

## SUMMARY OF THE ACTIVITIES OF LIFE COMMITTEE



Syed Shahid Abbas  
Chairman



Mr. M. Furqan Uddin  
Vice Chairman



Mr. Abdul Haseeb Kasbati  
Member



Mr. Atif Shamim Syed  
Member



Mr. Muhammad Amjad  
Member



Mr. Ahmed Hassan  
Member



Mr. Nasir Ali Soomro  
Member



Mr. Omer Farooq  
EC Observer



Mr. N.A. Usmani  
Secretary General



Mr. Nabeel W. Sabir  
Deputy Secretary General

Summarized below are the major activities under taken by the Committee during the year.

### 1. Draft Amendments to the Insurance Rules, 2017 and the Insurance Accounting Regulations, 2017 (Treatment of Advance Tax and Management of Investment in Government Securities)

Reference discussion with SECP held on 1st December 2022 in light of the IAP response sent on the subject letter on 17th November 2022, the following email proposal was received from SECP on 21st December 2022.

The following comments were sent to SECP after Life Committee's concurrence on 13th February 2023.

- i) Adjustable advance tax against incomes/investment of the statutory funds shall be recorded in the respective statutory fund.  
**Agreed**
- ii) It shall be permissible for the shareholders' fund of the life insurer/family takaful operator to purchase the full amount of adjustable advance tax recorded in the statutory fund against cash. However, amounts against advance tax, recoverable/adjustable within a period of less than 12 months, shall mandatorily be purchased by the shareholders' fund from the statutory funds in cash. **It shall be permissible for the shareholders' fund of the life insurer/family takaful operator to purchase the full amount of adjustable advance tax recorded in the statutory fund against cash/ investment at the time of assessment of the annual tax**

### **liability.**

- iii) Against the amounts of adjustable advance tax held in the shareholders' fund or the respective statutory fund, there shall be no requirement to hold government/approved securities against the said advance tax. To this extent, the Insurance Division shall propose amendments in rule 16 of the Insurance Rules, 2017. **Agreed**
- iv) In respect of treatment of advance tax for the purposes of solvency, life insurers shall take the discounted value of advance tax as admissible asset. For discounting of the advance tax asset, the rate of interest shall be the risk free rate (minimum tenure of the underlying instrument can be discussed/agreed upon later). The period on which the discounting shall be done would be the period in which life insurer, on prudent assumptions, expects to receive adjustment against the advance tax asset. To this extent, the Insurance Division shall propose amendments in rule 12 of the Insurance Rules, 2017. Disagreed and discounting factor should not be applied

SECP through S.R.O. 1516(I)/2023 and S.R.O. 1514(I)/2023 dated 31st October 2023 introduced changes in Insurance Rules, 2017 Rule 16 and Insurance Accounting Regulations, 2017 regulation 11 to address above needed amendments.

Life Committee held an emergency meeting on 16th November 2023 and comments on S.R.O. 1516(I)/2023 draft amendments to the Insurance Accounting Regulations, 2017 were finalized and sent to SECP on 24th November 2023 as follows

Rule 11A text should read

“11A. Recording of advance or withholding tax.-

- Advance or withholding tax or refundable tax attributable to the shareholder fund of a life insurer shall be recorded in the books of the shareholders' fund and advance or withholding tax or refundable tax attributable to a statutory fund of a life insurer shall be recorded in the books of the respective statutory fund.
- It shall be permissible for the shareholders' fund of the life insurer to purchase the full amount of adjustable advance or withholding tax or refundable tax recorded in the books of the statutory fund(s) against cash or investments. The shareholders' fund shall, however, mandatorily purchase advance or withholding tax or refundable tax related to the statutory fund(s), which is adjustable within a period of one year, in cash or investments”

SECP met industry representatives on 12th January 2024 to understand IAP comments, changes in Takaful regulations were declined by SECP for now, therefore the following email was sent on 8th March 2024

“Dear Jibran Sb.,

*We thank the Commission for considering our recommendations on accounting treatment of taxation in Policyholder and Participant Fund. While we wait for SECP's notification of changes in Rule 11 of Insurance Accounting Regulations, 2017, we would like to draw your attention that during our meeting held on 12th January 2024, you have informed us that requested amendments in Rule 18 of General Takaful Accounting Regulations, 2019 are not being considered by the Commission at this point in time.*

*However, we are of the opinion that for consistent treatment of applicable rules for both life insurers and takaful operators, the Commission should strive*

to also bring the needed changes in Rule 18 of General Takaful Accounting Regulations, 2019.

*We understand that this would mean bringing changes in two separate set of Rules and associated internal Commission's processes but it is imperative that the same treatment of recording advance/ withholding/ refundable tax in shareholder and policyholder funds is introduced for operator's and participant takaful funds.*

*Requesting the Commission's kind consideration of the matter."*

SECP's official notification of changes is now awaited.

## **2. Concept paper: Issuance of subordinated debt securities by insurance companies and treatment for solvency purposes and draft of amendments to the Insurance Rules, 2017.**

Subject concept paper and SRO was shared with members on 7th November 2023, on Committee's advice the following comment was sent to SECP on 28th December 2023.

