

## SUMMARY OF THE ACTIVITIES OF EXECUTIVE COMMITTEE



- On 7th January 2021, the IAP team met the Chairman SECP, Mr. Aamir Khan along with IAP's consultant Syed Asad Ali Shah to discuss the ongoing unresolved sales tax industry matters. IAP representatives appreciated the support extended by the Commission in the past to resolve provincial taxation issues and on 20th January 2021 the following industry recommendations were shared with the Commission for their consideration and support.
- The Government of Sindh has levied Sindh Sales Tax on reinsurance, though reinsurance is neither a service nor a separate activity from the original insurance contract. Further, levy of Sindh Sales Tax on reinsurance activity is also against the fundamental principle of value

addition tax regime across the globe. Reinsurance is part of the main insurance contract as certain portion of the risk assured in the insurance contract is hedged. Accordingly, premium is passed to the reinsurer on which tax has already been levied. The reinsurance and insurance companies (being retrocessionaires) are effectively partners in sharing risk of the policy holders as per requirements of section 42 of the Insurance Ordinance, 2000. Furthermore, no value added tax/ sales tax is imposed on reinsurance around the world.

The Commission was updated that SRB has collected around Rs. 2.5 billion from PRCL in the past as sales tax on reinsurance. Due to the difficulty of SRB in giving refund various

adjustment proposal were discussed which would involve the entire industry but did not materialize due to the practical difficulties.

IAP requested the Commission to assist PRCL and other companies to obtain refund from SRB of the sales tax paid on reinsurance rather than going through the cumbersome adjustment process, in the interest of improving ease of doing business, which is the stated policy of the Government of Pakistan as well as SECP.

From 1st July 2019 SRB has made individual life insurance subject to 3% sales tax whereas group life insurance is subject to normal sales tax rate at 13% in Sindh. Similarly, sales tax has also been levied from 1st November 2018 on individual life insurance at 16% by PRA in Punjab.

IAP reiterated that Life Insurance is a key savings and investment vehicle available to the public at large, and Pakistan's low savings and investment rate is a major reason for its underdevelopment. Pakistan is behind regional peers and world average in the critical indicator of Investment to GDP ratio. While Pakistan's investment to GDP ratio stands at less than 15% of GDP, Sri Lanka, Bangladesh and India's investment to GDP ratio is around 30% and above. Levy of sales tax on life insurance, which should be viewed as a significant tool of savings and investment for people, besides helping in improving financial inclusion objectives of Federal and Provincial Governments of Pakistan, will seriously undermine this sector and such objectives.

IAP feels that application of sales tax on this important investment vehicle will be counter-productive to the Government's Financial

Inclusion Drive and would make savings through life insurance policies highly unattractive for the people of Pakistan. On the other hand, forcing thousands of individual policy holders to make direct investments would be costly and ineffective. It is also worth mentioning that investment in all other sectors (Bank deposits, stock market, mutual funds etc.) is not subject to Sales Tax. Levying sales tax on life insurance sector will jeopardize investment in the sector and will further deteriorate the already low penetration of Life Insurance sector of 0.54% in Pakistan as compared to global average of 3.3%.

IAP members have contested the levy of provincial sales tax on life insurance in the Honourable Sindh High Court and Lahore High Court. However, with a view to resolve the long outstanding issue in good faith and in recognition of provinces' needs to generate tax revenues, the industry has proposed that they are willing to agree to imposition of sales tax on management charge/ fee since life insurance companies manage the funds of their policyholders and charge a fee against it. Consequently, it may be appropriate to levy sales tax on the Investment Management Charge (IMC) of companies providing Unit Linked Policies and on Policy Fee of the companies providing with-profit policies, against which input tax may be adjusted by them. IAP members have proposed to pay full sales tax on IMC/ Policy Fee as the case may be. Furthermore, it must be made applicable prospectively after necessary amendments in the provincial sales tax Act and issuance of a retrospective exemption for all past periods.

