

## SUMMARY OF THE ACTIVITIES OF LIFE COMMITTEE



Mr. M. Furqan Uddin  
Chairman



Mr. Atif Shamim Syed  
Vice Chairman



Mr. Abdul Haseeb Kasbati  
Member



Mr. Falak Sher Haider Soomro  
Member



Mr. M. Asim Khan  
Member



Mr. Murtaza Soomro  
Member



Mr. Omer Farooq  
Member



Mr. Mohammed Ali Ahmed  
EC Observer



Mr. N.A. Usmani  
Secretary General



Mr. Nabeel W. Sabir  
Deputy Secretary General

### 1. Solvency Margin Issues of Insurance Companies arising from IFRS-16 application

IAP comments on S.R.O. 535(I)/2021 “Draft Amendments in Insurance Rules 2017” to address solvency margin issues of insurance companies were sent on 2nd June 2021, SECP throughout the year has been in the process of obtaining internal approvals from their Policy Board and therefore the amendments have not yet been notified.

In the meantime the SECP agreed that if the delay in notification is posing a challenge they would accept IAP’s request for a relaxation extension. The exemption to insurers from application of IFRS-16 on their regulatory returns was first granted till 30th June 2021 and later till 31st December 2021.

IAP requested SECP to extend the relaxation for first quarter 2022 and beyond until the amendments in Insurance Rules are notified, SECP through letter dated 15th June 2022 has granted a further exemption till 30th June 2022 insurers from application of IFRS-16 to the extent of regulatory returns.

### 2. Sales Tax Imposition on Life and Health Insurance in KPK from 1st July 2021

From 1st July 2021 sales tax was imposed on life insurance (at 15%) and health insurance (at 1%) in KPK, members received sales tax payment notices from KPRA and the matter was discussed with Mr. Rashid Anwer whether a joint petition needs to be filed in Peshawar High Court (PHC) as done in Lahore High Court (LHC) and Sindh High Court (SHC).

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Although legal course was an option but as an immediate course of action Mr. Rashid Anwer advised the industry to write a letter to Chairman KPRA highlighting the life & health sales tax issues, the matter already being contested at SHC & LHC, and a request to withdraw the imposition.

Subsequently a letter drafted by Mr. Rashid Anwer was addressed to KPRA on 6th October 2021, the response to which is awaited.

### **3. Meeting with SECP on FBR's Third Amendment Ordinance**

The Committee met SECP on 27th December 2021 to discuss FBR's notified changes in Income Tax Ordinance Section 21 whereby for companies, new sub-section 21(Ia) has been inserted which states that companies are required to make payments for their expenses, excluding certain exceptions, related to an account head exceeding PKR 250,000 through digital means from their notified business bank account.

This transition from existing banking payment modes (cheques/ pay orders/ demand drafts) to digital means/ IBFT was welcomed, however the time period specified by the Board was unrealistic. The IAP sent a letter to the Board requesting the transition to be allowed till March 2022.

Commission's attention was drawn towards allied challenges this transition poses considering the digital banking facilities currently available where most of the banking solutions do not even provide bulk IBAN validation in IBFT. Updating verified IBANs of all policy holders, vendors, agents, channel partners and all other payment recipients is impractical and an operations intensive activity. In addition availability of active account numbers at the time of policy maturity remains an issue, bank accounts of many policy holders are revealed to be

dormant at the time of payout and need to be updated again with active account numbers at the time of payment. It is worth noting that currently all payments are made to account payees and accepted from customers through banking payment modes and in compliance with AML/ CFT directives. A gradual and phased approach would have led to a smoother transition as opposed to the intended sudden change.

SLIC drew the attention towards specific challenges being faced by them where a substantial portion of their business comes from rural areas and State. As an example, the Sindh Government insures around 550,000 of their employees through SLIC (which includes employees of all State functions such as Police, Excise, Food, Agriculture, Auqaf, Accountant General of Pakistan etc.) without providing their names. At the time of a death claim the heirs/ widow of the deceased approaches SLIC who do not even have a bank account. In such circumstances it is not practically possible for SLIC to pay claims through IBFT that too in the short timeframe notified.

The Finance (Supplementary) Bill, 2021 restricted the applicability of the provisions of Section 21(Ia) till the time it may be notified by the Board (FBR) and no date was announced by FBR this year. SECP however offered to assist the industry in addressing banking and taxation issues if separate proposals/ recommendations for SBP and FBR are presented. The Life Committee is working on the proposals and the matter is expected to be discussed with SECP again.

### **4. Proposal for changes in the existing Unit Linked Framework - Draft amendments to the Unit Linked Product and Fund Rules and Draft amendments to the Insurance Rules, 2017**

On 21st September 2021 IAP endorsed the industry comments submitted to SECP on subject proposed

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amendments.

- i. SECP's concept paper
- ii. S.R.O 1004(I)/2021 - Draft Amendments to the Unit Linked Product and Fund Rules, 2015
- iii. Proposal for changes in the Directive for Life Insurance and Family Takaful Illustrations, 2016
- iv. S.R.O 1003(I)/2021 - Draft Amendments to the Insurance Rules, 2017

The industry response carried following two parts and a follow-up discussion/ meeting with SECP was held on 28th October 2021.

- Part 1 is a Cover Note highlighting our views on the overall direction of regulatory changes.
- Part 2 provides specific comments on the amendments being proposed in the regulatory framework.

