

SUMMARY OF THE ACTIVITIES OF LIFE COMMITTEE



Mr. M. Furqan Uddin
Chairman



Mr. M. Asim Khan
Vice Chairman



Mr. Abdul Haseeb Kasbati
Member



Mr. Muhammad Amjad
Member



Mr. Muhammad Shahzad
Member



Mr. Owais Iqbal
Member



Mr. Omer Farooq
Member



Mr. Mohammed Ali Ahmed
EC Observer



Mr. N. A. Usmani
Secretary General



Mr. Nabeel W. Sabir
Deputy Secretary General

- IAP wrote to SECP on 26th October 2020 with a request for necessary amendments in the law providing a permanent solution to the solvency issues being faced by insurers with application of IFRS-16 and in the meantime relaxation to be extended till 31st December 2020 (the available relaxation at that time was till 30th June 2020). However, SECP through its reply dated 6th November 2020 did not extend the period and advised the companies to comply with IFRS-16 for regulatory returns after 30th June 2020. On 11th January 2021 SECP granted relaxation from the application of IFRS-16 to all insurers till 30th June 2021.

Subsequently, SECP discussed the challenges faced by the industry on the application of IFRS 16 on its regulatory returns as well as other compliance challenges. Director Insurance, Mr. Waseem Khan acknowledged the Life Committee's views and clarified the Commission's position that there should be no negative impact on solvency of the new accounting standard with IFRS-16 adoption. SECP only wants that any assets that were admissible (for solvency calculations) before IFRS-16 must remain admissible under the new accounting standards and likewise those assets that were inadmissible should not become admissible now. Since the industry also wants

the same, the SECP requested IAP to share the recommendations in writing which they will internally discuss and issue necessary clarification/ circular if needed.

On 22nd February 2021, IAP shared its recommendations with SECP which led to the Draft Amendments to the Insurance Rules, 2017 - IFRS 16 (Leases) S.R.O. 535(I)/2021 dated May 3, 2021 on which IAP comments have been submitted on 2nd June 2021 and the final expected amendments will hopefully resolve the issues permanently. IAP is thankful to the Commission for their consideration and resolution.

- After imposition of sales tax in Punjab on life and health insurance from November 2018, and exhausting all available administrative options and due to annual accounts being qualified for sales tax liability by external auditors, the Life and Family Takaful companies together with a health underwriting company jointly filed a Writ Petition No. 55421/2019 in the Honourable Lahore High Court in September 2019.

In November 2019 the Life and Family Takaful companies also filed a Constitutional Petition No. D7677 of 2019 in the Honourable Sindh High Court against sales tax imposition on life insurance from 1st July 2019 onwards.

- Detailed updates on the Provincial Sales Tax on Life and Health Insurance have been documented under the Executive Committee portion of this report, including meeting with Chairman SRB, Chairman SECP, Chief Secretary Sindh and lettersto Mr. Abdul Razak Dawood and Mr. Shaukat Tarin.

The petitions filed by Life insurers in Lahore

and Sindh High Court played a key role in convincing the provincial tax authorities to start a discussion with insurance companies last year. A committee was formed with members from SRB, PRA and BRA (called the "Small Committee") who last met on 5th February 2020 in Lahore to discuss the sales tax on life and health insurance with the industry. Unfortunately, the COVID-19 outbreak disrupted the discussions without reaching an acceptable taxation mechanism. IAP has requested the tax authorities to resume discussions, as this report goes into printing the sales tax status on life and health insurance is as follows:

Sindh

- Health insurance sales tax exemption extended for another year till 30th June 2022
- Life insurance sales tax remains effective from 1st July 2019
- Insurance agents have been subject to 5% sales tax from 1st July 2019

Punjab

- Both Life and Health insurance (group and individual) remains taxable from November 2018, the PRA has only granted a brief COVID-19 relief to these products of exemption for the period 2nd April 2020 to 30th June 2020.
- Insurance agents have also been subject to 5% sales tax from 1st July 2021
- A meeting with Chairman SECP was held on 30th January 2020 where IFRS-17 implementation by both life and non-life sectors in Pakistan was discussed with the industry representatives and subsequently the SECP requested a detailed plan and timelines for achievement of each goalpost/target from

individual insurers.

- The Life Committee in February 2020 formed an IFRS -17 working group with two senior representatives from each company representing financial and actuarial departments. The Committee felt that there is a need to form a dedicated working group at IAP to explore challenges and solutions purely from the insurance company's perspective although IFRS-17 working group already exists at ICAP. The first meeting of the group was held in June 2020 followed by discussions with potential consultants who can offer industry wide consultancy on IFRS-17 adoption, however it was observed that all such advisory services would be limited to general training sessions only and therefore will not serve the expectations of life insurance industry as done for non-life members. Thereby the following recommendations were shared by the IAP Life IFRS-17 Committee with the Life Committee in December 2020.
- *SECP should adopt phased (step by step) approach for IFRS 17 implementation in Pakistan.*
- *They may announce the first step along with the timeline/ deadline. All the companies should strive to meet the timeline. Once all the companies fulfill the requirements of the announced phase, the SECP should then notify the next step along with its timeline. This will ensure IFRS-17 adoption by the entire industry at the same time. The completion timeline/ deadline for each step may be decided by SECP in consultation with the industry once the preceding phase has been accomplished.*
- *SECP may hire a consultant, which may assist*

the industry as well as the regulator in implementation of IFRS 17 in Pakistan. Since IFRS 17 is principle-based standard, its implementation will involve significant professional judgement as there may be different approaches for fulfilling the requirements of the Standard. Hiring a consultant by SECP may ensure uniformity in implementing the Standard on industry wide level in Pakistan and at the same time may assist the regulator in case of any changes in the regulations are required for IFRS 17 implementation. The consultancy cost may be divided among insurance companies.