IAP also informed the Commission that should the respected provincial tax authorities agree with the above proposal, the industry would

---

need at least four months for the implementation as all the life insurance companies will need to incorporate this levy in their business systems which will take some time for testing and implementation.

- Health insurance provides a modicum of social security to common individuals and its penetration as a percentage of GDP should be encouraged by all possible means so that this relief may be availed by a broad spectrum of our population. Currently, health services are not taxed when availed directly whereas Health insurance has been brought in the ambit of sales tax as the provinces have inserted health insurance in the schedule for taxable services in the provincial tax laws. It has temporarily been exempted from application of sales tax for a fixed period via notifications and zero rate mechanism (exempted until 30th June 2021 and later to 30th June 2022 in Sindh while no exemption has been granted in Punjab other than the period 2nd April to 30th June 2020). However, this temporary exemption may be withdrawn at any time posing a challenge for policyholders and the insurance sector making health insurance unviable. This is even more troublesome in the wake of the devastating effects of Covid-19.

IAP members have informed the Commission that their commercial bank clients, have received notices from PRA on the matter of sales tax on insurance. It has been inquired that while insurance has been provided to the commercial bank, no sales tax has been paid for branches located in Punjab. The Bank has paid all applicable sales tax in Sindh.

The Commission was informed that in the case of insurance provided to commercial banks with respect to their branches and

operations located across Pakistan, the insurance policies are all arranged and negotiated on the level of the head offices of the banks. In case this is in Karachi, Sindh, the insurance originates from and terminates at their head office in Sindh, and all the premiums and claims are also settled in Sindh. As a result, sales tax is charged and deposited with SRB in Sindh under the relevant provisions of Sindh Sales Tax on Services Act 2011 and Sindh Sales Tax on Services Special Procedure (Withholding) Rules, 2014. This would similarly apply in case of other banks with their head offices based in Punjab.

IAP through its consultant discussed the matter with the Board Members of SRB. We have been made to understand that the conflict in legislation in the matter of territorial jurisdiction on sales tax on services based on origination or termination of services is under deliberation in the National Tax Council (NTC). We have also been assured that its harmonization in due course will soon be achieved on the forum of the NTC so that such questions of law and jurisdiction are settled for facilitation of the taxpayers.

Keeping in view of the above position, we requested PRA to suspend any further proceedings on this matter till the time this is resolved at the NTC.

- Sindh Finance Act 2019 has included the services of insurance agents in Second Schedule of the Sindh Sales Tax on Services Act 2011, thereby making the services of insurance agents and brokers subject to sales tax. Further via a notification No. SRB-3-4/21/2019 dated July 1, 2019, the said services have been made subject to tax at reduced rate of 5%.

---

An important reason for low insurance penetration in Pakistan is lack of developed delivery channels, including limited access to technology. Under these circumstances, about 200,000 insurance agents in the industry play a vital role in increasing the insurance penetration. Most of these agents are lower middle-class individuals supplementing their incomes with meagre insurance commissions. It is worth noting that insurance companies fall under the highly regulated sectors of the economy and all payments of commission made are already subject to income tax withholding for individuals at 12% for filer and 24% for non-filer & 8% for corporate agents and brokers. Imposition of sales tax on agent commission has made this activity unviable for them.

- In January 2020 SRB sent notices to insurance companies on applicable sales tax on reinsurance commission income for the tax year 2012 onwards. Since our contention that reinsurance is not a separate service and is part of the primary insurance contract, the commission income should not be taxable.
- SRB through notification dated 29th June 2020 "Amendments in Sindh Sales Tax Special Procedure (withholding) Rules 2014" has reintroduced withholding of sales tax on insurance (apart from individual health and life insurance), following which clients are required to withhold 20% of the sales tax amount invoiced and pay 80% to insurance companies. This creates unnecessary accounting and operational difficulties. Historically insurance along with other services such as banking, telecommunication, airport operators etc. had been excluded from withholding requirement.

