From
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ISSN-0257-8603

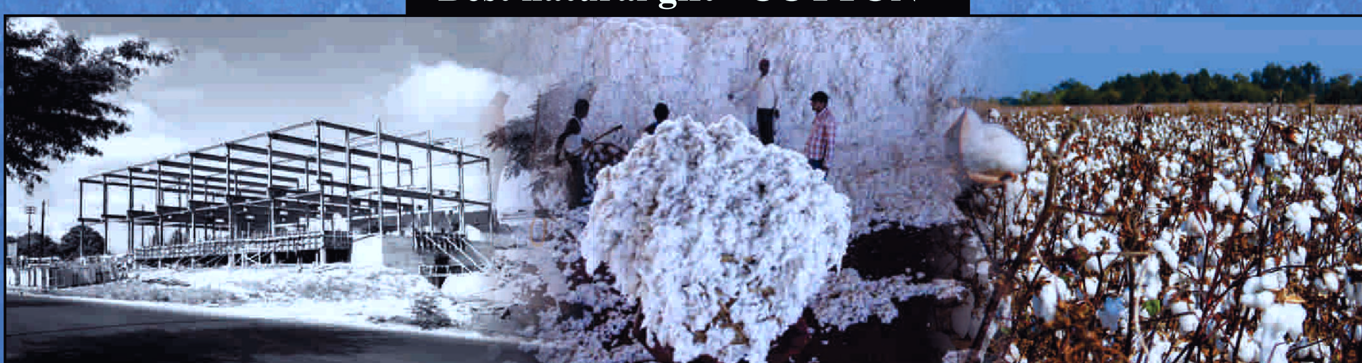
Quarterly

Insurance Journal

January, February, March 2012

Mr. Ihsan-ul-Haq Khan
President & CEO
SME Bank Limited
SPEAKS

Best natural gift "COTTON"



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- Controlling costs through Risk Management
- Some Definitions of Insurance Terms
- Student Corner
- Article Published in I.J OCT/NOV/DEC 2000
- Legal Section

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ISSN-0257-8603

Quarterly
Insurance Journal

Karachi - Islamabad
January, February, March 2012

Karachi	No.110	Vol. 28
Islamabad	No.14	Vol. 4

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Published by M. Jamaluddin
Office No. 5, First Floor, Insaf Plaza
F-10 Markaz, Islamabad Tel: 051-2222951

Printed at
The Army Press
Plot No. 1, Street 40, I&T Centre,
G-10/4, Islamabad Tel: 051-2105035-7

Designed by
ARTSMITH
Office No.12, 3rd Floor, Rajan plaza
F-10 Markaz, Islamabad Tel: 051-2112765
www.artsmithproductions.com

Karachi Office:
No. 63, Noor chamber, Robson Road
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Web: www.insurancejournal.com.pk

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Office No. 5, First Floor, Insaf Plaza
F-10 Markaz, Islamabad, Tel: 051-2222951

Price: Rs. 150/- Annual Rs. 600/-
Outside Pakistan US $ 100 (Air Postage)

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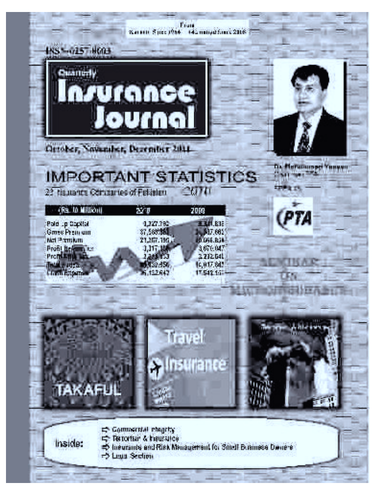
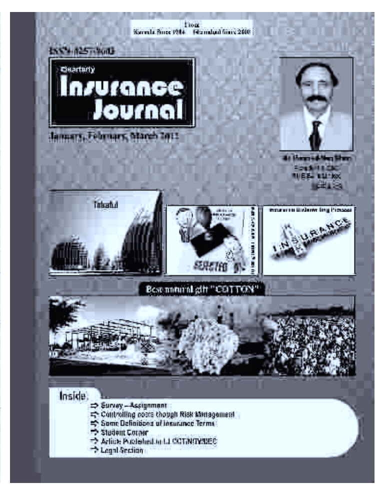


October, November, December 2011

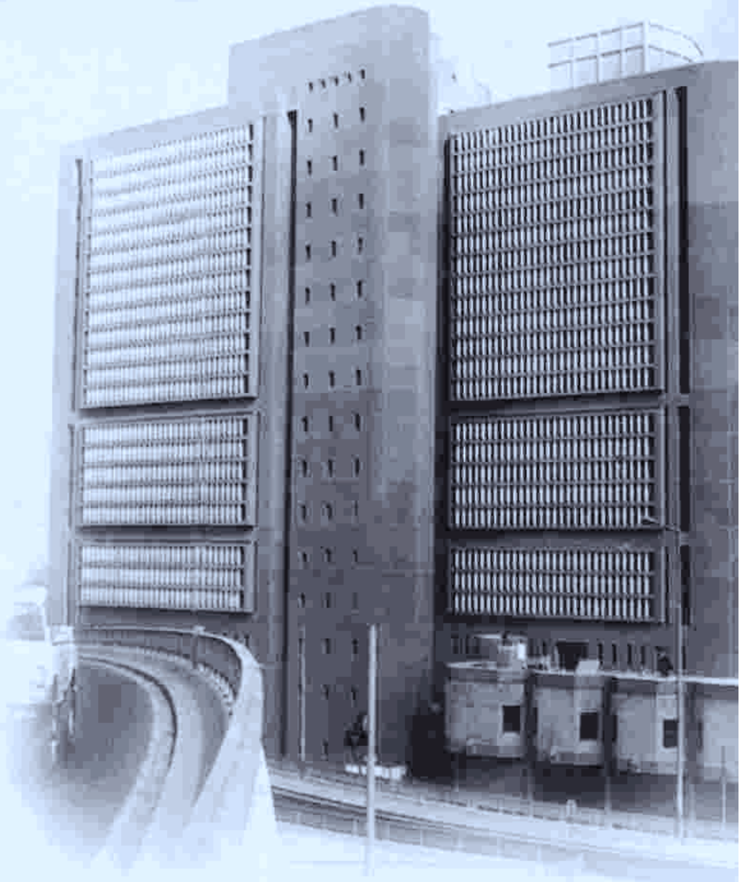


January, February, March 2012

INSURANCE SECTOR ON KARACHI STOCK EXCHANGE

(Quarter: October, November, December 2011)

Company	Paid up Capital (Rs. In Million)	Face Value Rs.	Highest Rate Rs.	Lowest Rate Rs.	Turnover of Shares	Announcement During the Quarter
Adamjee Ins. Co. Ltd.	1,237	10.00	54.96	38.82	2,872,058	
American Life Ins. Co. Ltd.	500	10.00	19.00	14.00	20,052	
Asia Ins. Co. Ltd.	300	10.00	20.08	18.08	99	
Askari General Ins. Co. Ltd.	308	10.00	9.46	7.53	42,382	
Atlas Ins.	443	10.00	37.80	33.35	226,169	
Beema Pakistan Co. Ltd.	417	10.00	-	-	-	
Business & Industrial Ins. Co.	86	10.00	-	-	-	
Central Insurance Co. Ltd.	391	10.00	56.00	47.10	309,519	
Century Ins. Co. Ltd.	457	10.00	7.95	6.11	199,277	
Crescent Star Ins. Co. Ltd.	121	10.00	3.94	1.41	14,514	
Dadabhoy Ins.Co.Ltd.	50	10.00	-	-	-	
Delta Ins. Co. Ltd.	40	10.00	-	-	-	
EFU General Ins. Co.	1,250	10.00	38.83	33.25	614,991	
East West Ins. Co. Ltd.	277	10.00	247.50	247.50	2	
East West Life Assurance Co. Ltd.	500	10.00	2.39	0.80	17,569	
EFU Life Assurance Ltd.	850	10.00	76.00	62.00	165,669	
Habib Ins. Co. Ltd.	450	10.00	11.30	9.25	172,321	
Hallmark Ins.	5	10.00	-	-	-	
IGI Ins. Ltd.	1,115	10.00	61.00	39.50	308,140	
Ittefaq General Ins. Co. Ltd.	10	10.00	-	-	-	
Jubilee Life Ins. Co. Ltd.	627	10.00	64.99	58.01	113,732	
Jubilee General Ins. Co. Ltd.	989	5.00	58.90	51.00	42,448	
Pakistan General Ins. Co. Ltd.	300	10.00	7.15	4.40	7,372	
Pakistan Guarantee Ins. Co. Ltd.	25	10.00	-	-	-	
Pakistan Northern Ins. Co. Ltd.	8	10.00	-	-	-	
Pakistan Re Ins. Co. Ltd.	3,000	10.00	17.40	13.99	17,415,260	
PICIC Ins.	350	10.00	11.40	4.50	80,209	
Platinum Ins. Co. Ltd.	120	10.00	-	-	-	
Premier Ins. Co. Ltd.	303	5.00	9.09	7.32	632,781	
Progressive Ins. Co. Ltd.	85	10.00	-	-	-	
Reliance Ins. Co. Ltd.	319	10.00	8.75	6.50	32,817	
Shaheen Ins. Co. Ltd.	250	10.00	13.50	8.37	824,981	Right Issue = 20%
Silver Star Ins. Co. Ltd.	306	10.00	4.99	3.16	177,418	
Standrad Ins. Co. Ltd.	8	10.00	-	-	-	
Sterling Ins. Co. Ltd.	5	10.00	-	-	-	
TPL Direct Ins. Co. Ltd	460	10.00	11.25	8.40	1,043,791	
Union Ins. Co. Ltd.	82	10.00	-	-	-	
United Ins. Co. Ltd.	496	10.00	5.99	4.30	45,234	
Universal Ins. Co. Ltd.	263	10.00	2.50	0.77	189,180	



Mr. Ihsan-ul-Haq Khan

President & CEO

SME Bank Limited

SPEAKS

Mr. Ihsan-ul-Haq Khan has a distinguished career which spreads over thirty five years in various Commercial Banks and DFIs. He has been instrumental in the rapid growth of organization that he has been part of. He has worked in different capacities in Regional Development Finance Corporation and Allied Bank of Pakistan before joining SME Bank Ltd. The key to his success is his belief that no organization can succeed unless loyalty of the employees is ensured by the organization

Insurance Journal provided questions to President & CEO SME Bank Limited Mr. Ihsan-ul-Haq Khan Reproduced below are the questions of the I.J and the answers of Mr. Ihsan-ul-Haq Khan.

