

## 71ST MEETING OF THE BOARD OF DIRECTORS

RECTORS	HELD AT	ON	TIME
MINUTE BOOK	Karachi	Sunday 31st July, 1983	11.00 A.M.

The 71st meeting of the Board of Directors called pursuant to notice dated 20th July, 1983 was held at the Principal Office at Karachi on Sunday, the 31st July, 1983 at 11.00 A.M.

The following were present:

1. Mr. N.A. Jafarey - Chairman
2. Mr. S.S.A. Bukhari - Director
3. Mr. Mahboob Siddiqui - Director
4. Mr. Samee-ul-Hasan - Director
5. Mian Abdul Qadir - Director
6. Mr. Safdar Ali Chaudhry - Director

Mr. Agha Nasir Ali, Director, did not attend the meeting due to indisposition.

Mr. A. Mateen, Secretary to the Board was also present.

The following business was transacted:

ITEM 1: CONFIRMATION OF MINUTES.

The Board confirmed the minutes of its 70th meeting held on 23rd December, 1982.

The Director and Consulting Actuary brought to the attention of the Board Regulation 4(1) of the State Life (General) Regulation providing that not more than three calendar months shall intervene between two meetings of the Board. The Board resolved that the provision of the said regulation be meticulously followed in future.

ITEM 2: RECORDING OF MINUTES.

The Board recorded the minutes of :

- (i) 65th meeting of the Executive Committee held on 4th January, 1983.
- (ii) 66th meeting of the Executive Committee held on 14th February, 1983.
- (iii) 67th meeting of the Executive Committee held on 21st March, 1983.
- (iv) 68th meeting of the Executive Committee held on 19th April, 1983.
- (v) 69th meeting of the Executive Committee held on 11th May, 1983.
- (vi) 70th meeting of the Executive Committee held on 11th June, 1983.

subject to the following amendments in the minutes of 66th meeting of the Executive Committee so as to depict true position:

"In Item 20 under the title "ANY OTHER BUSINESS" sub-title "(a) DETAILS OF EXPENSES IN

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CONNECTION WITH THE 10TH ANNIVERSARY FUNCTION  
for the word "function" the words "programmes  
which included publicity, publications of leaf-  
lets and posters etc. and holding of functions"  
were substituted."

ITEM 3: FINAL ACCOUNTS FOR THE YEAR  
ENDED 31ST DECEMBER, 1982.

The Executive Director - B&A placed before the Board Memorandum No.71/83 enclosing Corporation's Audited Balance Sheet and Revenue Account for the year ended 31st December, 1982.

DGM - B&A was called to the meeting. Explaining the reasons for non-finalisation of the accounts by the target date i.e. 30th June, 1983, the DGM - B&A said that one of the reasons was that some computer schedules had to be repeated many times to rectify errors. He further said that the 1983 accounts could be finalised by June, 1984 if the Computer Division was able to complete its work in time.

Renewal Expense Ratio

The members of the Board noted with pleasure the improvement of the renewal expense ratio from 28.05% in 1981 to 24.56% in the year under review. It was noted that this improvement was to some extent due to adjustment of abnormal balances of premium of preceding financial years. At the suggestion of the Director and Consulting Actuary it was decided that the unadjusted balance of premium of the prior years, reported to be about Rs.40 million, would be explained in the note to the accounts but the renewal expense ratio would be shown as 24.56%.

The Board directed that DGM - B&A would circulate among the directors details of the said adjustment of prior years premium balances within 15 days.

Death & Maturity Ratios

The members of the Board noted that fortunately during the year under review the death and maturity ratios were lower than last year.

Persistency

The Chairman said that the persistency of business was not showing improvement which underlined the need for procuring quality business.

Medical Expenses

The Directors expressed concern over phenomenal increase (44.63%) on account of Staff welfare mainly attributable to medical scheme in force.