It is recommended that since insurance is a well-documented sector, the treatment applied to banking, telecommunications etc. should be extended to the insurance sector.

- From June 2020 onwards, insurance companies received letters from SRB where input tax claim on several services were disallowed and an assessed amount for this inadmissible input tax claim was demanded.

The list of services which have been disallowed include auto workshop services, tracking services, hotel and restaurant, telecommunications, alarm services, commission agents, contract execution, erection commission and installation services, event management, fumigation services, production house, security agencies, technical scientific and engineering consultants, surveyors, valuation and evaluation services, car and automobile dealers etc.

The above services may be received by the insurance companies or paid by them as part of claims expense, there is no justification why these are classified as inadmissible for sales tax input. If these are made inadmissible, it will increase the cost of services to the insurance company as well as increase the claim cost by the sales tax amount.

IAP requested the Commission for assistance in resolving these long outstanding matters with the relevant authorities at the earliest enabling the industry to divert energies towards growth & expansion resulting in increased economic contribution to the Country. SECP was requested to endorse the aforementioned contentions and to kindly participate in IAP proposed meetings with the provincial tax authorities to help resolve these matters.

- On 24th December 2020 SECP arranged a meeting with IAP on the changes proposed by the Commission in Insurance Ordinance 2000. However, the Commission did not confirm its acceptance on the comments submitted earlier by IAP in August 2020. SECP did discuss major issues therein as the industry was well represented in that meeting and informed that they will revert if a separate session is required to discuss the comments submitted by IAP.
- The following IAP representatives met Chairman SRB on 5th April 2021 where all ongoing sales tax matters were discussed.

Mr. Hasanali Abdullah  
 Mr. Shabbir Gulamali  
 Mr. Javed Ahmed  
 Mr. Nawaid Jamal  
 Mr. Jamil Ahmed  
 Syed Asad Ali Shah  
 Mr. Farrukh Rasheed

On the matter of sales tax on reinsurance, the industry again tried to obtain SRB's views on their insistence on making reinsurance taxable if all amounts would be adjusted/ claimed against input tax with no net revenue for SRB, however no satisfactory response was available. The SRB's position on amounts already collected from PRCL is unclear but SRB wants the industry to start charging & depositing sales tax on all reinsurance. Although no clear confirmation on a waiver for past payments was given but it was indicated that SRB is aiming for future compliance. For sales tax on foreign reinsurance the industry would have to use the reverse charge mechanism and no exemption would be granted.

The EC advised to call a meeting of the Members in presence of Syed Asad Ali Shah to discuss the pros and cons of the proposal and if the entire

industry is ready to start charging sales tax on reinsurance from a prospective date. The industry was not in favour of accepting this proposal.

It must be noted that 17 members have already contested the sales tax imposition on reinsurance through industry's Constitutional Petition No. 1347 of 2021 which was filed with Honourable Sindh High Court on 22nd February 2021 and the Stay was granted on 23rd February 2021.

- IAP delegation accompanied by Syed Asad Ali Shah met the Chief Secretary Sindh, Syed Mumtaz Ali Shah on 21st April 2021 where the Sindh sales tax on insurance was discussed and was briefed that SRB principally agrees with IAP's recommendations but somehow has failed to bring the necessary legislative changes. The Chief Secretary advised that he will constitute a Committee comprising of SRB representatives under his supervision to address the issues. Subsequently on Syed Asad Ali Shah's advice a letter was addressed to the Chief Secretary Sindh on 23rd April 2021 listing all the ongoing sales tax challenges (reinsurance, life, health and agent commission).
- On 18th August 2020 and then on 28th December 2020 IAP wrote a letter to Mr. Abdul Razak Dawood, Advisor for Commerce, Textile and Investment Ministry of Commerce, requesting for a meeting and assistance in resolving the sales tax on insurance matters with provincial revenue authorities.