Insurance Journal: ***When was SME Bank formed and what role it has so far played in the country's economy?***

President SME: The SME Bank came into being, on January 1, 2002, in pursuance of Regional Development Finance Corporation and Small Business Finance Corporation (Amalgamation and Conversion) Ordinance No. LVI of 2001, as part of the financial sector restructuring program of Government of Pakistan. Under the Ordinance, the two institutions were amalgamated and converted into a banking public limited company that was incorporated under the Companies Ordinance 1984. The Government of Pakistan is the major Shareholder of the bank.

The SME bank Ltd was established to exclusively cater to the financial, technical and banking needs of the SME sector. It was created to address the needs of this niche market with specialized financial products and services that will help stimulate SME development and pro poor growth in the country.

SME Bank has disbursed the new SME loans of Rs.12947.93 million to 4495 business entities. This all has contributed towards employment generation and SME Bank has succeeded to generate employment opportunities for 46100 persons through its lending programmes since Jan 2002

Insurance Journal: ***What are the problems faced by the SME Sector?***

President SME: SME sector in Pakistan remains constrained by a number of factors that include skills shortage, scarcity of capital goods, poor management, lack of data on the sector, resistance to change and marketing difficulties especially for export-oriented SMEs. The SME, in particular the small industries of Pakistan, are known to rely on low and obsolete technology.

Small firm used indigenous machines of old-vintage and relies on traditional productions methods for survival. The foremost cause of low management skills of SMEs is the low educational and professional training of the business managers. One reason Pak SMEs fail to enter export market, and in some cases even upper segments of the domestic market, is their inability to match products with the new trends in demand. The Sectors is also lacking strong regulatory bodies for protection of rights of SMEs.

Insurance Journal: ***In both developed and developing countries, SMEs are considered the engine of economic growth. How would you translate this into practical reality in a society like Pakistan where economy has yet to anchor on very solid ground?***

President SME SMEs are considered the engine of economic growth in both developed and developing countries, as they generate more employment opportunities with relatively small investment than large-scale firms do. SME provide low cost investment employment because the unit cost of persons employed is lower for SMEs than for large-size units; and they are more labor intensive than large-scale enterprises, since labor uses either manual, or semi automatic, and seldom uses automatic processes of production. SMEs assist in regional and local development because SMEs accelerate rural industrialization by linking them with the more organized urban sector. SMEs help to achieve fair and equitable distribution of wealth by regional dispersion of economic activities and contribute significantly to export revenues because of the low cost, labor intensive nature of its products; have a positive effect on the trade balance since SMEs generally use indigenous raw materials; assist in fostering a self-help and entrepreneurial culture by bringing together skills and capital by linking various lending and skill enhancement schemes; impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency.

In Pakistan, the SME sector contributes 30 percent towards the country's GDP, along with agriculture provides 90 percent of the jobs, accounts for 35 percent of the value added in the manufacturing industry and generates 25 percent of manufacturing sector export earnings ($ 2.5 billion). Given its huge potential for generating employment, the Government has identified the SME sector as one of the leading sectors along with agriculture and construction and housing which will spearhead its efforts towards generating employment to alleviate poverty in the country.

Insurance Journal: ***God has gifted Pakistan with tremendous potential and abundant natural resources. We have yet to drive real benefits. Where did we go wrong?***

President SME The facing situation may be attributed to poor planning on part of our economic player. Priority, which should have been given to development of infrastructure in the country in the last ten years were not given by the planner.

Insurance Journal: ***How best and how can SMEs play their positive role in exploiting the wealth and talents of the young people of Pakistan?***

President SME The contribution of small and medium industries (SMEs) to Pakistan's economy, employment absorption, and poverty alleviation, can be gauged from the fact that 90 % of all private sector manufacturing units employ less than 99 persons. Their impact is extremely high in the manufacturing sector, even when most of this may be employment generation at 'subsistence levels'. They contribute 7% to GDP, and generate 25 % of exported manufactures. However, low investments in technical and managerial skills, coupled with an unfavourable legal, regulatory, and taxation environment, prevents the SMEs from achieving their actual growth potential for employment, income generation, and poverty reduction, which may achieve by enhancing their productivity, capacity for innovation, and competitiveness, by Technology up-grade and Enhancement of Business Skills by Increasing Competitiveness of SMEs, by Offering incentives for investment in new Emerging Sectors and skill upgrades, by Improving Market Access and Product Information in the Global Context, by Re-structuring and Strengthening of Legal, Taxation, and Institutional Framework and by giving Access to Financial Resources and Services etc, etc,

Insurance Journal: ***How would you compare the working of SMEs of Pakistan with those of SMEs operating in our neighboring countries?***

President SME: We are lacking strong regulatory bodies for protection and facilitation of SMEs. Incentives which are given to SMEs of neighboring countries by their government to make their projects economically viable, are not being given to our SMEs, like discounted supply of electricity, tax reduction, etc,.

Insurance Journal: ***The end beneficiaries of SME concept are low earners. It seems the message of SME has not reached them and most of them are not aware of this facility. What could be the reason. Is it lack of publicity?***

President SME: The problem of limited access to credit for the SMEs by all means can not be attributed to that our SMEs are unaware about the products available in the market for their facilitation. Small businesses do not even approach centers of financial credit for fear of rejection. They have to rely on their own credit for a number of activities such as upgrading of technology, increase in production, purchase of inputs and better quality materials. In many cases the SMEs rely on personal savings, including financial help of family and friends.

SMEs feel reluctant to borrow from banks and financial institutes because of stringent collateral requirements, high mark up, lengthy and convoluted documentary process, and to some extent malpractices at banks and financial institutions.

The problem of limited access to credit for the SMEs is not exclusive to Pakistan as a recent past conducted World Business Environment Survey covering 4000 firms in 54 countries found that SMEs cited inadequate access to finance as their primary constraint to growth. This sector is characterized by information asymmetries; the creditors' search costs, information acquisition and processing costs exceed the returns. Hence, there is risk aversion by the banks towards extending credit to small and medium enterprises. It is relatively easy to lend to large corporates where the economies of scale, published financial information, collaterals and creditworthiness parameters favour such types of lending. As the small businesses cannot offer adequate collateral, the banks are unable to determine whether the borrower possesses technical, managerial and marketing skills that will allow him to generate adequate cash flows and repay the loan on time. The process of financial intermediation therefore breaks down for the SME borrowers.

A sustainable solution requires that we take a more holistic view of this problem, instead of looking at the issue of financing to the SMEs in isolation. A large number of players have to be involved in contributing to the success of the SMEs.

There are number of different stakeholders who have to work together in a coordinated and cohesive manner to ensure that these market failures in case of SME credit market are removed and the process of financial intermediation takes place. These include the government and the regulatory agencies such as the Small and Medium Enterprise Development Authority (SMEDA) and SBP, provincial and local governments, SME Bank and other commercial banks engaged in SME financing.

Insurance Journal: ***It is said default rate of SME is much below than that of large enterprises. What is the default rate or percentage of non performing loans. How do you manage these loans and recovery. What is the criteria to obtain loan?***

President SME The share of SME financing in total lending portfolio in Pakistan is only 10%. Moreover, 89% of the SME financing was received for meeting working capital needs, which shows banks' reluctance to finance long-run projects. The share of short-term loans (up to 1 year) constitutes about 70.9%, long-term loans (exceeding 3 years) up to 19%, and the rest was the share of medium-term loans (1 to 3 years), i.e. 10.1%. SME bank is known as specialized bank. NPL percentage of specialized bank in Pakistan was 30.2 % as on December 31, 2011. Where as NPL of SME Bank as on December 31, 2011 was 23. 35%, this was lower to the corresponding period. Credit officers of the bank are responsible to keep regular their respective processed case. However, if any account falls in classified category then recovery of the account become responsibility of staff working in Credit Administration Department of the bank. Hard core defaulted accounts are administrated by the Special Assets Management Division of the bank for clinical treatment. Criteria to obtain loan is attached.

Insurance Journal: ***Insurance also play a vital role in the economic development of a country. With the introduction of microinsurance SMEs and microinsurance can have a joint strategy for obtaining the common role of providing the capital and protection for the benefit of common man, please comment.***

President SME The SMEs or any businessman first want the security of his capital and business concern. The uninvited, accidental and other climatic as well as geo-political sectors adversely affect the business of SME. To secure and protect the business on such factors insurance is obtained to mitigate the risk. It also gives the sense of protection to the businessmen as well as the lenders

Insurance Journal: ***The minimum paid up capital requirement for a bank is Rs. 8 billion by end of 2011. So far your bank paid up capital is Rs.2.39 billion. Though you have State Bank exemption. When you think you can match up to the regulatory minimum requirement. What steps are being taken towards this end?***

President SME Although we have got the exemption of minimum capital requirement by State Bank, yet it is our top priority agenda to meet the minimum capital requirement of Central Bank. Equal efforts are being employed to achieve this goal and we are confident that through our business promotion, improved cash flows, profitability, share holding can be the best tools to achieve this target.

	Medium Term Running Finance Facility	Running Fiance Facility	Term Loan for Fixed Assets (TLFA)	Term Loan for Working Capital (TLWC)	Financing Facility for Storage of Agricultural Produce (SBP Line)
Loan	0.5 to 75 million	0.5 to 75 million	0.5 to 75 million	0.5 to 75 million	Upto 75 million
Tenure	12 to 36 months (to be reviewed annually and Renewable upon expiry)	3 to 12 months (Renewable upon expiry)	12 to 48 months	36 to 60 Months	Upto 3 years----- 8% Over 3 years & Upto 5 Years----- 9% Over 5 Years & Upto 7 Years ---- 10%
Markup rate	1 year KIBOR + 4% p.a (reviewed annually)	1 year KIBOR + 4% p.a	1 year KIBOR + 4% p.a (reviewed annually)	1 year KIBOR + 4% p.a (reviewed annually)	
Loan Purpose	Working capital finance	Working capital finance	Fixed asset investment	For working capital requirement of the business	For establishment expansion, modernization and replacement of Steel / Metal / Concrete Silos, Warehouses for storing agricultural produce.
Repayment Structure	Principal to be adjusted on or before expiry. Mark up to be paid during the period on monthly basis	Principal to be adjusted on or before expiry. Mark up to be paid during the period on monthly basis	Equal monthly instalments	Equal monthly instalments	Equal monthly instalments
Security	Mortgage of Urban residential/commercial/industrial properties accepatable to the bank (Max Financing will be 70% of FSV of property)	Mortgage of Urban residential/commercial/industrial properties accepatable to the bank (Max Financing will be 70% of FSV of property)	Mortgage of Urban residential/commercial/industrial properties accepatable to the bank (Max Financing will be 70% of FSV of property)	Mortgage of Urban residential/commercial/industrial properties accepatable to the bank (Max Financing will be 70% of FSV of property)	Mortgage of Urban residential/commercial/industrial properties accepatable to the bank (Max Financing will be 70% of FSV of property)
	Hypothecation of Plant & Machinery / stocks (Max limit will be 75% of value of hypothecated items)	Hypothecation of Plant & Machinery / stocks (Max limit will be 75% of value of hypothecated items)	Hypothecation of Plant & Machinery / stocks (Max limit will be 75% of value of hypothecated items)	Hypothecation of Plant & Machinery / stocks (Max limit will be 75% of value of hypothecated items)	Hypothecation of Plant & Machinery / stocks (Max limit will be 75% of value of hypothecated items)
	Cash Near Cash security with 10 to 20% Margin	Cash Near Cash security with 10 to 20% Margin		Cash Near Cash security with 10 to 20% Margin	
Circular Number	SMEBK:HO:CD/09/971 March 5, 2009	HO:CD/05/3178 March 30, 2005	HO:CD/05/3178 March 30, 2005	CD-08/5361 July 08, 2008	CD: 11/556 February 3, 2011

