

## SUMMARY OF THE ACTIVITIES OF EXECUTIVE COMMITTEE



**Sitting from Left to Right:**

Mr. Muhammad Junaid Moti, Mr. Kamran Arshad Inam (Vice Chairman),  
Mr. Muhammad Hussain Hirji (Chairman), Mr. Farrukh Aleem (Senior Vice-Chairman) and Mr. Mahmood Lotia (Ex-Officio Member)

**Standing from Left to Right:**

Mr. N.A. Usmani (Secretary General), Mr. Nawaid Jamal, Mr. Zeeshan Raza,  
Mr. Muhammad Sohail Fakhar, Mr. Abdul Haye, Mr. Zain Ibrahim, Mr. Tahir Masaud and Mr. Nabeel W. Sabir (Deputy Secretary General)

Not seen in picture: Ms. Huma Waheed

- Insurance Industry representatives met the newly appointed Chairman SECP Mr. Aamir Khan and Commissioner Insurance Mr. Shaukat Hussain to discuss the development of the insurance sector in September of 2019. The following issues were discussed:
  - Simplification of AML/CTF requirements for insurance
  - Sales tax exemption for life insurance
  - Removal of levy of stamp duty on insurance
  - Possibility of compulsory insurances such as group life
  - Revisiting Credit and Suretyship Rules, 2018 to relax collateral levels
  - Automation of facultative reinsurance placements
  - Policy advocacy with SBP for cyber insurance solutions for the banking industry.
  - Insurance awareness programs

- A meeting of insurance industry representatives was held with provincial tax authorities of Sindh, Punjab and Balochistan in January 2020 with the aim of resolving some of the issues faced by the industry. It was agreed that a small committee would be formed comprising a few key members representing both the provincial tax authorities as well as the insurance sector. Insurance sector representatives were two from the non-life companies, two from the private life companies, three from State Life Insurance Corporation and one from Pak Re. In addition, Syed Asad Ali Shah was made part of the Committee as consultant to the insurance industry.

The first meeting of the Committee was held in February of 2020 at PRA office in Lahore. The insurance industry representatives highlighted the dismal levels of insurance penetration in Pakistan and how taxing insurance will further reduce the penetration levels. The following issues were discussed at length:

- a. Sales Tax on Life Insurance :** The life insurance sector has taken the stand that life insurance is not a service and therefore cannot be subject sales tax. The private life companies offered to pay sales tax on the Investment Management Charge (IMC) and State Life offered to pay sales tax on the Policy Fee. The provincial tax authorities have requested data from life companies on group life and individual life premium volumes and IMC/Policy Fee components.

*Earlier in September 2019, the life insurance and family takaful companies had filed a writ petition in the Lahore High Court and in November 2019 they filed a constitutional petition in the Sindh High Court against the imposition of sales tax on life insurance and family takaful*

*premium. The next hearing in the Sindh High Court is to be held on 20th October 2020 till which time the respondents have been restrained from taking any coercive action against the petitioners.*

- b. Sales Tax on Health:** Insurance Industry representatives argued that as health services are tax exempt, it stood to reason that health insurance premiums must also remain exempt. It was requested that PRA should exempt health insurance till 30th June 2020 as has the SRB. Individual health insurance, under any circumstances, must remain exempt across the country.
- c. Agents' Commission:** The non-life sector and private life companies are already deducting sales tax on agent's commissions. SLIC, however, has over 123,000 agents, and argued that as most of their agents earn less than Rs. 15,000 per year their commission income should not be taxed. If commission income is to be taxed, it should be above a certain threshold, such as Rs. 500,000/- per year in commission earnings. SLIC agreed to share data on agents' commission with the provincial tax authorities in a separate meeting.
- d. Sales Tax on Reinsurance :** The already submitted industry proposal was reiterated by the non-life representatives that all prospective local reinsurance contracts can be subject to sales tax provided input tax adjustment is made available and amounts already paid are adjusted. All foreign reinsurance payments are to be exempt from sales tax (as no reverse charge mechanism exists). The next meeting was to be held on March 2020 but was postponed due to COVID-19 outbreak.

- The Punjab Finance Act 2018 introduced new higher stamp duties on insurance policies (especially Marine Insurance policies) from 1st November 2018. The IAP had raised the concerns and detrimental effects of this imposition with the Punjab Board of Revenue, Finance Minister Punjab, SECP Policy Board and tried to administratively resolve the matter. However, after exhausting these avenues, three companies, i.e. Adamjee General, EFU General and Jubilee General Insurance, who had received stamp audit notices, obtained legal opinions on the matter. On 20th January 2020 a meeting was held at IAP Regional Office North (RON) in Lahore where all members were invited to discuss the exorbitant increase in marine stamp duty in Punjab. Subsequently the companies filed a petition in the Lahore High Court in January 2020 through their respective legal counsels. The matter remains under review of the Honorable Lahore High Court.
- Further to the September 2019 meeting with Chairman SECP, the SECP through a letter to SBP requested it to help encourage banking sector to obtain cyber risk insurance. In turn, SBP instructed the Pakistan Banks' Association (PBA) to discuss the product offering with the IAP

In May 2020, the IAP accordingly arranged the meeting with PBA over video link where IAP agreed and shared the standard Cyber Risk Policy coverage with PBA, identifying the main risk areas insured under this proposed cover for banks. Additional covers / limits and pricing will naturally remain subject to the requirements and risk assessment of individual banks. Meanwhile PBA offered to share a list of their preferred cyber security vendors and consultants.

This information sharing will allow both IAP and PBA to better evaluate the product offering, and PBA would then be able to issue an advisory to all its member banks on the Cyber Risk Insurance available and how they can utilize this product to mitigate their cyber risks.