On 9th June 2021 IAP also wrote to Mr. Shaukat Tarin, Minister of Finance, Revenue & Economic Affairs Ministry of Finance, requesting for a meeting and drawing his attention towards the adverse impact of taxation on insurance and unresolved sales tax matters.

- On 16th February 2021, SECP launched an online portal for banks to provide them real time access to statutory records of companies, thus enabling them to open corporate accounts without seeking physically certified copies of statutory documents.

IAP appreciated the Commission's initiative to ease AML CDD requirements for accessing records of registered companies through the portal. Since insurance companies also require similar documents from registered companies, IAP requested SECP similar access for all Member companies at the earliest.

SECP on 16th March 2021 acknowledged IAP's request and informed that they have commenced working towards it and requested for a list of all IAP members and common documents required to be accessed through the portal which were shared with SECP.

IAP is thankful to the Commission agreeing to extend the facility for insurance companies and look forward Commission's guidance to proceed further.

- On 31st March 2021, SECP requested IAP to discuss the possibility of including insurance products on CDC's recently launched EMLAAK Financials Portal (<https://www.emlaakfinancials.com/>), with the objective to increase access of purchasing insurance products online and hence increasing financial inclusion in the country.

The following representatives were nominated by IAP who met CDC on 6th May 2021. Subsequently they met again for an internal discussion on 25th May 2021 and 1st July 2021.

Mr. Mohammed Ali Ahmed (EFU Life)  
Mr. Farhan Akhtar Faridi (Jubilee Life)  
Mr. Ali Haider (Adamjee Life)  
Syed Kazim Hasan (TPL Insurance)  
Mr. Farrukh Dhedhi (Jubilee General)  
Mr. Umair Ismail Gaya (Salaam Takaful)

It was discussed that CDC will create an insurance module on the Portal with the consultation of IAP. The IAP will play its role as a knowledge partner and encourage its member companies to utilize the platform. Participation on the Portal is non-binding on the member companies and will be subject to the terms agreed between the member companies and CDC directly. For initial testing it was agreed that simple products will be offered on the EMLAAK Financials Portal and the two products identified were "Term Life" from Life sector and "Health" from non-Life sector. The inclusion of insurance products on EMLAAK Financials Portal and possible MoU between IAP and CDC remains under discussion.

- IAP comments on proposed amendments in Insurance Rules 2017, S.R.O. 535(I)/2021 dated May 3, 2021 were sent to SECP on 2nd June 2021 and SECP subsequently scheduled a meeting to discuss the comments on 7th June 2021.

For Rule 12, SECP has proposed to include Right of Use Assets (ROUs) as admissible assets to the extent of corresponding liability which was previously (when they were inadmissible) adversely impacting solvency margin calculations of insurers. However, IAP has requested SECP not to restrict the liability that if any company still has higher liabilities (by adopting a different approach under IFRS-16 which resulted in accelerated depreciation) than admissible assets (with ROUs now being admissible), the assets

will not be completely offset by liabilities and will impact the solvency margin. Since both assets and liabilities arising from IFRS-16 adoption are notional, both should be exempted from solvency margin calculation or if ROU is admissible all the liability should be exempted (not limited to the extent of corresponding liability only).

Under Rule 16, SECP has proposed to exclude Right of Use Assets while determining net assets of a fund and resultant mandatory 40% investment of the fund in government securities. This supports the industry's request as previously when ROUs (which are notional assets) were included in net assets determination under IFRS-16 application the investment requirements were being calculated to be higher, imposing incorrect and unjust investment requirements on insurers.

As this report is being sent into printing the earlier relaxation from application of IFRS-16 has expired on 30th June 2021 and the final amendments in the Insurance Rules 2017 to address solvency challenges being faced by insurers after IFRS-16 application are awaited.