- In June 2021 the SECP revived the IFRS-17 Committee at ICAP where representatives from IAP and individual life and non-life companies are nominated including representatives from accounting firms and SECP. The Life Committee decided to utilize the forum for all further discussions on IFRS-17 instead of the IAP Life IFRS-17 Committee.

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 template and submit their Gap Analysis Report to SECP.

- Industry representatives met Commissioner Insurance Ms. Sadia Khan on 23rd April 2021, where SECP requested Life Insurers to provide their fund performance aggregation on IAP's website for general public as done by Mutual Funds Association of Pakistan (MUFAP) for mutual funds.

The Committee deliberated on a template for fund performance aggregation using the MUFAP format and advised that monthly performance update should be used on the same format as being done for monthly Fund Manager Report (FMR) by individual insurers. A draft template was prepared by the Committee and shared with SECP for their views, with the Commission's concurrence and observation to use standard formulas for fund performance indicator's determination the template was shared with the IAP Technology Committee for design/development/ testing of a new page on IAP's website to present this information.

The project remains under the IAP Technology Committee's task this year and a target launch date is expected to be announced soon.

- The Committee referred the following stamp duty concerns/ issues to the Taxation & Legislation Committee on 29th April 2021 for seeking their guidance.
- Affixing Stamps on Insurance Policies Issued Electronically
- Update on IAP proposal to SECP to digitize and simplify the stamp duty process presented by Chairman IAP at the sixth meeting of National

Financial Inclusion Strategy - Technical Committee on Insurance (NFIS TCI) on October 23, 2018

- Since franking machines are only available in Sindh, how should stamping be done in Punjab or if any alternatives are available?
- Can stamp duty be paid through a consolidated challan every month eliminating the need for prepaid amounts in franking machines/ cash flow issues?
- On 9th April 2021, IAP wrote to SECP on the Operational Issues in Implementation of SRO 343 of 2015/ Unit Linked Product & Fund Rules 2015 dated 22nd April 2015. The rules require life insurance companies to keep all their assets of statutory funds in the name of that statutory fund which is also in line with the requirement laid down under Section 39 of Insurance Ordinance 2000. Life insurance companies are also required to open their non-broker accounts with NCCPL under NCCPL regulation 2015. However, life insurance companies are facing practical difficulties in keeping its assets in different CDC accounts to comply with SRO 343 and having different non-broker accounts with NCCPL at the same time.

Furthermore, SECP has issued draft Insurance Ordinance (Amendment) Bill 2020. In the said amendment bill, Section 39 has been changed and as such Life Insurance Companies are now required to keep asset of statutory funds in the name of life insurer instead of in the name of statutory fund. This draft amendment has made SRO 343/2015 redundant. Therefore, keeping in view of the difficulties faced by companies and recent draft amendment in Section 39, IAP requested the SECP to withdraw SRO 343/2015.

SECP responded on 18th May 2021 instructing IAP to again discuss the matter with CDC indicating that SECP has misunderstood the new challenge companies are facing with the advent of NCCPL account/ trading requirements, the matter would therefore need to be discussed with SECP and the industry's challenge at hand clarified to the Commission. The Life Committee is expected to further discuss the matter with SECP in the coming months.

- In November 2020, the Committee constituted a dedicated group of life members with representation from legal and underwriting functions to discuss Anti Money Laundering Regulations compliance issues. The IAP AML Group of Life companies was formed to deliberate on all AML/CFT issues being faced by life insurers and submit their recommendations to the Life Committee.

Six meetings of the group were held between December 2020 and June 2021 where the following matters were discussed

- New AML guidelines issued by SECP in January

2021 to accompany the AML/CFT Regulations of September 2020,

- SECP onsite AML inspections and knowledge sharing/ lessons learnt
- Screening of all beneficiaries of group life (corporate cases)
- NADRA Verysis of beneficiaries and related challenges
- KYC responsibility of policies sold through Point of Sale (POS) channels

- On 5th May 2021, the Life Committee met SECP in context of IFRS-17 implementation and progress of life industry where SECP agreed to consider proposed relaxations on existing regulatory requirements, if any, to allow insurers to redirect resources towards IFRS-17 implementation.

The Committee is working on identifying the list of all regulatory requirements where relaxations can be secured and will be submitting their recommendations to SECP. It is important to note that SECP has already removed certain regulatory requirements and looking forward suggestions from IAP Life Committee.