Policy Loans on Terminated Policies

The memorandum explained that the policy loans appearing in the control ledgers and those in computer schedules were not reconciled and computer schedules included loans on terminated

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policies. With a view to reconcile the discrepancies outstanding as shown in the Computer Exception Lists for loans under terminated policies like death claims, maturities, auto surrenders etc. were taken away from the Computer, and charged to the respective expense accounts and code-wise lists of all such amounts as also the amounts upto Rs.25/- written off were provided by Computer Division to PHS for scrutiny. The PHS Division will check the amounts with their records and verify the correctness of the action of Computer by 31st December, 1983. In case any amount has been wrongly written off, the amount would be brought back during 1983 by appropriate accounting entries as and when they are checked. If the amounts charged to the respective expense accounts have correctly been done, it would be recorded in the individual respective policy files for future reference. In case of auto surrenders the entries would be reversed and brought back if those policies were revived at any subsequent stage. The Incharge of PHS Department at the Zones will certify that Loan Exception List entries as on 31-12-1982 as provided by the Computer have been duly verified and necessary correction action advised to the Computer Division. In future, Incharge PHS Department will certify that loan ledgers prepared by the Computer every six months have been duly certified and reconciled and Loan Exception Lists duly checked.

As a result of the above action, the loans on off policies have been written off and charged to the respective expense accounts. Consequently the policy loans show a decline by Rs.24.21 million on 31st December, 1982 and amount to Rs.431.78 million on that date compared to Rs.455.99 million last year.

The Board ratified the action taken or to be taken as above described.

#### General Reserve

The Board decided that on page 11, para 21, of the Memorandum under the head "General Reserve", the last sentence reading as follows be expunged.

"This amount will constitute part of life fund".

The Board further resolved that the accounting treatment of the amount of Rs. 18.56 million recovered from erstwhile life insurers under Article 22 of LINO be examined and determined in the next year's accounts.

#### Provident Fund

The Board approved appointment of M/s. Riaz Ahmed & Co., Chartered Accountants, for audit of Provident Fund accounts for the years 1979 and 1980.

#### Staff Turnover

The Board desired that in respect of each year, beginning from 1982 the following information should be submitted to the Board/Executive Committee:-

- (i) Total number of employees at the beginning of each year.

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- (ii) Total number of employees resigned during the year.
- (iii) Total number of employees retired during the year;
- (iv) Total number of employees recruited during the year; and
- (v) Total number of employees at the close of the year.

Economy Committee

The Board decided that E.D. (B&A) look into the matter and report if the Economy Committee recommendations were being enforced.

Field Structure - Revision

As to the suggestion of increasing premium rates versus revision in the field structure, the Board desired that ED - S&D should examine the issue from all angles and then report to the Board.

Balance Sheet.

(a) The Director and Consulting Actuary pointed out that in the Balance Sheet on the Assets side figures of investment wherever indicated as "unquoted" should be substituted by "unquoted - Realizable value".

(b) In respect of investment in securities overseas, the Director and Consulting Actuary pointed out that the words "quoted at market value" should be added to the description.

Statement under Section 132A of the Companies Act, 1913.

The Board desired that statement under section 132A of the Companies Act appended to the Balance Sheet be abolished if the same was not a requirement under the law which governed the Corporation.

Note of the Accounts

(i) In respect of note 2(e) "Other Investment" the last sentence reading as "Interest income is credited in the accounts on accrual basis", the Board decided that last year's practice would be followed.

(ii) In respect of note 11(a), relating to properties valuing Rs.2,80,169/- being shown in the Corporation's books pending investigation, the Board directed that investigation be expedited and accounts cleared up.

The Board then approved the Revenue Account, Appropriation Account, and balance sheet together with notes (as amended above) thereon for the year ended 31st December, 1982 as also the provisions made therein and passed the following resolution:

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## RESOLVED

- (a) That the 10th Annual Accounts of the Corporation's Revenue Account, Appropriation Account and Balance Sheet together with notes, provisions and charges for the year ended 31st December, 1982 initialled by Riaz Ahmed & Co., Chartered Accountant, and placed before the Board be and are hereby approved and the Chairman and two directors affix their signature on the accounts.
- (b) That a copy of the approved accounts together with Directors report be forwarded to the Federal Government after all auditors have affixed their signatures to the accounts.