- The Taxation and Legislation Committee of IAP finalized the budget 2021-22 proposals based on comments received from members which was sent to the Federal Board of Revenue, Punjab Revenue Authority, Sindh Revenue Board and Securities and Exchange Commission of Pakistan directly and also forwarded through FPCCI. The proposal carried suggestions in respect of the following:

1. Withdrawal of amendments made in Rule 6(B) of Fourth Schedule - Single Basket Income
2. Rules 13E for computation of Capital gain

on disposal of securities under Section 37 A should also be applicable on Fourth Schedule of the Income tax ordinance, 2001

3. Withdrawal of Federal Insurance Fee on Insurance premium.
4. Personal Lines / Micro insurance products of Insurance Companies should be exempted from Federal Excise Duty.
5. Tax credit should be allowed to individuals on Personal lines / Micro insurance products (i.e. Personal Accident, Travel, Householders, and Private Motors etc.) premium payments.
6. Rate of Minimum Tax u/s 113 should be reduced and minimum tax paid in case of 'Nil' tax payable, should be allowed to be adjusted from tax liability of subsequent years.
7. Additional payment for delayed refunds under Section 171, should become due from the date of deemed assessment order under section 120 and not from the date of refund order.
8. Withdrawal of the change made in Finance Act 2019, the tax collected from commission agent U/s 233 (3) shall be final tax on the income of such person instead of minimum tax.
9. Input tax adjustment should be allowed on reduced rate of services under Islamabad Tax on Services Ordinance, 2001.
10. Provident Funds and Gratuity Funds should be exempted from obtaining exemption certificates.
11. Amendment in Section 149 of the Income Tax Ordinance, 2001. Employer should be

able to adjust all tax credits allowed to employees.

12. Recommendation to delete clause 6E in Fourth Schedule, which authorizes the Commissioner to examine and amend the amount of income in the financial statements. Since these financial statements are duly examined and audited by auditors approved by the SECP, the second examination of claims and commission paid is unnecessary.
13. Initial Allowance on purchase or construction of new Buildings, Previously Initial allowance @ 15% was allowed on new buildings in computing taxable income. Through amendment in the Third Schedule to the Income Tax Ordinance, 2001 Finance Act 2019, no initial allowance on addition in the buildings will be allowed.
14. Exorbitant Stamp duties on marine line of business.

In addition to the above, the IAP also submitted post budget proposals on the Federal and Provincial Budgets 2021-22 and suggested changes to be introduced through the Finance Bills 2021.

- For Capital gains on disposal of securities under section 37 A the Federal Budget proposed the rates for all income tax assessed to be reduced to 12.5% from 15% except for Insurance Companies. IAP suggested that since the substantial portion of the income of the Insurance Companies relates to the investment in shares, the benefit of reduced rate should also be allowed to Insurance Companies.
- Amendments in Part 1 of the Second

Schedule-Taxing the medical facility of employees. The actual re-imbursment of the medical facility cost of the employees was proposed to be clubbed with salary income and taxed at the rate according to the income slab of the employees. IAP suggested that since the salaried class is already heavily taxed, therefore taxing of actual reimbursement of medical bills will be not be justified.

- The accumulated portion of provident fund representing the income earned during the service period exceeding Rs. 500,000 was proposed to be taxed at 10%. IAP suggested that such funds are mostly paid to the senior citizens at the time of their retirement which represents their life long savings out of the income which is already heaving taxed, therefore no additional tax should be imposed.
- Under the Punjab Provincial Budget, amendment in serial no 7, second schedule to the Punjab Sales Tax on Services Act 2012 proposed the insurance agents and brokers must be required to pay 5% sales tax on gross receipts of commission. IAP suggested that since the matter is under discussion with the tax authorities in Sindh and Punjab, the imposition should be deferred till the discussions and concluded and a resolution is reached.

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.