- In October 2019, the SECP suggested some major changes with respect to facultative reinsurance approvals so as to minimize the loss of premium to overseas reinsurers:
  1. The establishment of a portal for online facultative placements within the local insurance industry.
  2. Elimination of the need for SECP approval for overseas facultative placements in exchange for a minimum local retention level to be agreed.
  3. Formation of a local reinsurance pool.

With respect to the online portal approval was acquired for IAP's own portal developed by IAP's Marine Committee. The IAP Reinsurance Market Slips Portal was successfully launched during the lockdown period. In July 2020, the IAP ReTakaful Market Slips Online Portal was also launched, allowing all Takaful Operators and Window Takaful Operators to circulate their facultative local Retakaful slips electronically.

Regarding setting a minimum local retention, IAP argued this would not be possible as the minimum retention was dependent on a number of factors that varied from case to case such as the insurer's treaty capacity, its equity, the values at risk, nature of cover, etc.

With respect to establishing a reinsurance pool,

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The IAP welcomed the idea and has set up a special committee to work on this important project. The committee is in the process of developing modalities such as how the pool will be managed, type of risks it will accept, etc.

- The SECP posted the finalized Guidelines on Cybersecurity Framework for Insurers in March 2020 to be effective from 1st July 2020.

Most notably, the guidelines require:

1. Identification/ appointment of a Chief Information Security Officer (CISO) within 3 months of the effective date;
2. Formulation of an individual cyber security framework by every insurer; and
3. Submission of annual cyber security framework assessment report by 30th April of every year.

The IAP sought a deferment of the implementation date in light of the then lockdown situation, but the SECP instead agreed to provide relaxation to insurance companies on the basis of individual applications on a case to case basis.

- In January 2020 the SECP proposed amendments in Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018 through SRO 56(I)/2020 based on discussions with the industry in 2019. The IAP deliberated extensively on the proposed changes and on 27th February 2020 submitted separate comments/ suggestions on behalf of the life and non-life sectors to the SECP.

The SECP has been internally evaluating the comments received and in July 2020 the SECP's

AML Department informed IAP that they have considered the suggestions/comments shared by IAP and insurance industry while updating the AML/CFT Regulations, 2018. The amendments to AML/CFT Regulations, 2018 are in process of finalization and the updated version of regulations shall be shared with IAP/ regulated entities and shall be placed at SECP's website in due course of time.

1. At IAP's request, the SECP allowed deferment of impairment in the AFS portfolio of insurers as at March 31, 2020.
2. With regard to the application of IFRS 16 under Regulation 5 of the Insurance Accounting Regulations, 2017 - IFRS 16 (Leases), the SECP has granted exemption till the period ended 30th June 2020.

- In December 2019 SECP issued the SEC (Regulatory Sandbox) Guidelines, 2019 to promote innovation in the financial services industry through reduction of regulatory uncertainty by allowing testing of new products, business models, and services in the Regulatory Sandbox under the close supervision of the regulator. The SEC regulatory sandbox is available for all the regulated sectors of the SECP i.e. insurance, capital markets, non-banking financial services and overall corporate sector.

The main purpose of the SEC (Regulatory Sandbox) Guidelines, is to provide impetus for the development of the financial services industry (including insurance) through promotion of innovation and digitalization in Pakistan so as to encourage the introduction of new and innovative products and services.

- The Taxation and Legislation Committee of IAP

finalized the budget 2020-21 proposals based on comments received from members. The budget proposals were then sent to the Federal Board of Revenue, Punjab Revenue Authority, Sindh Revenue Board and the Securities and Exchange Commission of Pakistan directly and were also forwarded through the FPCCI and Pakistan Business Council.

Brokers Regulations, 2020 - S.R.O. 569(I)/2020

30th July 2020 Draft Corporate Insurance Agents Regulations, 2020 - S.R.O. 343 (I)/2020

August 2020 Draft Insurance Ordinance (Amendment) Bill, 2020

- In addition to the above the IAP also submitted revised COVID-19 business impact Federal Budget proposals for immediate relief to the industry.

1. Withdrawal of Rule 6 (B) of Fourth Schedule - Single Basket Income Taxation of Capital Gains of Insurance Companies as one basket income.
2. Withdrawal of Federal Insurance Fee on Insurance premium.
3. Withdrawal of the change made in finance act 2019, the tax collected from commission agent U/s 233 (3) shall be the minimum tax on the income of such person instead of final tax.

The Taxation & Legislation Committee also deliberated on the following draft regulations at its various meetings and finalized suggestions/ comments which were submitted to the concerned authorities.

3rd June 2020 Amendments to the Credit & Suretyship (Conduct of Business) Rules, 2018 - S.R.O. 345 (I)/2020

22nd July 2020 Draft SEC Reinsurance

- The implementation of IFRS-17 has now been deferred to January 2023 from the original date of January 2022. The IAP Taxation and Legislation Committee took the initiative to engage a consultant to help the non-life sector implement the new accounting standards. M/s Akhtar & Hasan Actuaries were selected to help prepare a roadmap for the implementation. The consultant's fee is to be shared between 27 members based on premium income. An IFRS-17 working committee has been formed to work on the project.

- The Extraordinary General Body Meeting of the Members of IAP was held on Thursday 5th March 2020 at IAP House where the members passed a resolution to amend Article 7(c) of Articles of Association so as to increase the reserved life member seats on the Executive Committee from two to three, keeping the total strength of the EC constant at eleven members.

The Ministry of Commerce - Directorate General of Trade Organizations (DGTO) and the SECP approved the change in June 2020, in time for the recently held elections.

- The IAP welcomed two new members, Pak Qatar Family Takaful Limited and Pak Qatar General Takaful Limited in July 2020 bringing the number of dedicated takaful company members to three.