*** L/G and Corporate financing also available**

Handling Health Insurance Claims

Rana Naveed ur Rehman
MBA (HRM), Cert CII (UK)
Manager-Health (East West Insurance)

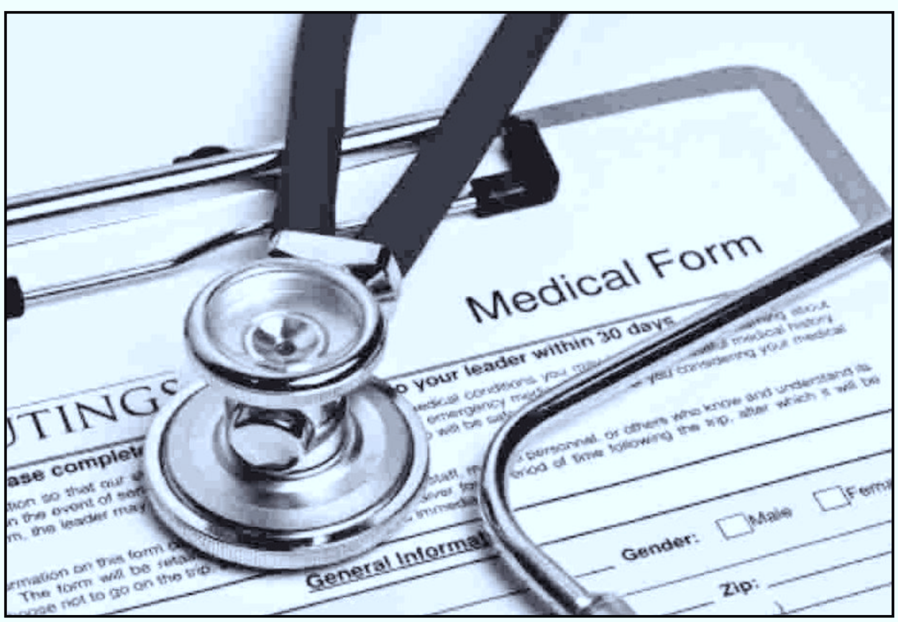
Health Insurance is quite different from other types of Insurances due to its nature. In Health Insurance, human health as well as precious human life is involved. If the insurance company mishandles a person having health insurance cover, then it will be a disastrous situation for both. Most of the health insurance providers have non-technical team for managing the health claim function, which is the core of the health insurance. Many cases have been observed in which an insured person severely affected by most of the health insurance providers. Some common cases are elaborated below:

An insured person went to a panel hospital for treatment. Although, he had his valid Health Card and his employer had paid the premium, but the hospital management had refused to treat him on credit because some panel bills payment of the insurance company was outstanding in their books. So, the panel hospital refused to give credit facility to the insured unless insurance company had cleared the due payment. In this situation, the insured person suffered a lot although he had not any fault.

In another situation, an insured had received the treatment from a panel hospital and he had been discharged without signing the satisfactory note by the panel hospital. When the panel submit his claim bills to the insurance company, the claim was withheld due to the non availability for the required satisfactory note from the insured because it is a prime responsibility of the both to provide the same. This was resulted in outstanding payment of panel hospital which will affect the upcoming insured person who will come for treatment on credit. In this situation, insured had suffered a lot although there was a fault of panel hospital.

In another situation, an insured went to a panel hospital for treatment of a particular disease but when the panel hospital sent the intimation to the insurance company for approval. The medical officer of the insurance company had disapproved the case by declaring it a pre-existing disease. Although, the insurance company took the right decision but that was not the true situation and have to take reasonable measure to accommodate the insured person and settle the matter mutually with the insured's management.

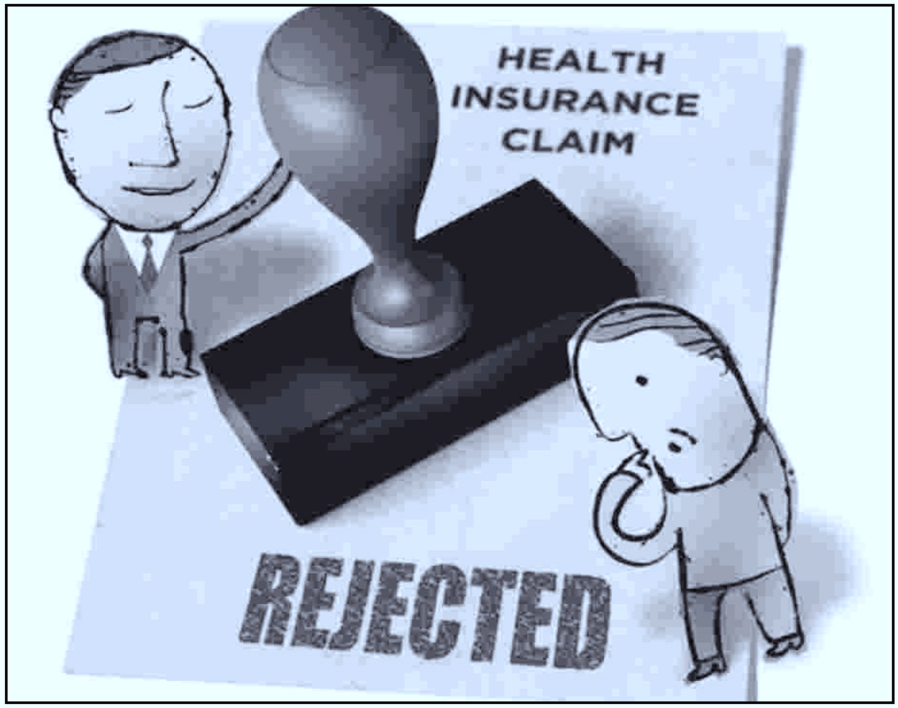
In another case, an insured person lodged a claim for reimbursement to the insurance company. The insurance company withheld the claim by sending an objection letter.



He was asked to provide the proper hospitalization bill and discharge summary on standard format. But he was resided at a remote area where there were no proper billing system of the hospital. So, he could not provide the same. In this scenario, the insurance company should process his claim keeping in view the circumstances.

In another case, an insured submitted a non-panel hospitalization claim of i.e. Rs.80,000/- for reimbursement. The claim amount was within the prescribe limit but the insurance company sanctioned him i.e. Rs.40,000/- by giving the reason for deduction that the claim expenses was cross matched with the nearest panel hospital. Although, the insurance company could be right to some extent but it was unjust for the insured person. The insurance company should pay the claim on actual basis by ensuring that the expenses were not over-billed by the hospital.

On the other hand, an insured person went to a panel hospital for treatment with the aim that he should be treated extraordinarily on credit then the cash patient by the panel hospital but the hospital's management treated both as same. It should be realized by the insured and handle the situation by courage. It will only depend on the insurance company to strengthen their relations with the panel hospital by keeping panel payments up to date and visit the panel hospitals frequently by checking the quality



services to their credit patients and ensuring that the panel hospital was billing properly and nothing was over-charged.

In another case, an insured patient was misbehaved by a panel hospital's personnel. He straight away called the insurance company and complained about the same. Although, the insured had the right to address any complaint regarding the services of the panel hospital but this type of complaint should be addressed primarily to the hospital's management because insurance company had only a third party contract with the panel hospital and does not have control over the panel's staff. It should be realized by the insured person.

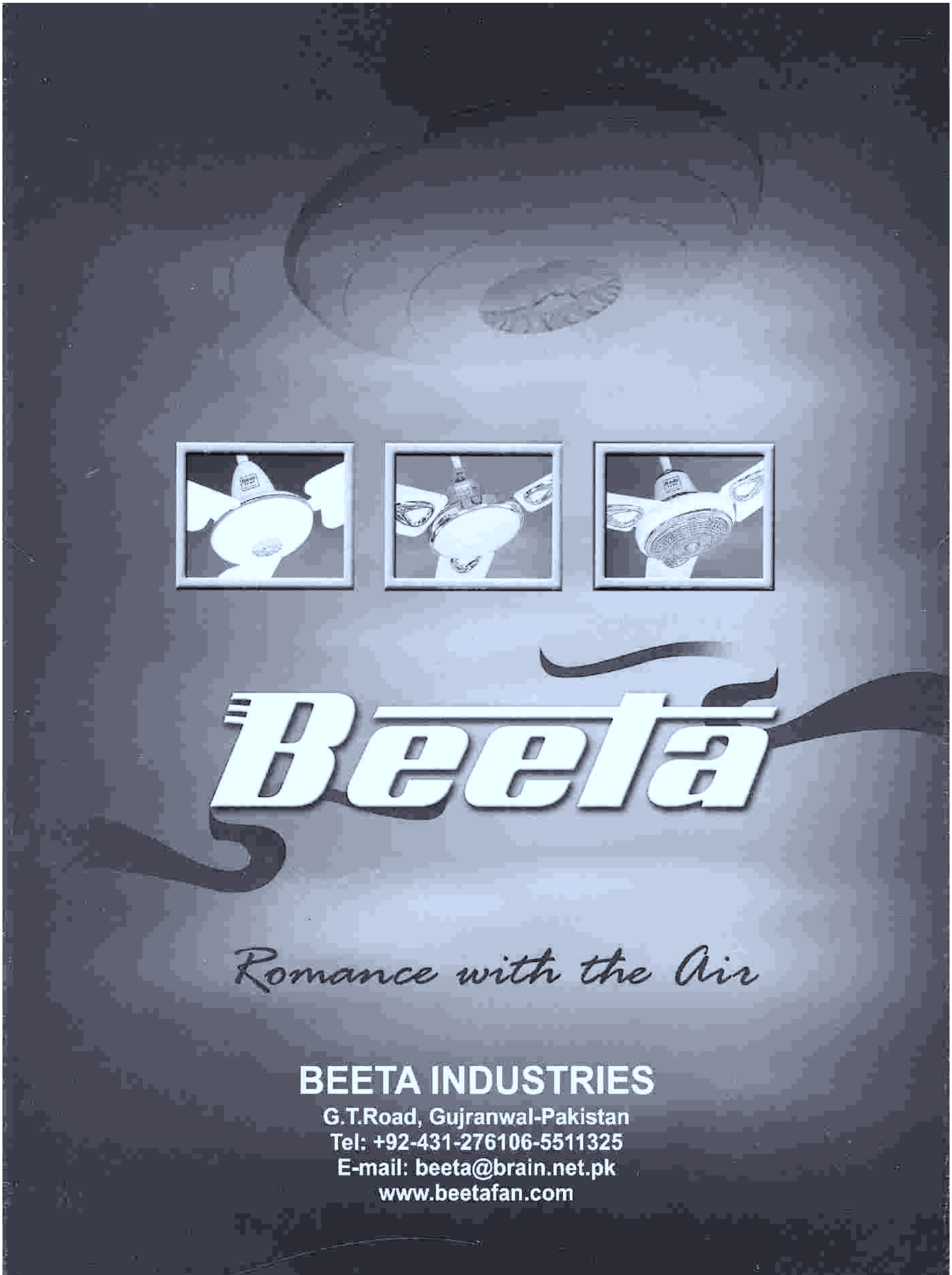
In another case, an insured person went to a panel hospital for a delivery case. The panel hospital had treated her on credit but their surgeon had demanded that she had to be paid her fee in advance because she was a visiting surgeon of the hospital. So, panel hospital had conveyed it to the insured but insured did not have enough payment because she should be treated on credit as per insurance policy. In this situation a dispute arose among the insured person and the panel hospital at a very crucial time and insured person had suffered a lot.