30th July 2020	Draft Corporate Insurance Agents Regulations, 2020 - S.R.O. 343 (I)/2020
31st August 2020	Draft Insurance Ordinance (Amendment) Bill, 2020
18th November 2020	S.R.O. 1085 (I)/2020 Draft amendments to the Code of Corporate Governance for Insurers, 2016
8th February 2021	Draft Self-Regulatory Organizations (Registration) Regulations, 2021
July 2021	Draft Amendments to Insurance Rules, 2017 for Introducing Registration Regime for Digital-Only Insurers and Dedicated Microinsurers

As this report is being printed the following notifications have been issued by tax authorities:

- SRB Notification No. SRB-3-4/17/2021 dated 30th June 2021, health insurance sales tax exemption extended for another year from 1st July 2021 to 30th June 2022 in Sindh
- KPK Finance Bill 2021 has introduced amendments in Second Schedule of the KPK Sales Tax Act to include life insurance as a taxable service at 15% and health insurance taxable at 1% from 1st July 2021 in KPK
- An emergent meeting of CEOs was held on 18th February 2021 where members were updated on the Show Cause notices issued by SRB for sales tax on reinsurance (for the year 2011 and the years 2012-13) on-going hearings, Order issued to Adamjee General Insurance in late January 2021 and that at least six members have received final hearing notices as on Monday

15th February 2021 (for a hearing set on 23rd February 2021).

The members were apprised that recently a meeting in this regard has been held with the industry consultant on 16th February 2021, who has advised the industry to immediately file a Constitutional Petition (CP) at the Honorable Sindh High Court (SHC) against levy of sales tax on reinsurance. This will complement the administrative efforts and once a stay is granted, SRB shall be restrained from sending further notices for these years. Thereafter a meeting was held with M/s. Khalid Anwer & Co. (represented by Mr. Rashid Anwer and team) on 17th February 2021 for guidance/ opinion and filing a CP at SHC. Mr. Rashid Anwer who has already filed petitions for the member life insurance companies at Honorable Lahore High Court and SHC, was of the opinion that the imposition of sales tax on reinsurance can be contested on multiple grounds and advised the industry to file a joint CP latest by Monday 22nd February 2021. A joint CP will strengthen the case and will be more economical for the industry.

The Members were briefed that the law firm will contest on both grounds that "insurance is not a service and therefore should not be subject to Sindh Sales Tax" (as already contested by life insurance companies) and "unjust imposition of sales tax on reinsurance". The immediate relief will however only be requested on reinsurance (on which show cause notices have been received). All other reinsurance arguments which support the case such as show cause was time barred, sales tax on reinsurance is tantamount to double taxation, against sales tax principles as no value addition at reinsurance stage, rules for collection of sales tax demanded for 2011 were introduced in 2013, not levied anywhere in the world etc will also be added as grounds

to the petition. It was noted that the 2011 show cause notices were for sales tax on reinsurance only however the 2012-13 notices also included sales tax on reinsurance commission, the petition will therefore also challenge unjust imposition of sales tax on reinsurance commission.

Subsequently 17 member companies joined the industry's Constitutional Petition No. 1347 of 2021 which was filed on 22nd February 2021 and the Stay was granted on 23rd February 2021 till the next hearing date of 17th March 2021 which was later postponed. As this report is being sent into printing no further hearing date has been set and the matter remains under Honourable Sindh High Court's review.

- The Executive Committee this year constituted a Technology Committee with the following scope to supervise all technology projects of the Association.
  - Represent IAP on all industry matters involving use of technology
  - This can include insurance distribution using tech platforms, industry data collection platforms, review of existing and future regulations linked to tech, such as cyber security, digital currencies, insurance distribution, financial inclusion, etc
  - Augment the efforts of other IAP committees by giving support on tech solutions
  - Develop and manage internal IAP data collection platform, any future tech development etc
  - Manage IAP hardware and software requirements

The following industry representatives were nominated to serve on the Technology Committee