ITEM 4: ADDITIONAL BUDGET.

The Executive Director - B&A placed before the Board Memorandum No.72/83 seeking approval of the Board for the following items of budget:-

- (a) a sum of Rs.8,00,000/- as capital budget for Overseas Offices including SR.150,000 (Rs.5,70,000/-) for new Jeddah Office;
- (b) a sum of Rs.2,50,000/- as capital budget for Hyderabad Zone on account of seating and allied facilities in lieu of cash compensation to be provided to the employers of agents based on their business procurement;
- (c) an additional sum of Rs.1,50,000/- (Rs.4,50,000/- having already been approved by Executive Committee by circulation on 9-12-1982) being the cost of issuing questionnaire to the policyholders. (Enhancement in the budget was necessitated due to increase in postal rates); and
- (d) waiver of budget limit for leave encashment to the staff, as the sum of Rs.2 million approved on this account had since been exhausted.

The Board approved the proposals as at (a), (b) and (c) above. With regard to (d) above, the Board observed that requisite details such as (i) the number of employees who applied for, and were sanctioned, leave, (ii) the number of employees who applied for, and were refused, leave necessitating encashment of leave and (iii) the number of pending cases where leave is to be encashed, have not been provided. The Board decided that the proposal could be considered after the above details have become available.

ITEM 5: POLICYHOLDER'S QUESTIONNAIRE AND POLICY POSITION STATEMENT.

The above matter had been covered in Item 4.

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ITEM 6: AMENDMENTS IN INSURANCE ACT/RULES.

The Executive Director - S&D placed before the Board Memorandum No.74/83 proposing that section 42(4A) and section 42(5A) of the Insurance Act be amended to read as follows:-

Proposed Sub-Section (4-A) of Section 42 of Insurance Act.

"(4-A) Where the Controller on production of evidence is satisfied that the failure to apply for renewal of the licence was caused by prolong serious ailment confining the Insurance Agent to bed and in consequence of which the insurance agent died, he may make an order in writing that the licence held by the insurance agent shall be deemed to be subsisting on the date of his death."

Proposed Sub-Section (5-A) of Section 42A.

"(5-A) Where the Controller on production of evidence is satisfied that the failure to apply for renewal of the Certificate was caused by prolong serious ailment confining the Employer of Agent to bed and in consequence of which the Employer of agent died, he may make an order in writing that the Certificate held by the Employer of Agent shall be deemed to be subsisting on the date of his death."

The proposal was made pursuant to agreement with field personnel.

The Board approved the proposal and directed that the draft amendments be forwarded for consideration of the Federal Government.

ITEM 7: ANY OTHER BUSINESS.

(a) TERMS AND CONDITIONS OF EMPLOYEES IN OVERSEAS OFFICES.

The Executive Director - B&A Memorandum No.75/83 with regard to the determination of terms and conditions of service for employees posted abroad was placed before the Board for consideration.

The Director and Consulting Actuary made the following observations:-

- (1) There are three regular employees working abroad for which the entire exercise had been undertaken.
- (2) In fixing their terms of service, Habib Bank pay structure had been followed.
- (3) Laying down specified rules containing terms and conditions of service will introduce rigidity in the pay structure and deprive the Corporation of the flexibility.

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The Board discussed the matter at length and decided that the proposal should be looked into further, discrepancies removed and placed before the Board for final sanction. Thereafter the proposal may be sent for Government approval.

(b) ADDITIONAL STAFF FOR ACTUARIAL DIVISION.

The Board considered Executive Director - B&A Memorandum No.76/83 seeking approval of the Board for three additional posts of Executive Officers for Actuarial Division as the existing officers strength was inadequate to cope with the work-load.

The Board approved the proposal.

(c) RESCHEDULING/RESTRUCTURING DEBTS OF PAKISTAN PAPER CORPORATION.

The Executive Director - Investment Memorandum No.77/83 regarding, rescheduling/restructuring of debt of Pakistan Paper Corporation Limited (a debtor of the Corporation) was placed before the Board for consideration.