In another situation, an insured person admitted in panel hospital for maternity case. Her maternity limit was i.e. Rs.30,000/-, but her expenses occurs i.e. Rs.50,000/- in the hospital and she had to pay the balance from her own pocket. In this scenario, she should have selected the hospital according to her benefit limit by consulting the insurance company.

An insured person lodged a claim for reimbursement. The said claim was suspected by claim's personnel and sent for verification. The said claim proved fraudulent and the hospital documents were misused by some hospital staff. The verification report was sent to the insured's management for further action. The insured's management inquired about the same and ultimately terminated the accused insured person. It was the lesson for the other insured person that they should not misuse the medical facility.

Keeping in view all the above situations and issues, the insurance companies should take following measures to improve the quality of claims and client services.

- Build strong and healthy business relations with panel hospitals by keeping their claim payments up to date.
- Facilitate the insured persons by properly guiding about the procedure for using the credit facility at panel hospital.
- Regular visits to panel hospitals for checking their services to the insured persons and reconciliation of the claims payment.
- Claims objections and discrepancies should be addressed to the insured properly and promptly.
- Claims processing should be fast enough so that the claimant can be benefited fairly and quickly.
- Any disease which seems to be pre-existing should be covered by charging an extra premium mutually agreed by the insured's management.
- The claim's personnel should be well trained in both fields i.e. insurance as well as medical field.
- The intimation approval system should be prompt so that the insured person will be treated swiftly in the panel hospital.
- The insurance company should take only reputable hospitals on their panel network and ensure that they have proper billing system and patient facilitation desk/counter.
- The claim's personnel should thoroughly check the claim so that the fraudulent claims can be identified and claims leakages should be minimized.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INSURANCE UNDERWRITING PROCESS

Atique Ahmed Chishti
Manager
IGI Insurance Limited

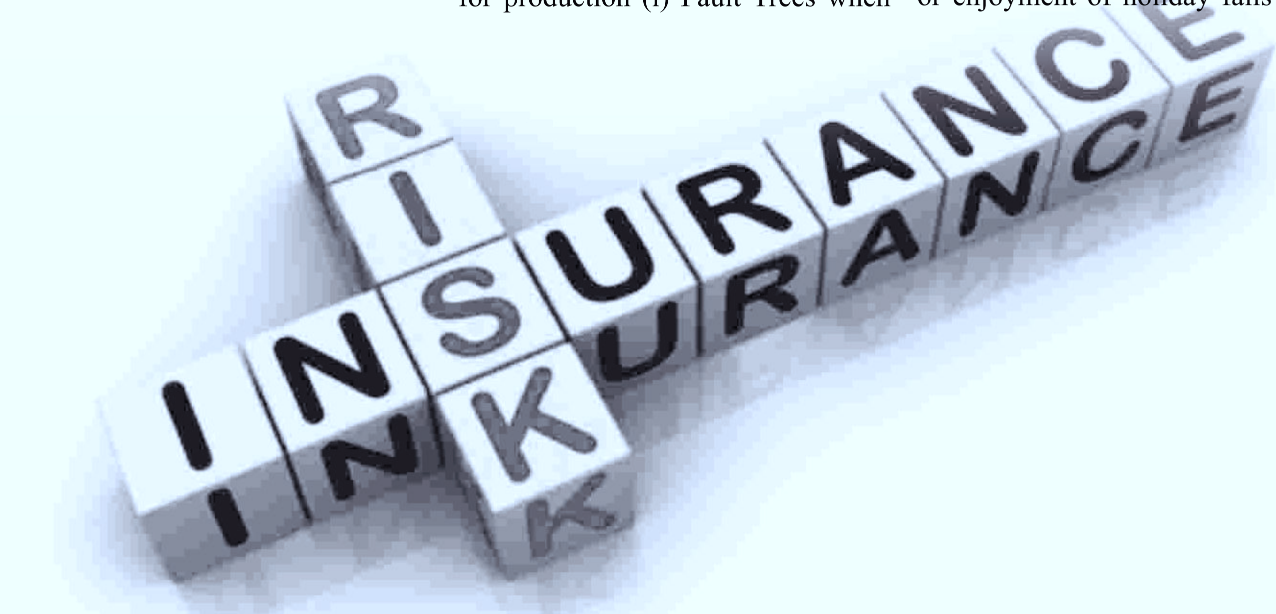
The underwriting process of insurance is a core activity carried out by the underwriter familiar with risk management activities combined with underwriting skills and technical knowledge. The purpose to write on this topic is to present a complete underwriting process with the tools and techniques used to underwrite risks.

The first step towards proper underwriting requires the underwriter to have complete and correct information surrounding the risk. According to the principle of **utmost good faith** the potential client has to provide all information known to him about the risk. This principle applies equally to both the client and the insurer. The insurer must be open with the client to let him know about the insurance so that he can buy an insurance policy covering his interest fully with a reasonable premium.

There are a number of ways and means to obtain information about the risk to be insured. These include (a) Proposal Form, the most common, designed according to the nature of the risk (b) Survey Report in the case of a large or complex risk (c) Layout of a factory or building, if the commercial risk (d) Audited Annual Report in some cases, if available. (e) Meeting with the client to obtain further information (f) Questionnaires used when dealing with particular aspects of the risk (g) Organizational Structure in a few cases (h) Flow Chart of the process for production (i) Fault Trees when required to find out weaknesses or events leading to a failure associated with the risk.

It is worth mentioning that insurance is a mechanism to transfer risks but not every kind of risk is insurable. The following is a brief introduction explaining insurable and non-insurable risks.

Financial and Non Financial Risks: Financial risk means that in the case of loss the outcome of the incident must be capable to calculate for compensation of the loss. For example, a loss arising out of fire at the factory could be measured financially on the basis of either repairing or replacing the lost property. Non financial risks may have a financial aspect but at the time of loss occurrence the amount of claim cannot be measured in terms of finance. The selection of a life partner or enjoyment of holiday falls under



the category of non financial risks because of incapability to measure loss in the case of adverse events.

Pure and Speculative Risks: Pure risk has two outcomes either a loss or no change. Driving a car is an example where a chance exists that an accident may occur or a safe arrival. Speculative risk involves three possible chances such as loss, no change or gain. Investment in the stock market is an example of speculative risk. Rise and fall in the prices of shares may result in loss, breaking even or profit.

Particular and Fundamental Risks: Any risk which brings about disaster at a high level that a large group of people and a big area gets affected adversely is called fundamental. Losses arising from nuclear accident, war, social, economic or natural causes are wide-ranging in their effect and considered as fundamental risks and generally not insurable. On the other hand, particular risks are small and less in wide-ranging. For instance, an accident of a car, a fire at the factory or theft of the personal possessions is considered particular risks and affecting one or few individuals.

Summarizing the above, an insurable risk must be capable of financial measurement, pure and particular. Furthermore, there are other features to be applied on a risk to be insurable.

Insurable interest: This is one of the six general insurance principles. According to the principle there must be a financial relationship between the insured and the property recognized by law. The legal right to insure arises due to having a financial interest in the property whether partially or fully or on a temporary basis. For example, a joint owner in the property, a garage owner possessing a car on behalf of the legal owner or a tenant of a house as they are liable for the cost of loss in the case of damage to the property.

Loss must be accidental: If a person is involved in an act where loss or damage to the surrounding property is certain or the insured deliberately damages the property, the risk is not insurable. So for a risk to be insurable, it must be accidental, unforeseen or sudden.

Legal or lawful activity: A risk that a person is willing to cover under insurance must be recognized in law. Any activity or risk that is against public policy is not insurable. For example a fine, loss, damage and liability arising out of any criminal act or illegal activity or contract considered against public interest is not coverable under insurance.

Looking at the components of a risk enables the underwriter to gain a deeper understanding of the risk. One of them is to evaluate the risk in connection with the perils and hazards. A peril is the cause of a loss such as fire, explosion, windstorm and theft. A hazard is a condition that increases the chance of a loss arising from the peril. The hazard is further divided into two categories.

The physical hazard: it relates to the type of risk, for example, the construction of a building, the location of the property and the condition of a car.

The moral hazard: it refers to the attitude, behavior and conduct of the insured for instance dishonesty of the insured, poor housekeeping in the business premises and careless driving of a driver.

It is also important to check the level of a risk in relationship between **frequency and severity** of loss. Frequency means how often a loss will occur and severity indicates how serious a loss could be, if it happens. For example, shop lifting represents high frequency, low severity. Earthquake carries high severity, low frequency of loss.

Analyzing a risk includes estimating a loss exposure arising from a single risk or in aggregation of losses during the underwriting period of insurance. The term known as **Probable Maximum Loss** (PML) is used to anticipate the quantum of a loss in the case of destruction of the insured property. Suppose there are two shops worth Rs. 100,000/- each covered under a fire policy. There is a distance of 100 meters between the shops. It is hoped that a fire, if occurs in one of the shops, cannot spread to the other shop. In this case the total value at risk is Rs. 200,000/- but the PML is Rs. 100,000/-.