Mr. Farhan Akhtar Faridi (Group Head - Retail

Distribution, Jubilee Life Insurance) Chairman  
Mr. Imran Hussain (Head of IT, Adamjee Life)  
Mr. Kashif Naqvi (Group Head - Digital, Technology and Strategic Planning, Jubilee Life)  
Mr. Ashfaque Ahmed (Head of Technology, EFU Life)

Mr. Munir Ahmad (Executive Director IT, The United Insurance Company)

Dr. Syed Arif Hussain (General Manager, Alpha Insurance)

Mr. Azfar Sabih (Chief Information Officer, Jubilee General Insurance)

Mr. Mahmood Ahmed (Accident & Health Manager, Chubb Insurance)

- SECP through its letter dated 31st October 2019 in the context of mitigating outflow of foreign exchange in form of reinsurance placed aboard had requested IAP to explore and share recommendations on formation of a local reinsurance pool, where all insurance companies can place those risks for which they seek foreign reinsurance.

Subsequently the IAP Executive Committee (EC) formed a "Reinsurance Pool Committee" comprising of following representatives to deliberate on creation of a local reinsurance pool and submit their recommendations to EC on the structure, modalities and the operating framework.

Mr. Kamran Arshad Inam - Chairman

Mr. Junaid Moti

Mr. Farrukh Aleem

Mr. Muhammad Salim Iqbal

Mr. Muhammed Rahat Sadiq

Mr. Mahmood Lotia (advisor)

SECP was intimated of these developments but it was decided that the committee should start deliberations after feedback is received from

---

SECP on their assessment/ data collection and completion of SECP's round of discussions with individual insurers. However, SECP through its letter dated 26th January 2021 requested IAP once again to provide their findings to the Commission on the structure, modalities and operating framework of a reinsurance pool".

Subsequently the first meeting of the "Reinsurance Pool Committee" was held on 22nd March 2021 and a brief outline of the reinsurance pool suggested by the IAP Reinsurance Pool Committee was circulated among all Members for the matter remains under the Reinsurance Pool Committee's review.

- Pakistan Insurance Brokers Association (PIBA) informed IAP of the Stay obtained by their members on SEC Reinsurance Brokers Regulations 2021 and IAP thereby wrote to Chairman SECP on 2nd April 2021 with the following request:

*"The subject regulation was promulgated on March 4, 2021. Subsequently, Pakistan Insurance Brokers Association (PIBA) informed IAP of the Stay Order being granted to them on the imposition of these regulations by the Honorable Sindh High Court (SHC) on March 16, 2021.*

*In light of the above development, we request the Commission to kindly advise us what guidance should be given on the status of the subject regulation to our member companies."*

SECP's following response was received on 7th April 2021 through email:

*"In this regard, kindly note that Sindh High court vide its order dated March 16, 2021 granted an interim relief to plaintiffs by concluding that SECP is restrained from taking any adverse /*

*coercive action against plaintiffs or causing any interference in respect of their reinsurance arrangements pursuant of the impugned regulations, 2021.*

*Furthermore, hearing date was set on April 2, 2021 in the interim order. However, the proceedings were deferred due to unavoidable circumstances. Therefore, the Securities and Exchange Commission (Reinsurance Brokers) Regulations, 2021 are sub judice till date."*

IAP also sought the legal opinion from the Association's lawyer who was of the view that the industry "needs to comply with the law as it exists today, as if the litigation does not exist" which did not provide the needed clarification. When both insurers and brokers sign a contract/ agreement, how can the SHC's Stay be applied to one party of the contract only remained unanswered.

The matter was discussed with the lawyer again who commented that he has provided the legal interpretation and insurers would need to either file a separate case or become a petitioner in the PIBA case to avail the relief provided by the SHC Stay (which is most likely not acceptable to the industry). He advised the best way would be for the industry to seek further clarification from SECP in continuation of the IAP letter to Chairman SECP dated 2nd April 2021 and SECP's response dated 7th April 2021.