As this report is being printed no response from the Commission has been received.

### **5. SRO 255(1)/2016 - Growth Rate Scenarios for Life Insurance and Family Takaful Illustrations 2016**

On 11th May 2022 Commission's attention was towards clause 8.1, 8.2 and 11.1 of the Directive for Life Insurance and Family Takaful Illustrations, 2016 notified as SRO 255(1)/2016 dated 25th March 2016; which instruct insurers to use three nominal growth rate scenarios and three inflation adjusted growth rate scenarios to demonstrate/illustrate projected benefits to potential policyholders which are prescribed by SECP every year based on long-term interest rates/ yield on the latest issue of 10 year Pakistan Investment Bond (PIBs). The 2022 prescribed SECP rates are 9%, 11% and 13% (nominal rate of return) and 3%, 4% and 5% (inflation adjusted rate of return).

IAP believes that these rates are slightly on the higher side and may become a major contributor towards mis-selling of life insurance products, especially unit linked funds investment products where the rate of return is a function of the equity market performance (which can be higher or lower than the PIB returns). At present with reduced stock market returns the Life Insurance and Family Takaful Illustrations do not present the true/ expected policy returns, is a cause for distrust among general public/ policy holders and therefore requires an amendment in the Directive.

With the SECP's "Proposal for changes in the Directive for Life Insurance and Family Takaful Illustrations, 2016" part of the "Proposal for changes in the existing Unit Linked Framework - Draft amendments to the Unit Linked Product and Fund Rules and Draft amendments to the Insurance Rules, 2017" dated 11th August 2021 the Commission has itself proposed amendments in SRO 255(1)/2016.

Industry's feedback has been submitted but no changes in the Directive for Life Insurance and Family Takaful Illustrations have yet been announced. IAP requested the Commission to kindly consider industry recommendations to use a relevant benchmark in these illustrations.

### **6. Petitions Filed in Hon'ble Sindh High Court and Lahore High Court against Sales Tax on Life and Health Insurance**

Writ Petition No. 55421/2019 was filed in the Hon'ble Lahore High Court in September 2019 by Life and Family Takaful and a health underwriting member against sales tax imposition on life and health insurance in Punjab. While Constitutional Petition No. D7677/2019 was filed in the Hon'ble Sindh High Court in November 2019 by Life and Family Takaful members against sales tax imposition

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on life insurance in Sindh. Both the petitions remain under Hon'ble High Courts' review.

## **7. Provincial Sales Tax on Life and Health Insurance**

Detailed updates on the matter have been documented under the Executive Committee portion of this report, including meeting with IPSTCC, Commissioner SECP, Chief Secretary Sindh and letters to Federal & Provincial Governments.

Following the Inter Provincial Sales Tax Coordination Committee meeting of 11th December 2021, SRB had requested set of information from IAP. A meeting of the Small Committee representatives was held on 2nd February 2022 and on 12th May 2022 to discuss the industry response, Life Committee was requested to provide 2020 and 2021 IMC/ Policy fee figures and the response was sent on 15th June 2022.

As this report goes into printing the sales tax status on life and health insurance is as follows

### **Sindh**

- Health insurance sales tax exemption has been extended till 30th June 2023.
- Life insurance sales tax remains effective from 1st July 2019
- Insurance agents sales tax of 5% remains effective from 1st July 2019

### **Punjab**

- Both Life and Health insurance (group and individual) remains taxable from November 2018, the PRA had only granted a brief COVID-19 relief to these products of exemption for the period 2nd April 2020 to 30th June 2020.
- Insurance agents remain subject to 5% sales tax

from 1st July 2021

### **KPK**

- Life insurance sales tax of 15% has been imposed from 1st July 2021
- Health insurance sales tax of 1% has been imposed from 1st July 2021

## **8. Tax Consultant for Budget Proposals**

The Life Committee requested the Taxation & Legislation Committee to evaluate the possibility of hiring a dedicated tax consultant to pursue IAP's Federal Budget proposals (FBR), which have not been heard for several years.

It was noted that the IAP budget proposals in question carry both life and non-life issues and the hiring of a new consultant can be considered who can effectively lobby to get our Federal Government/FBR issues noticed and addressed.

## **9. Unit Linked Fund performance template**

Last year Industry representatives had 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

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Technology Committee for design/ development/ testing of a new page on IAP's website to present this information.

This year the IAP Technology Committee worked with the selected vendor on developing the page and data submission by all Life members offering unit linked products. The project is undergoing User Acceptance Testing and its beta view is available on IAP's website

#### **10. Operational issues faced by life insurance companies in the implementation of SRO 343 of 2015- Unit Linked Product & Fund Rules 2015**

No change in the subject matter's status was observed this year. 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 of 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, CDC and NCCPL in the coming months.

#### **11. Identification of SECP's Compliance requirements that can be simplified/ waived**

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 relaxations on existing regulatory requirements to allow insurers to redirect resources towards IFRS-17 implementation.

On 20th October 2021 IAP shared the set of recommendations from life and non-life sectors for regulatory requirements where relaxations can be granted.

The matter was briefly discussed and the Commission was reminded at the 29th March 2022 meeting with Commissioner Insurance, however as this report is being sent into printing no formal feedback from the Commission has been received by IAP.