All steps taken by the underwriter to assess the risk enables him to decide whether to accept or reject the risk and if yes, then on what terms and premium rate.

Charging suitable premiums is the main task of the underwriter for funding pools in a way to manage them successfully. Premium is charged against the individual risk calculated on the basis of the perils and hazards associated with the risk. Moreover, **the law of large numbers,** which describes the trend of losses occurring in similar risks, also helps the underwriter in fixing a fair premium rate.

Premium is generally calculated by applying a premium rate to a premium base (rate x sum insured = premium). It is worth mentioning that the base of premium might be different in some classes of insurance. In the employer's liability insurance the total wage roll for the coming year is estimated, the annual turnover is based for public or product liability policy, professional indemnity is rated on fees earned yearly and in a property policy, the market value is the basis of sum insured.

It is worth noting that the value of the property declared by the insured must be as per the market value. Where the value of the property is lover than the market price, the insured would not receive the full amount of claim due to underinsurance. The term of underinsurance means the insured is considered to be his own insurer for the amount he has chosen not to insure and at the time of loss occurrence would share the loss in proportion to the amount of underinsurance. For example the property worth Rs. 100,000 is insured for Rs. 80,000/- A loss, if arises, is estimated for Rs .10,000/-, the insurer would pay only Rs. 8,000/- by applying an insurance term **called the average condition** used to calculate a claim payment i.e. formula (80,000÷100,000x10,000=Rs.8,000/-)

Perils as described earlier can be divided into three groups; insured, excluded and uninsured perils. It is possible that more than one peril takes part leading to a loss. In this situation, it could be difficult to find out the main peril responsible for giving rise to the loss. Here the insurance principle of proximate cause guides to establish the main cause of the loss. It is worth noting that the proximate cause always remains dominant because of a direct link between it and the loss. For example, a thunder uproots a tree which falls on wiring resulting in fire at the factory which was controlled by water causing damage to stocks. In this situation the loss, if caused by uninsured or excluded perils, is not payable. This example is suggesting for adequate coverage of risks against a number of perils expected to threaten the insured property.

In some cases the acceptance of the risk is subject to application of conditions and warranties attached with policy documents. Conditions include an excess, deductible and franchise applied either by way of imposing on the risk or offering a discount in the premium depending on the types of risks.

An excess usually applied on small risks is the first amount of each and every claim borne by the insured. A deductible is similar to an excess but very large amount applied generally on a large industrial business. For example, a fire policy has a deductible of Rs. 100,000/-. In the case of loss for Rs. 500,000/-, the insurer would pay only Rs. 400,000/- and the insured would bear Rs. 100,000/- being co-insurer to share the risk to the extent of the deductible amount.

A franchise means that no claim is payable unless it exceeds the amount or time franchise. Once the claim exceeds the stated amount or time, the entire amount of claim including franchise is payable.

There are a large number of warranties attached with the insurance policies to safeguard the insured assets or minimize the frequency of losses. For instance, an insurance policy covering the assets of Cotton Mills is issued with the important warranties applied with a view to protect the stocks of cotton against fire.

It seems appropriate to describe some other areas of a risk to be examined before providing insurance coverage to a risk.

As mentioned earlier that a risk must

be insurable in order to cover but there are some risks which even meet this criteria cannot be insured on a stand alone basis. For example, a policy against loss of profit can never

be issued in isolation. Loss of profit policy is issued only in relation to the property damage or machinery breakdown insurance because indemnification under this policy would only be payable, if business interruption is caused by physical loss or damage under the respective policy.

There are two types of insurance contracts in non-life insurance called **indemnity and benefit.** The indemnity means the insured must be able to recover the actual loss amount neither more nor less. For example the market value of a car is Rs. 600,000/- but insured with the insurance company for Rs. 800,000/-. In the event of total loss, the company will be responsible to pay only Rs. 600,000/-. If the insured has received Rs. 800,000/- it would mean that the insured has gained Rs. 200,000 which is against the insurance principle of indemnity. It would not be out of place to mention here that in the case of car theft the insurer obtains a **letter of subrogation** from the insured at the time of claim payment. The subrogation letter means taking over the insured's rights to exercise it as and when needed in connection with recovery of the theft car. One of the reasons to get this letter is to prevent the insured from taking any kind of benefits by way of recovery of the theft car because he has already been indemnified and taking more than indemnity means breaking the principle of indemnity.

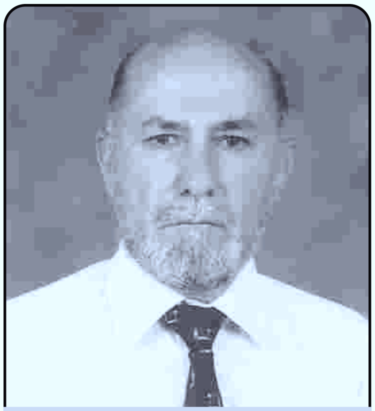
The benefit policy is generally issued covering the risk of personal accident and sickness. As there is no mechanism to estimate the loss of any part of the body so the insurer pays fixed benefits to the insured at the time of losses.

It is possible that an item of the insured is covered under more than one policy. It generally happens due to overlapping of policies or travel insurance policy covering the same item already covered under a house insurance policy. In this situation the insurance principle of **contribution** is applied. It operates when the same interest under double insurance gets damaged and lost resulting from the same peril. Here all insurers would share the burden of claim in proportion to the amount of loss. Take the example of a laptop worth Rs. 30,000/- insured with two different companies for the same amount. In the case of theft of the laptop the rule of contribution would apply and both the companies make contribution equally to make up the total loss of Rs. 30,000/-.

It is hoped the efforts made in presenting the important steps taken into account during the underwriting process as well as analyzing the levels of a risk along with covering all general insurance principles will help all together in leading towards a prudent underwriting of insurance.

Source: Various Books & Articles were consulted

SURVEY-ASSIGNMENT
A PROFESSIONAL RESPONSIBILITY OR A FINANCIALLY GAIN FUL JOB?



Majid Khan Jadoon
A.C.I.I.(U.K) MD/CEO
M/S.PAKISTAN INSPECTION CO. (PVT.) LTD.

After receipts of a letter or tele-call, the Underwriters' Claims Manager would depute a Surveyor to conduct the requisite Survey/Inquiries.

Survey-assignments can be of assorted natures, pertaining to assorted types of Interests/Risks, underwritten by the Insurers, such as:-

a) Marine Cargo Physical-damage Survey-assignments.
b) Marine Cargo Losses, due to Hijacking of Carrying Vehicles, and Goods laden thereon, on-gun-point, and the consequent Theft of the Cargo.
c) Survey-assignments of Various natures of Losses, due to different Risks covered under Fire Insurance Policy.
d) Survey-assignments for Accidental-damages or Thefts/Snatching of Auto-vehicles, as well as 3rd Party Claims.
e) Survey-assignments for Claims under the Insurers' Bankers' Comprehensive Insurance Policies.
f) Survey-assignment under the Insurers' Fidelity Guarantee Insurance Policies.
g) Survey-assignments under the Underwriters' Machinery Break-down or Electronic Equipment Insurance Policies.
h) Survey-assignments under Engineering Insurance Policies.
etc.

Now, the Underwriters' Claims Manager has to decide the nomination of the Competent Surveyors for the Specific nature of the assignment, expected to accomplish the job most professionally.

Survey and Loss Assessment/Adjustments of Physical Damages sustained by the Interests, may not be too sophisticated. However, detailed Survey and Inquiries into Losses of Non-physical Nature, e.g. Losses by Robberies of Stocks-In-Transit, Burglaries, Infidelities & Frauds are more complicated, which would demand considerable time, scrutiny of Various relative Documents, as well as elaboration of Circumstantial and Logical evidences to retrieve the Correct Conclusion of the Insureds' Claims.

Thus, to establish the factual Occurrence of the reported Claim and the consequent Loss of the Insureds, the Surveyors have to look into assorted relative factors and various elements, pertaining to the Claimed Loss

To accomplish the assignment Professionally, the Surveyors would have to obtain Statements from various concerned persons and would require to minutely scrutinize all the relevant Documents, as well as look into the co-related rationality of the same.

The Sequence of the Events has to be logically inter-related and thus the Chain of Causations, which would have resulted in the Loss, shall have to be systematically established to the Logical Conclusion, duly supported with documentary, as well as other pertinent evidences.

At times, the nature of the assignment would warrant that the Surveyors would have to travel to different locations, in connection with his job, to retrieve various evidences/information.

This, would demand of the Surveyors to under-take adventurous journeys, coupled with assort expenses as well but any lapse or passilamaneousness to embark upon such a nature of assignment may cause serious consequential and unfavourable results to the deteriment of the Underwriters.

This is particularly true in respect of Survey assignments in Afghanistan because the Surveyor can be the suspect of all the Warring Parties and, therefore, has to be extra-ordinarily careful in the accomplishment of the Survey-assignment.

In the light of the Surveyors' Conclusion of the factuality of the Loss, they have to take into account the Provisions of the Underwriters' relative Policy of Insurance and to see whether the Insureds' Loss would fall within the ambit of the Insurers' relevant Policy of Insurance and, if so, whether any Policy Deductibles are applicable on the Insureds' Claim as well.

Alike Ventures may be quite difficult for the Surveyors, but not impossible, if they would seriously consider the assignment as a **PROFESSIONAL RESPONSIBILITY** rather than a **PROFITABLE JOB.**

I believe that when Surveyors would undertake the assignment with a Sense of Professional Responsibility would do and justice with the job, the Underwriters would never hesitate to fully reward them to their entire satisfaction.