The EC was informed that companies have secured SECP's approval on reinsurance broker contract renewals as recent as 16th March 2021 onwards (i.e. after the Stay obtained by brokers on the now impugned Reinsurance Brokers Regulations 2021). Meaning that SECP has not raised any concerns on the insurance industry and brokers being complaint (or not) with the

Reinsurance Brokers Regulations 2021 and has acknowledged that the Regulations are subjudice. The EC was therefore advised against approaching SECP for a clarification/ guidance as suggested by the lawyer as there was no imminent need.

- The IAP Taxation and Legislation Committee after the 30th January 2020 meeting with Chairman SECP on industry's IFRS-17 implementation status took the initiative to engage a consultant to help the industry (non-life sector) in IFRS-17 implementation now scheduled to be adopted from January 2023 (originally January 2022). On 24th February 2020 a meeting of all non-life members was called at IAP where M/s Akhtar & Hasan Actuaries were selected to be engaged for the industry assignment based on their expertise,

team capabilities and lower fee. The original quoted fee was negotiated and on Members request a slab based distribution & criteria (based on annual underwriting volumes) as opposed to equal distribution of the fee among participating companies was devised. Thereby 27 members consented to participate in this consultancy engagement.

In early July 2020 IAP formed the non-life IAP IFRS-17 Working Committee (IIWC) to work closely with M/s Akhtar & Hasan Actuaries and help them devise the best suited roadmap towards successful implementation of IFRS-17 and commencements of trainings. The following training sessions under the consultancy were conducted this year for all 27 participating members:

1	Introductory Training Session	3rd December 2020
2	Brief introduction of "Liability for Remaining Coverage (LRC)" treatment under "Premium Allocation Approach (PAA)"	18th March 2021
3	"Premium Allocation Approach (PAA)" examples with "Liability for Remaining Coverage (LRC)" and "liability of Incurred Claims (LIC)" and treatment of "Loss Component"	25th March 2021
4	Premium Allocation Approach (PAA)" eligibility criteria. Introduction to "General Measurement Model (GMM)"	1st April 2021
5	Walk through of "Premium Allocation Approach (PAA)" eligibility model based on MS Excel.	8th April 2021
6	Training Session on "Discount Rate" Guidance Note	31st May 2021
7	Training Session on Preparing the Gap Analysis Report	29th June 2021

Additionally, a presentation on the consultancy progress, training methodology and a walkthrough of the IFRS 17 management portal was also given to SECP on 14th June 2021.

---

Following internal IIRC meetings were also held:

1	Discussion on Guidance Note of Future Cash Flows	25th May 2021
2	Discussion with IIRC on Risk Adjustment Guidance Note	9th June 2021
3	IIRC Meeting to Discuss Guidance Note on Premium Allocation Approach	23rd June 2021
4	IIRC Meeting to Discuss Guidance Note on Onerous Contract Requirements for IFRS 17	28th June 2021

Following the discussions with the industry on gap analysis template and best way forward towards successful implementation of the Standard the SECP on 15th June 2021 issued a circular numbered ID/MDPRD/IFRS-17/2021/1716 informing all insurers of SECP's decision to adopt a phased approach to the Standard's adoption, and the four phases defined by the SECP are as follows.

Phase One: Gap Analysis

Phase Two: Financial Impact Assessment

Phase Three: System Design and Methodology

Phase Four: Parallel Run and Implementation

The timeline for completion of the identified "Phase One Gap Analysis" has been set as 30th September 2021, by which all insurers are expected to complete their gap analysis as per the SECP template and submit their Gap Analysis Report to SECP.

- With **COVID-19** outbreak and resultant adherence to health and social distancing SOPs, the celebration of 8th Insurance Day was postponed this year, subsequently all Insurance Day associated activities were cancelled. The IAP Cricket Tournament scheduled to commence in February 2021 in Karachi and Lahore was also postponed.