*"With the issuance of Sub-ordinate debt, total amount of asset will be increased accordingly. Rule 16 of the Insurance Rules 2017 requires that "(1) Thirty per cent of the assets, excluding inter-fund receivables of the shareholders' fund of a life insurer; or of a statutory fund of a life insurer; other than a statutory fund which contains only investment linked policies, shall be invested in Government securities, under sub -section (7) of section 35 of the Ordinance". Rule 16 also requires that: (2) A further ten percent of the assets, excluding inter-fund receivables of the shareholders' fund of a life insurer; or of a statutory fund of a life insurer; other than a statutory fund which contains only investment linked policies, shall be invested in a combination of Government securities and other approved securities, under sub*

*-section (7) of section 35 of the Ordinance. We understand that the prime objective of this new concept is to explore how the issuance of subordinated debt by insurance companies can bring about financial stability, enhance their risk management capabilities and provide insurance companies with an alternative source of capital, whilst focusing on meeting solvency requirements effectively. Further, this concept paper aims to propose a regulatory way forward to allow insurance companies to leverage the subordinated debt to meet their solvency requirements effectively. We recommend that application of Rule 16 of the Insurance Rules 2017 should be relaxed on the assets generated through the issuance of subordinated loan."*

## **3. Proposal to Launch Life Insurance Policy Locator.**

SECP at the 30th August 2023 meeting in Karachi had requested IAP to form a working group/ committee for the proposal's execution at the earliest.

Subsequently the following committee was formed who are working on finalizing the requirements for a policy locator service in Pakistan.

- i. Mr. Jibran Paracha, SECP
- ii. Ms. Sahar Kanwal, SECP
- iii. Mr. Zain Ibrahim, Senior Executive Director, EFU Life
- iv. Mr. Arshad Iqbal, GM Operations, EFU Life
- v. Mr. Sohaib Shams, EFU Life
- vi. Dr. Bakht Jamal Shaikh, Director - Business Operations & Legal, Adamjee Life
- vii. Mr. M. Danish - Head/AGM Customer Services, Adamjee Life
- viii. Mr. Muhammad Saleem, SVP Salaam Takaful Limited
- ix. Mr. Muhammad Farhan Hasan, Pak Qatar Family Takaful

- x Mr. Muhammad Taufeeq Hanif, Head of Claims, Askari life Assurance Company Limited
- xi. Mr. Zahir Shah, Jubilee Life
- xii. Mr. Osama Khan, Jubilee Life
- xiii. Mr. Abdul Salam, Divisional Head (Policyholder's Services), State Life

#### **4. Stay Order obtained by SLIC's agents against sales tax deduction on agent commission**

The Chairman had shared a copy of the petition and Stay obtained by SLIC's Field Worker's Association from SHC and questioned if private sector agents can also either join the petition or file a separate petition if they do not want us to deduct sales tax from their commission.

The Committee noted that private sector agents do not operate as a body such as SLIC's Field Worker's Association and filing a joint petition for them may not be as easy. Since insurers are not the aggrieved party and cannot contest the imposition it was advised to leave the matter to the agents.

The Committee discussed the matter with Mr. Rashid Anwer on 15th June 2023 who opined that he will not be able to represent the private agents if a petition is filed as the grounds for industry's case and that of agent are different and should remain separate. He will however provide details of other suitable lawyers who may be contacted by agents of private life insurers for the purpose.

Private life insurance agents have not yet filed a petition against sales tax on their commission.

#### **5. Petitions Filed in Honourable Sindh High Court and Lahore High Court against Sales Tax on Life and Health Insurance**

Writ Petition No. 55421/2019 was filed in the Honourable 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 Honourable Sindh High Court in November 2019 by Life and Family Takaful members against sales tax imposition on life insurance in Sindh. Both the petitions remains under Honourable Lahore High Court's and Honourable Sindh High Court's review.

With imposition of sales tax on group health insurance in Sindh from 1st July 2023 the following 8 companies filed petition D-4318 of 2023 in September 2023, Stay order was granted.

- i. Jubilee Life
- ii. IGI Life
- iii. TPL Insurance
- iv. EFU Health
- v. Pak Qatar Family Takaful
- vi. Pak Qatar General Takaful
- vii. Premier Insurance
- viii. State Life Insurance

The following companies filed CP no. 1290 of 2024 on 12th March 2024 (sales tax on group health insurance in Sindh)

- i. Jubilee General
- ii. Adamjee General
- iii. Shaheen Insurance
- iv. Habib Insurance
- v. Alpha Insurance
- vi. TPL Life
- vii. (separately) Askari General

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The matter remains under the Honourable Sindh High Courts review

## **6. Sales Tax on Life and Health Insurance in KPK**

Since no petition was filed in KPK (unlike Sindh and Punjab) insurers have no legal cover to not charge sales tax in KPK, IAP had written a letter to KPRA which cannot be construed as justification for not charging sales tax in KPK.

Life Committee has discussed the matter with the industry's lawyer and a joint petition for life and health insurance sales tax is being finalized to be filed in KPK this year.

## **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 Minister Commerce and letters to Federal & Provincial Governments.

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

### **Sindh**

- Group Health insurance is now subject to sales tax from 1st July 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 Group Health insurance remains taxable from November 2018,
- 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
- “ Agent Commission sales tax of 8% for non-corporate insurance agents and at 15% for corporate insurance agents from 1st July 2022

## **8. Other Matters**

- i. IAP Federal and Provincial Budget Proposals 2024