Haji Ashraf Dhedhi
Assistant General Manager
PICIC Insurance Co. Karachi

Best natural gift "COTTON"

PART ONE

Exact period when people began to use cotton is not known, but from some historians' materials, we can observe that there is evidence that Cotton was cultivated in Mexico, Peru and in large parts of sub-continent (i.e. now known as India & Pakistan) some 5000 years ago. However one school of thought says that Cotton was grown more than 9000 years ago and large scale cultivation was done during middle of 17th century AD, Cotton must have grown wild. Then people learned to cultivate Cotton plants in the fields. In those days in Europe, wool was the only fibre used for making clothing. Traders visiting for Far East claimed that Cotton was wool of small animal lamb that grew on the stalks of a plant, afterward they realize, that this is untrue when Arab traders brought the Cotton plant to Spain in Middle-Ages. In the fourteenth century, Cotton was grown in Mediterranean countries and shipped from there to Mills in the Nether land in Western Europe for spinning and weaving. Until the eighteenth century, Cotton was not manufactured in Europe, since Traders then did not want it to compete with their own product i.e. Wool. Finally traders managed to pass a low in 1720 saying that manufacturing of Cotton and selling Cotton cloth is illegal, later in year 1736 law was repealed and Cotton Mills grew in numbers. English were powerful and they did not allow any textile machinery to leave their country. Britain provided a great boost to cotton manufacture, as textiles emerged as Britain's leading export. In 1738 Lewis Paul and John Wyatt, of Birmingham, England, patented the roller spinning machine, and the flyer and bobbin system for drawing cotton to a more even thickness using two sets of rollers that traveled at different speeds. Hence in United State, Cotton mills could not be established. English would not allow any of the machinery to leave the country because they feared other colonies would compete with them. In 1790 Mr. Samuel Slater, who had worked in England textile mill, was able to build an American cotton mill. As per statistics/research Cotton is grown in 78 Countries with an area of 35 Million Hectares, global cotton growing area has not changed much in size since 1930s, however, average cotton yield have increased due to changes in the way cotton is grown. Cultivation period varies from 175 days to 225 days depending on variety. Cotton is harvested in two seasons, summer and winter. The biggest producers are the USA, China, India, Pakistan Turkey and Uzbekistan. Cotton is the most important of all natural fibres; Cotton accounts half of all the fibres used by the world's textile industry. Cotton is vulnerable to insects so large quantities of insecticides are used by the cotton growers which also

accounts 10% (app.) of the world's pesticide market, chemicals, such as herbicides, fertilizers and insecticides, although a very small number of farmers are moving toward an organic model of production, and organic cotton products are now available for purchase at limited locations. These are popular for baby clothes and diapers. Under most definitions, organic products do not use genetic engineering.

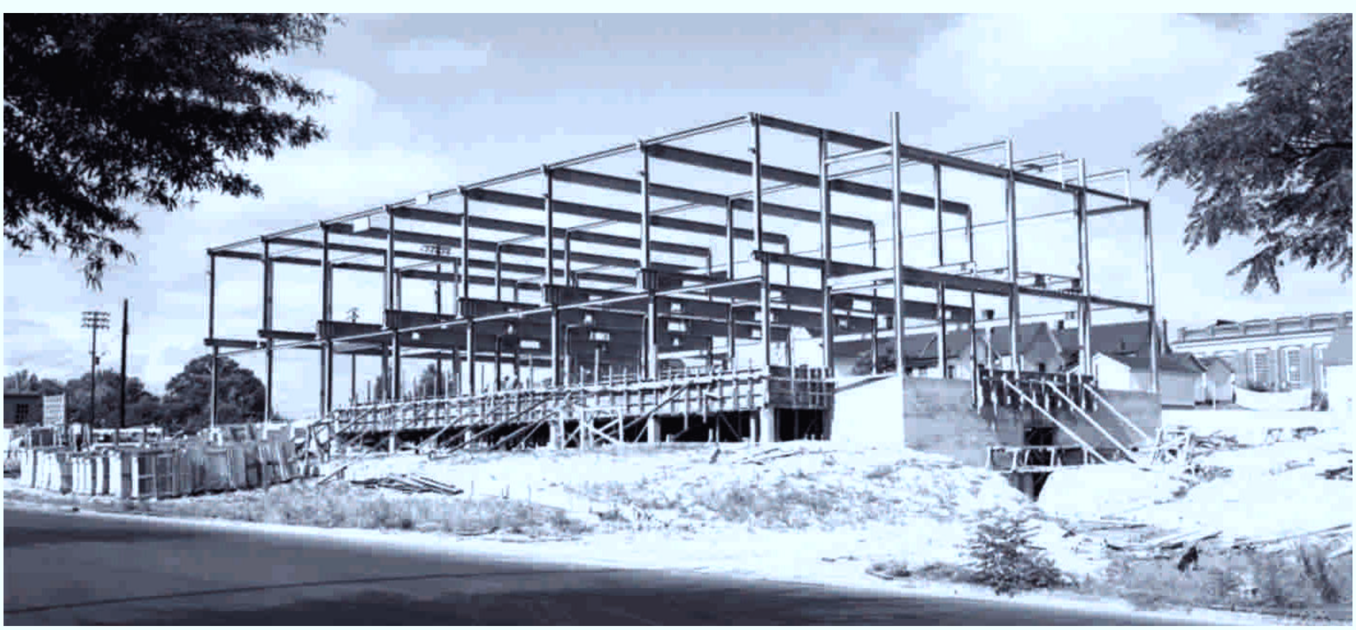
Genetically Modified (GM) cotton was developed to reduce the heavy reliance on pesticides. The bacterium Bacillus thuringiensis (Bt) naturally produces a chemical harmful only to a small fraction of insects, most notably the larvae of moths and butterflies, beetles, and flies, and harmless to other forms of life. The gene coding for BT toxin has been inserted into cotton, causing cotton to produce this natural insecticide in its tissues. In many regions, the main pests in commercial cotton are lepidopteron larvae, which are killed by the BT protein in the toransgenic cotton they eat. This eliminates the need to use large amounts of broad-spectrum insecticides to kill lepidopteron pests (some of which have developed pyrethroid resistance). This spares natural insect predators in the farm ecology and further contributes to no insecticide pest management.

BT cotton is ineffective against many cotton pests, however, such as plant bugs, stink bugs and aphids; depending on circumstances it may still be desirable to use insecticides against these.

Cotton has countless uses which make Cotton best choice because it has many qualities, natural twist in cotton makes so suitable for spinning into a very strong yarn. Water easily penetrate right to the core of the fibre makes it easy to remove dirt from the Cotton garments, by ironing creases can easily be removed, cotton fabric is comfortable to wear close to skin because of its good moisture absorption qualities and its softness.

PART TWO

Seed Cotton called Kapas in Pakistan and India which is harvested from cotton plant in the fields, Lint Cotton which is known as Ruii in Pakistan and India. Cotton plants leaves resemble to maple leaves and look like pink mallow flowers and grow in swampy areas, for good Cotton Crop ample water and sunny season are required, soils which can keep moisture well is the best for the Cotton. 5 days after planting the seeds, seedlings appears weeds then to be removed otherwise they encourage pests and diseases. Flowers buds appears after 5-7 weeks, and after 3-5 weeks these buds become flowers which fall after 3 days leaving behind a small seed pot which is known as the boll, app.' 30 seeds contains in one boll with 500,000 fibre of cotton and after 3 weeks each fibre grows in full length and following 4-7 weeks each fiber gets thicker as layers of cellulose build up the cell walls. During this period the boll matures and in about 9-10 weeks after flowering it splits open. Sun heat helps the raw cotton fibre to burst out. Fibre collapses into shape of twisted ribbon. This is the time of harvesting. Normally Cotton is picked by hand this is the best method of obtaining fully grown



cotton because unwanted material like leaves and remain of the boll (called trash) are left behind. Advance Countries where land is flat usually pick cotton with machines. Many varieties of cotton are cultivated mainly from following 4 genetic species of Gossipium:

--Gossipium hirsutum – upland cotton, native to Central America, Mexico, the Caribbean and southern Florida, (86% of world production)

--Gossipium barbadense – known as Creole, Egyptian, Pima or Sea Island cotton, native to tropical South America (8% of world production)

--Gossipium arboreum – tree cotton, native to East Africa, India and Pakistan (4%)

--Gossipium herbaceum – Levant cotton, native to southern Africa and the Arabian Peninsula (less than 2%)

The chemical composition of cotton is as follows;

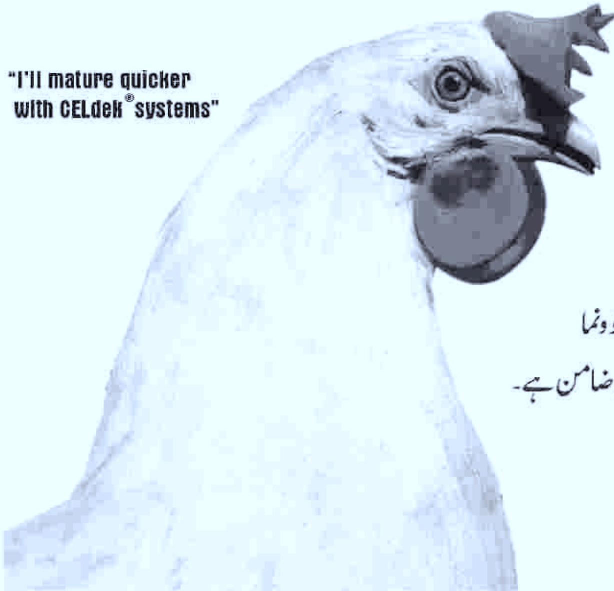
- Cellulose 91.00%
- water 7.85%
- protoplasm, pectin 0.55%
- waxes, fatty substances 0.40%
- mineral salts 0.20%

The by-products are also used, Cotton seeds and pods are turned into feed for cattle or made into Cottonseed oil, and then leftover lint is also used in paper production. At the Cotton mill the raw Cotton fibre is a light brownish color, usually to make it white they bleached it by using hydrogen peroxide. Afterwards this powerful bleach is removed from the cotton fibres with water. Normally 40 liters of water per kg of fabric is used. This process of removing bleach prevent from reacting when dyes are used for coloring the Cotton

Top ten cotton producer in world in 3rd quarter of 2011
(480-pound bales)

People's Republic of China	33.0 million bales
India	27.0 million bales
United States	18.0 million bales
Pakistan	10.3 million bales
Brazil	9.3 million bales
Uzbekistan	4.6 million bales
Australia	4.2 million bales
Turkey	2.8 million bales
Turkmenistan	1.6 million bales
Greece	1.4 million bales

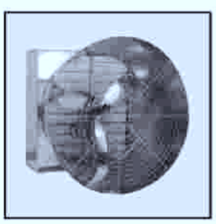
"I'll mature quicker with CELdek® systems"



میری بہتر نشوونما
آپ کے زیادہ منافع کی ضامن ہے۔

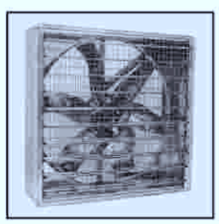
When rearing poultry, maintaining a controlled climate is more important to optimal growth than even feed or stocking density. Conventional ventilation systems in poultry houses simply do not compensate adequately for temperature and humidity fluctuations caused by body heat and the sun's radiation. CELdek® system, on the other hand, maintain an optimal temperature and humidity, safely, efficiently throughout the production cycle.

A healthy, unstressed bird is a productive bird. CELdek® systems address the bird's total rearing environment to help eliminate stress and improve weight gain and feed conversion. And the more you do for the well-being of your poultry, the more they' II do for you.