The memorandum explained that the said company's Board of Directors consisting of nominees from financial institutions in its meeting held on 12/13th March, 1983 approved proposals relating to long term creditors as follows:-

- (i) to restructure the company's equity capital and debt; and
- (ii) to strengthen the management by bringing in Mr. A.H. Adamjee as a partner in the business.

Restructuring Proposals

The proposals for restructuring of long term debts will reduce the existing debt burden of the company by approximately Rs.64 million. This sum represents the estimated aggregate amount of over due interest, penal interest and interest on interest that has accrued between January 1, 1977 and June 30, 1983. Of this sum, Rs.47.51 million will be converted into Equity and the balance of Rs.16.49 million into Income Notes.

The Rs.47.51 million increase in equity will first be offered as a 1:1 rights issue at par for cash to existing share holders. To the extent the share holders decline to subscribe to the rights issue, the balance will first be offered at par for cash to NIT as required by Controller of Capital Issues. Any shares not so subscribed by the share holders and NIT will be subscribed at par by the long-term creditors of the company on prorata basis by a corresponding reduction in the overdues upto June 30, 1983. These rights shares will be kept by the Trustee pending their disposal to Mr. A.H. Adamjee in the manner spelt-out below.

Income Notes (Rs.49 million) will be issued prorata to the long-term creditors in substitution of the balance of their overdues. The Income Notes will be repayable in four semi-annual instalments after a grace period of 10 years i.e repayment to

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commence on July 1, 1993. The Income Notes will not bear interest but if the company declares dividend for any year during the currency of the Notes an equivalent percentage return will be paid for that year on the Notes outstanding at the date of declaration of the dividend.

Repayment of long-term loans, (i.e. principal only), the overdues of interest, etc. having been converted into Equity and Income Notes, will commence from January, 1984 and will be payable in the same number of instalments and at the same rates of interest as agreed in 1976 when the loans were first rescheduled.

In case of future defaults the rate of interest on overdues will be 5% over (i) the bank rate or (ii) the respective base rate, whichever is higher.

The following financial implication of the proposal in so far as it relates to State Life were enumerated in the memorandum:-

1. In working out the financial implications, it has been assumed (i) that the shareholders will not subscribe to the rights issue (ii) neither will NIT. Thus the debenture holders will have to take-up all the right shares through a corresponding reduction in the debenture overdues and also the Income Notes. It is further assumed that Mr. A.H. Adamjee will fulfil his obligations, unconditional and conditional.

2. State Life holds 245,644 ordinary shares with a book value of Rs.2,440,691 or a 5.2% interest in Pakistan Paper Corporation.

3. In addition, State Life has advanced debenture loans. The current position of outstanding and overdue amounts as on June, 30, 1983 is shown below:

	J U N E 30, 1983		
	D Series Rs	E Series Rs	Total Rs
Principal	1,500,000	2,580,000	4,080,000
Interest	1,328,185	1,898,602	3,226,787
Penal Interest	3,771	6,469	10,240
Total Overdues	2,831,956	4,485,071	7,137,027
Amount not yet due	2,483,791	2,139,322	4,623,113
Total outstanding	5,315,747	6,624,393	11,940,140
	=====	=====	=====

4. As stated earlier Rs.64 million being the interest and penal interest due and unpaid on all debenture loans will be converted into Equity Income Notes respectively in the ratio of Rs.47.51 million into Equity and Rs.16.49 million into Income Notes.



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5. Accordingly, overdues of accrued and unpaid interest and penal interest upto June 30, 1983, which in State Life case amounts to Rs.3,237,000, will be converted into 240,300 Right Shares and 83,400 Income Notes of Rs.10 each.

6. These are tentative figures. Since any repayments made between now and the finalisation and implementation of the proposals will amend the position. As a matter of fact PPC is presently making payments, albeit small, toward debt-servicing.

