to produce letter of approval by the Controller of Capital Issues for the issue of debentures.

   c) the company to appoint Trustees to the proposed debenture trust deed with the prior approval of State Life.

8. The company to furnish information on its operations as and when required by State Life.

9. Such other terms and conditions as State Life may prescribe.

(iii) Request of National Refinery Ltd. for exemption from bank guarantee on the debenture loan proposed to be advanced by State Life.

Executive Director(Inv.) presented to the Board his memorandum No.INV-11/75 on the above subject.

The Board was informed that the Exxcutive Committee, in its meeting held on 13.2.74, had approved the application of National Refinery Ltd. for purchase of its B-Series debentures amounting to Rs.75 lacs, out of the total debenture issue of Rs.551.65 lacs.

The terms and conditions, inter-alia, stipulated that the debenture loan would be secured by first charge on the present and future fixed assets and properties of the company, with a floating charge on the current assets. In addition the company was to arrange a guarantee by PICIC or a scheduled bank or an authority constituted by any Federal or Provincial law, in form and substance acceptable to State Life, for payment of instalments of principal and interest on due dates.

The company has now requested State Life to dispense with the additional security by way of a guarantee. This guarantee was required with a view to bringing the company's debentures under the ambit of 'approved investment' as defined in the Insurance Act, according to which debenture of a company in which Government sponsored Corporation(s) own atleast 25% equity interest qualify as an approved investment. The company has confirmed that its shares acquired by the Government and held by various Government institutions including State Life come to 62.05% of the outstanding shares. The company has good prospects of reasonable profit and cash-flow following implementation of the company's expansion programme.

CHAIRMAN'S INITIALS

CTORS / E BOOK	HELD AT	ON	TIME
	Karachi	Wednesday, the 14th May, 1975	10.00AM

The Board approved that State Life may agree to dispense with the condition of bank guarantee and secure the proposed debenture by creating a first charge on the fixed assets and properties of the company's expansion project with other terms and conditions remaining unchanged.

(iv) Measures for improvement of cash remittances
<u>from the three Units of State Life.</u>

Executive Director(Inv.) presented to the Board his memorandum No.INV-12/75 on the above subject.

The Board was informed that as followup action on the decision taken in its last meeting held on 10.2.75, Executive Director(Inv.) held a meeting on 22.2.75 with the three General Managers and the Chief Accountants to consider measures to overhaul and improve premium collection and cash remittance system. The ideal solution of the problem was, of course, thought to be centralisation of receipts and disbursement of accounts. But, unfortunately, the consensus was not in favour of adopting the same. It was, therefore, decided to appoint a sub-Committee consisting of the Chief Accountants of the three Units and the Principal Office, Asstt:General Manager(Inv.) and a representative of Auditors, Messrs Ford Rhodes and Morrow, to study the problem in depth. The sub-Committee met on 21.4.75 and has made the following recommendations aimed at streamlining the system of:

1. The three Beema Units and the Principal Office shall call for weekly Bank Statements of all their premium collection/current/disbursement accounts. The respective offices shall prepare check lists showing the position with regard to receipt of Bank statements and their reconcilliation. The delay in submission of the weekly Bank statements by a bank branch in contravention of our instructions will be taken seriously and dealt with at the appropriate level with the Bank concerned.

2. The Beema Units will prepare on a monthly basis a Summary Statement showing the amount of cash collected, disbursed and surplus cash remitted to the Principal Office alongwith the list of defaulting bank branches. The said statements will be forwarded by the Units after getting them duly reconciled, to the Principal Office by the 20th of the following month.

Apprehensions were expressed about the practicability of the above recommendations because it involved a lengthy process of reconcilliation.

It was pointed out that unless the exact nature of difficulties were identified, it will not be possible to take effective remedial measures. The arrangement suggested by the sub-Committee was a step in that direction, and it needed to be given a fair trial. Its success would, of course, depend on a close and effective follow-up of bank statements, their

CHAIRMAN'S INITIALS

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31ST MEETING OF THE BOARD OF DIRECTORS

HELD AT	ON	TIME
Karachi	Wednesday, the 14th May, 1975	10.00AM

reconcilliation and timely reporting by the Units. Failing this, there would be no other alternative but to centralize the receipts and disbursements account. This might be all the more necessary to exercise vigorous control on expenses which is the key problem facing the State Life today.

After due consideration, the Board approved the above recommendations and desired that a periodical review of the working of the proposed arrangement should be placed before the Board.

The meeting then ended with a vote of thanks to the Chair.

Confirmed
Riazahmad 1/7/75

Riazahmad
Chairman

CHAIRMAN'S INITIALS