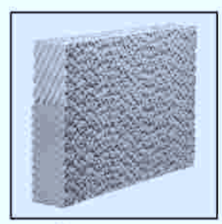
Cone fan

Euroemme fans (Em 36)



Euroemme fans (EM 50n)

Air heaters



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Azhar Mahmood
Manager
(East West Insurance)

Controlling Costs through Risk Management

What is Risk?

Risk is a part of every human endeavor. From the moment we get up in the morning, drive or take public transportation to get to office, factory or school until we reach back to our homes, we are exposed to risks of different degrees.

In terms of insurance, risk can be defined as a combination of the probability of an event, which turns into a disaster and also its consequences.

Definition of Risk Management

It is the identification, assessment, and prioritization of risk followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events.

Managing risk is good business sense. It is one of the most important things an insurance company can do to maintain its viability. An effective risk management strategy provides the opportunity for better pricing on insurance premiums saves the company's costs and ensures a safe and stable environment for the employees and customers. A successful risk management program helps to understand and prepare for the risks the insurer faces before losses occur. This can be the difference between an organization that thrives and one that fails. The objective of risk management is to control factors that may lead to risk being materialized.

Historical Background

Risk management is not a modern creation. The Holy Quran also tells us the story of Egyptian King Aziz who dreamed that seven unhealthy cows ate up the other seven healthy cows. He also dreamed that seven heads of grain were growing on one stem they were healthy and good. After them, seven other heads of grain came up they were thin and dried up. The thin heads of grain swallowed up the seven healthy, full heads. The King got puzzled and called The Prophet Yousaf from jail to interpret his dream. According to the Prophet Yousaf the dream foretold seven years of plenty followed by seven years of food shortage. To hedge against that risk the King stored a large quantity of food. This was an example of risk management.

Function of Risk Management

1. Risk management ensures that an organization identifies and understands the risks to which it is exposed.

2. Risk Management also guarantees that the organization creates and implements an effective plan to prevent losses or reduce the impact of a loss occurs.

3. A risk management programme includes strategies and techniques for recognizing and confronting the risks.

4. Good risk management doesn't have to be expensive or time consuming; it may be uncomplicated and should answer these questions.

- What can go wrong?
- What will the organization do, both to prevent the harm from occurring and its response after the occurrence of loss?
- If something happens, how will the insurer pay for it?

Stages of Risk Management

1- Hazard Identification

First stage of risk management is hazard identification. It is a procedure to identify a risk capable of causing adverse effects.

2- Hazard Characterization

It is the second stage of risk management. At this stage companies evaluate the nature of the adverse effects, which can lead to a risk.

3- Exposure Assessment

It is the process of assessment of the likely exposure of interest insured or company's liability to the risk.

Benefits of Risk Management

Risk management provides a clear and structured approach to identifying risks. Having a clear understanding of all risks allows an insurer to measure and prioritize them and take the appropriate actions to reduce losses. Risk management has other benefits for the insurance companies including:

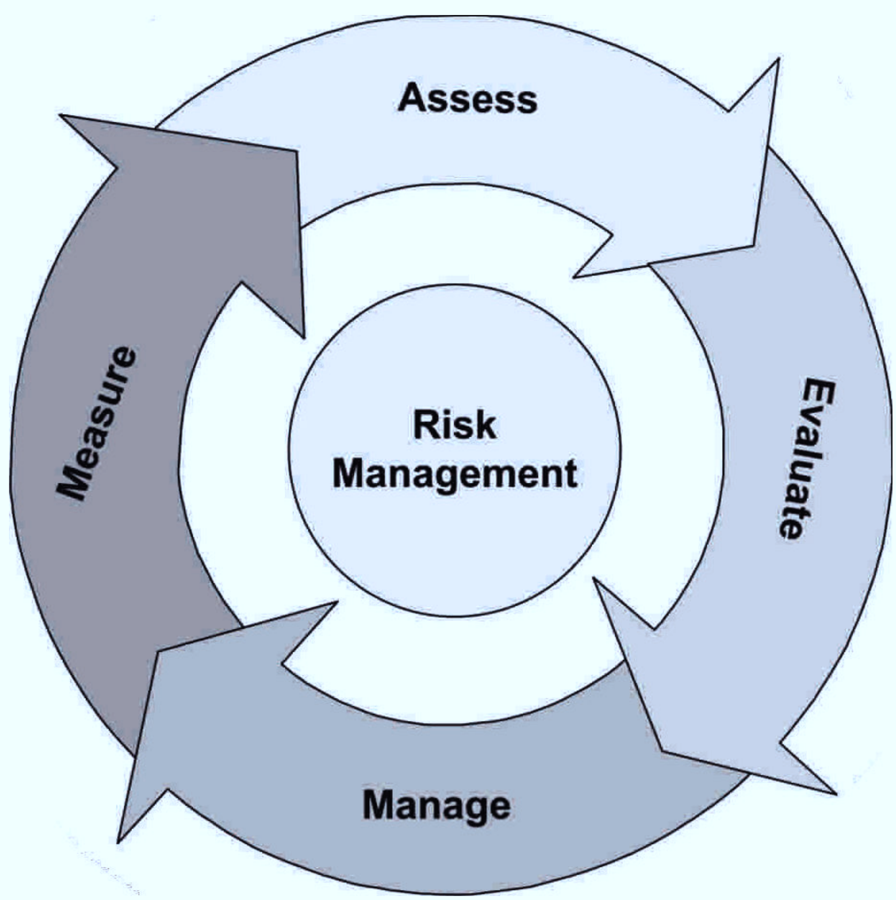
- People, time, assets, income and property all are valuable resources that can be saved if fewer claims occur.
- It also protects the reputation and public image of the insurance company.
- Risk management also reduces the legal liability of the insurer.
- It also reduces the financial liabilities of the company.

Although an effective risk management practice does not eliminate risks, however, having an effective and operational risk management practice shows an insurer that this organization is committed to loss reduction or prevention.

Conclusion

Risk management is a pragmatic process with real implications. An organization cannot craft a plan and then put it on the shelf. Risk management is a way of thinking that must permeate the whole organization. From the most senior board member to the lowest staff, it is everyone's responsibility to ensure that risk management is an integral part of the organization.

Risk management seeks to preserve an organization's continued ability to perform its mission successfully, grow and to execute its responsibilities to the economy to the country.



New Chairman PRCL

We are pleased to inform that in pursuance of Government's Notification of 26th March, 2012 Mr. Munawar Opel has assumed charge of the post of Chairman, Pakistan Reinsurance Company Limited . Mr. Opel graduated from D.J Science College, Karachi, and belongs to the 5th Common Training Programme (1978-79) and was placed in the District Management Group. He did his Master's in Development Administration from Western Michigan University, Kalamazoo, Michigan, USA in 1985, on a US-AID Scholarship, besides training in Premier National Institutions.

He has an unblemished service record. In 1980, he was Assistant Commissioner & Additional City Magistrate, Karachi and later worked as Sub-Divisional Magistrate Larkana. He served as Deputy Commissioner & Political Agent, Loralai and Punjgar. He served in Education, Health, Board of Revenue and other important departments of Government of Sindh. He was elevated to the post of Secretary in the Wafaqi Mohtasib (Ombudsman) Secretariat, Islamabad, 2006. He has also the distinction of being the Executive Secretary of the Asian Ombudsman Association (AOA) and served as Chairman, Enquiries and Anti-Corruption Department, Sindh, besides being the Additional Chief Secretary (Dev), Planning & Development Department, Government of Sindh. He served in KPT as its G.M. (Admin) before being elevated to BS-22, status of a Federal Secretary. His services took him to serve In Sindh, Balochistan, as well as the Federal Government.

Pakistan Insurance Institute to arrange Mega event at Karachi 10-12 April 2012

An international insurance conference will be held at Karachi 10-12 April 2012 to be organized by Pakistan Insurance Institute. The conference on CATASTROPHE EVENTS – A CHALLENGE will have informative and researched papers presented by distinguished speakers from Pakistan and abroad.

Dr. Jane Mehlhon of Swiss Re, Mr. Carlos Bekram ACE Insurance UAE, Mr. Jagathi Alwis Ceylonco Insurance Sri Lanka, Mr. George Affrad Aon Singapore. Mr. David North Crescent Global Group Bahrain, Mr. Bruce Garrett Energy Pvactin Marsh UK. Mr. David James United Brokers UK, Dr. Rashwar Gunesekara Willis Re UAE, Mr. Kunal N. Jadhav of Mitsui Sumitomo Re Malaysia and Mr. S. Said Aswar of ARIG Bahrain are expected to present their papers. From Pakistan the speakers expected are Mr. Samee-Ul-Haq, Mr. Javed Jabbar and Mr. Tahir Ahmed.

Chairman National Disaster Management Authority (NDMA) has been invited to give the Keynote address.

The conference will be held at Sherton Hotel Karachi.

Jubilee General Sales Conference 2012

Every year, Jubilee General launches its flagship 2-day event, the 'Sales Conference' where executives and top performers from all over the country are invited. It is an opportunity for the employees to network and be reminded of our potential to perform better every year. The highlight of the Sales Conference this year was about achieving new milestones, thus the theme was 'Moving Beyond'.

This year Jubilee General crossed a milestone of Rs 5.0 Billion worth of Gross Premium and a healthy profit of Rs 150 Million of Underwriting Premium! Following which, more than half a dozen branches and over 20 Development Officers qualified for the new incentive plan that was introduced last year. Following this most celebrated announcement, the Managing Director shared his views about the Blue Ocean strategy, a strategy that enables a business to tap uncontested markets and achieve phenomenal growth.

Jubilee General's Sales Conference is always scheduled with day-long activities that build teamwork, motivation and new insights. Mr Saadi Insha, a leading trainer inspired the audience with a daylong activity-based session 'Fire on All Cylinders'. The Second Day was highlighted by a panel discussion on new developments and the most awaited award distribution ceremony. The panel included key people involved in new process implementations and product development. This day was enriched by an entertaining 45 minute in-house play, a comical depiction of the senior management discussing on the Blue Ocean strategy. This play was well-received and celebrated throughout the day, especially senior management!

There is always a casual tour in one of Karachi's notable locations with the Executives from other zones of Pakistan, the Managing Director and entire senior management. This year the visit was at Port Grand, followed by dinner to conclude our 2-day event.