7. The above noted 240,300 right shares allotted to State Life, will be kept with the Trustee who will sell these shares in the agreed numbers to Mr. A.H. Adamjee at the agreed prices over a three year period in the manner shown below:-

	No. of Share to be sold	Selling Price per	Total amount re- ceivable from Mr. A.H. Adamjee by State Life.
		(Rupees)	(Rupees)
After completion of right issue	144,180	4.00	576,720
First Year	40,475	7.05	285,349
Second Year	35,410	6.50	230,165
Third Year	20,235	6.50	131,527
	<u>240,300</u>	<u>5.09</u>	<u>1,223,760</u>
	=====	=====	=====

8. The exercise in para 7 above will result in the following:-

- (a) Write-off of an amount of Rs.11,79,240 being the difference between the reduction in the debenture overdues and the proceeds received for the rights shares from Mr. A.H. Adamjee.
- (b) The proceeds will be received over a period of three years during which period State Life is not likely to receive any income on these right shares. On the other hand it will lose income on this amount which would have accrued had it remained in the form of interest, penal interest etc.
- (c) The 83,400 Income Notes equivalent to Rs.8,34,000 are also not likely to earn income for many years as the company does not appear to be in a position to wipe-out its accumulated losses in the foreseeable future.

9. Over a three year period the sacrifice that State Life would have to make by way of immediate write-off and loss of income would be in the region of Rs.1.35 million. This may have

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been well worth if the accumulated losses had not been so large as to make the likelihood of dividends extremely remote.

The Board approved the above scheme.

(d) GRATUITY RULES.

The Executive Director - B&A placed before the Board Memorandum No.78/83 with regard to enhancement in the gratuity payments to officers. Presently the gratuity is paid at one month's pay per year of service or 20 months pay or Rs.50,000/- whichever is less. It was envisaged to increase the maximum entitlement from Rs.50,000/- to Rs.1,00,000/-.

The Board discussed the matter and decided that the gratuity payment limit be enhanced to "25 months pay or Rs.100,000 whichever is less" subject to the Government's approval.

(e) FACILITIES ON DEATH OF AN EMPLOYEE.

The Board considered Executive Director - B&A Memorandum No.79/83 regarding provision of facilities to employees dying during service.

The proposal was placed in 71st meeting of the Executive Committee held on 23-7-1983 when the following facilities were proposed in Executive Director Memorandum No.58/83.

- (i) Actual cost of the coffin, coffin box and other burial expenses subject to a maximum of Rs.1500/-. The claim of such expenses must be supported by documentary evidence of the cost incurred.
- (ii) Transportation of dead body to his place of domicile by mode of transportation to which he was entitled to as per the Service Regulations duly supported by the documentary proof of the cost of transportation.
- (iii) Only fare of the dependants of the deceased employee and transportation charges of the personal effects to the place of domicile as admissible under the Service Regulations. However, in case any dependant or dependants who accompany the dead body will be eligible for this facility only once. No person other than the dependants accompanying the dead body will be eligible for this facility.
- (iv) This facility should be made available to all regular employees of State Life.

The Committee had decided that financial implication of the proposal as also Federal Government rules in this behalf should be ascertained.

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In view of insignificant financial implications as indicated in the memorandum before the Board and the genuine need for provision of facilities on death during service the Board approved provision of the above facilities and directed that draft amendments in the service rules be sent to the Government for approval.

(f) HALF YEARLY BUSINESS PERFORMANCE REVIEW.

The Executive Director - S&D placed before the Board Memorandum No.80/83 containing comparative study of the business performance for the half-year ending 30th June, 1983, with that of corresponding period of 1982. The Executive Director S&D said that as on 30th June, 1983 FYP registered an increase of 30.74% over the corresponding period of the preceding year and that the number of policies were up by 23.03% during the same period. He stated that for the first time in the history of the Corporation the first half of any year has registered such big increase in first year premium and number of policies. The Board noted strategies being followed for 1983 for boosting the business as described in the Memorandum.

The members of the Board recorded their note of satisfaction over the all-round big increase in business and hoped that the year's end results would be similarly encouraging.

There being no other business the meeting ended with a vote of thanks to the Chair.

*N.A. Jafarey*  
 ( N.A. Jafarey )  
 Chairman

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