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Some Definitions of Insurance Terms

Underwriting - *The process of selecting risks for insurance and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.*

Underwriter - *The individual trained in evaluating risks and determining rates and coverage's for them. Also, an insurer.*

Policy - *The written contract effecting insurance, or the certificate thereof, by whatever name called, and including all clause, riders, endorsements, and papers attached thereto and made a part thereof.*

Premium - *The price of insurance protection for a specified risk for a specified period of time*

Coverage - *The scope of protection provided under an insurance policy. In property insurance, coverage lists perils insured against, properties covered, locations covered, individuals insured, and the limits of indemnification. In life insurance, living and death benefits are listed.*

Deductible - *Amount of loss that the insured pays before the insurance kicks in.*

Exclusions - *Items or conditions that are not covered by the general insurance contract.*

Exposure - *Measure of vulnerability to loss, usually expressed in dollars or units.*

Grace Period - T*he length of time (usually 31 days) after a premium is due and unpaid during which the policy, including all riders, remains in force. If a premium is paid during the grace period, the premium is considered to have been paid on time.*

Hazard - *A circumstance that increases the likelihood or probable severity of a loss. For example, the storing of explosives in a home basement is a hazard that increases the probability of an explosion.*

Indemnity - *Restoration to the victim of a loss by payment, repair or replacement.*

Insurable Interest - *Interest in property such that loss or destruction of the property could cause a financial loss.*

Earned Premium - *The amount of the premium that has been paid for in advance that has been "earned" by virtue of the fact that time has passed without claim. A three-year policy that has been paid in advance and is one year old would have only partly earned the premium.*

Named Perils - *Perils specifically covered on insured property.*

Net Premium - *The amount of premium minus the agent's commission. Also, the premium necessary to cover only anticipated losses, before loading to cover other expenses.*

Net Premiums Written - *Represents gross premium written, direct and reinsurance assumed, less reinsurance ceded.*

Net Underwriting Income - *Net premiums earned less incurred* *losses, loss-adjustment expenses, underwriting expenses incurred, and dividends to policyholders.*

Occurrence - *An event that results in an insured loss. In some lines of business, such as liability, an occurrence is distinguished from accident in that the loss doesn't have to be sudden and fortuitous and can result from continuous or repeated exposure which results in bodily injury or property damage neither expected not intended by the insured.*

Reinsurance - *In effect, insurance that an insurance company buys for its own protection. The risk of loss is spread so a disproportionately large loss under a single policy doesn't fall on one company. Reinsurance enables an insurance company to expand its capacity; stabilize its underwriting results; finance its expanding volume; secure catastrophe protection against shock losses; withdraw from a line of business or a geographical area within a specified time period.*

Commission - *Fee paid to an agent or insurance salesperson as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.*

Claim - *A demand made by the insured, or the insured's beneficiary, for payment of the benefits as provided by the policy.*

Total Loss - *A loss of sufficient size that it can be said no value is left. The complete destruction of the property. The term also is used to mean a loss requiring the maximum amount a policy will pay.*

Adjuster - *A representative of the insurer who seeks to determine the extent of the insurer's liability for loss when a claim is submitted.*

Loss Ratio - *The ratio of incurred losses and loss-adjustment expenses to net premiums earned. This ratio measures the company's underlying profitability, or loss experience, on its total book of business.*

Loss Adjustment Expenses - *Expenses incurred to investigate and settle losses.*

Expense Ratio - *The ratio of underwriting expenses (including commissions) to net premiums written. This ratio measures the company's operational efficiency in underwriting its book of business.*

Surplus - *The amount by which assets exceed liabilities.*

Source: ACII Course Books

What is underwriting?

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Underwriting the process of determining the level of risk presented by the proposer and deciding whether to accept the same and if so at what terms and at what price.

Underwriting is essential in all forms of insurance. Understanding the concept of risk sharing or pooling makes it easier to understand the role of underwriting and asset classification. For example in life insurance, underwriting of healthy person and a sick person shall never be same.

Purpose and objectives of underwriting
- Underwriting helps insurer to
- cover the risk properly
- offer competitive price
- cover suitable margin to pay claims and expenses
- compliance with regulatory requirements
- Reject Uninsurable risks
- Prevent Moral hazard
- Earn Reasonable profit
- Apply suitable deductibles

The importance of underwriting
For insurers: Underwriting helps the insurer to stay competitive, solvent and profitable.

For insured: Underwriting is important for the insured since the coverage required for insurance and premium can be determined only by way of underwriting. Underwriting can also suggest measures to be taken to reduce the risk and hazards.

Agents and brokers: Brokers are often involved in offering tailor-made solutions to the customers. By underwriting such possibility can be looked into and solution may be offered to the customer.

Society: Underwriting helps to improve the standards of safety and care and achievement of economic and social goals of a country.

Underwriting process
Underwriting involves a proper exercise by the underwriter to evaluate the insurability of the risk and if the risk can be assumed, the price, terms and conditions at which the risk may be insured.

It is the responsibility of insurers to meet all contractual obligations of the existing policies. Insurer cannot resort to profiteering motive. In the interest of equity and sustainability the underwriting process needs to be carried out carefully.

Insurance regulators play an important role in underwriting process by listing out guidelines is so that insurers take suitable measures for proper underwriting.

Functions of underwriting
1.Selection of risks
2.classification and rating
3.policy forms
4.retention and reinsurance

1. **Risk selection**
In this stage underwriter decides whether or not to accept the risk. It gathers information from proposal form, inspection report, valuation report and other supporting documents to get the details of the risk is to be covered.

If the risk is suitable it is accepted. In case of extra hazardous risk or cases involving moral hazards the risk is rejected.

2. **Classification and rating**
After the acceptance of the risk that the underwriter classifies and rates the risk. Risk is segregated into homogeneous groups to which rates can be assigned. Insurer has different rates for different kinds of risk.

Insurers may their own classification and rating system Compliant with the guidelines of the regulator.

Underwriters utilizes the expertise and skills of actuaries, engineers and surveyors to find out the actual status of risk and it's severity.

After thorough examination of all data underwriter decides the final rates, terms and conditions.

3. **Policy forms**
Risk may be classified into various classes and several policy forms will be available to cover each class. After classification the underwriter must decide the applicable policy form and add suitable warranties, special conditions as may be required in case of the risk.

4. **Retention and reinsurance**
All insurers have limited capacity to accept the risk. They cannot retain all the risk since if any catastrophe occurs the whole capital of the company may be wiped out. In order to have the risk evenly spread the underwriters resort to reinsurance wherein they transfer a portion of risk to reinsurer.

Source: Various Books & Articles were consulted

Present State of Takaful on Global Market and Potential for Pakistan

At present, when we talk about insurance, generally it is the insurance which is practiced in West or developed countries. This type of insurance which we choose to call conventional insurance is in operation in most of the third world and Islamic countries.

Looking at the % of GDP and insurance penetration in these countries, one observes that scope of insurance is limited to the commercial needs and restricted to more affluent sector of the population. While the population sizes would indicate a very large potential market but as stated insurance penetration in the Muslim countries is very low.

Insurance Penetration Premium as Share of GDP	
Pakistan	0.70%
Saudi Arabia	0.50%
Iran	0.80%
Indonesia	1.20%
Malaysia	6.00%

Reasons could be many, may be lack of understanding, limited technical knowledge or expertise, corruption, low GDP per capita which makes even genuine customer shy away. The conception that it is to more to the needs of affluent, results in the consumer skepticism about insurance. This may be one side of the scenario when insurance is seen in the perspective of a purely commercial and profit oriented discipline.

But one of the main reason insurance did not get very readily acceptance in the Islamic world is the nature and the working of the existing conventional insurance. It is believed by many Islamic scholars and equally shared by many Muslims around the world that conventional insurance contains elements indeed contradictory to Islamic principles, namely uncertainty, when or if the event will occur. This has an element of Gharar (Uncertainty).

If a claim is not made the insurance company acquires all the profits, the participants known as insured in the conventional insurance may not obtain any profit whatsoever.

The second reason is the element of gambling (Maisir) and the third is interest (Riba).

Muslim scholars and Jurists have arrived at unanimous conclusion that insurance is allowed or permissible to Muslims must fall within the framework of Islam and its concepts. Working and awareness should be on the principles of AL-TAKAFUL. Therefore, it is agreed upon that the Islamic Insurance transaction would be a policy based on mutual cooperation, brotherhood and against unpredicted risk and catastrophe when the participants contribute (or donate) to help one another. The last two decades have shown the ever increasing eagerness among the Muslim countries to distance themselves from the conventional insurance and usher is acceptable, humane and consumer driven system. The

Islamic world has gone into a massive operation to clear its economy from interest. In keeping with the Islamic prohibition of usury the whole economics system is in the process of establishing interest free economy.

After many debates, seminars and research, the conclusion arrived at the highest levels of scholars was that only commercial interest was indeed against the principle of Islam as laid down in the Holy Quran and the Sunnah. This conclusion has gained wide acceptance among Muslim economists.

Work is on to establish and consolidate Islamic banking and financial institutions on Islamic values, not withstanding many difficulties. Islam is not merely a religion, but a complete code of life.
The code is enshrined in the Islamic Shariah which is source of guidance for Muslim on all aspects of life.

Secular economic model services the unlimited human wants. Islam maintains God has provided sufficient means for the fulfillment of all human needs. The reason for the economic problem arises because of lack of may be efforts on the one hard and unbridled (unlimited) wants on the other hand. However, all wants do not deserve to be fulfilled. Islam emphasis on the fulfillment of human needs. Islamic concept of economics may be defined as a framework for well motivated but free human action within the Islamic value system. That action must respect specific ordinances relating to economic life and take into account both the spiritual and material needs of the individual and his society in a balanced and harmonious way. The betterment is meant not only for the individual but also for the whole humanity. In the Islamic insurance the interest of the Community is the focal point as against the focus usually on shareholders in the conventional insurance.

Detail functioning of the Takaful and its different types is outside the scope of this presentation. However, to understand the present state of Takaful in the global market, one needs to briefly touch upon some of the circumstances, difficulties and benefits can bring to many more so poor.

Takaful has immense potential. The awakening around the world more in the common masses against the exploitative nature of the parent system operating in the world under the umbrella of so called Capitalist economy has driven even who may not belong to faith of Islam to look for answers and solutions to help the teeming exploited masses. They have found Takaful as a consumer-driven, gaining momentum and acceptance at it seeks to consolidate its roots among the people. For ages the concept of insurance was not accepted by many Muslims as they believed that insurance, more so, life insurance is non Islamic, because it contravenes some of the tenets of Islam. For Islam to accept insurance, it had to be devised in totally to form the part of economic, social activities. It had to be in some form integrate with the economic, social and cultural fabric of an Islamic society, so the search was for an acceptable alternative. The long debates of 1970s culminated in reaching a consensus. In 1985, the Grand Counsel of Islamic Scholars approved this system as a system of cooperation and mutual help. The exact method and operation was left to the Islamic scholars and insurance practitioners to resolve develop and implement.

Though the very first Takaful Company was established in 1979, the Islamic Insurance in Sudan. Since 1985, Grand Counsel decision there has been no looking back. Many more Takaful companies were opened in Sudan, soon to be followed by in many other countries. Tunisia, Saudi

Arabia, Middle East, Pakistan, even in U.K., U.S.A., Australia, South Africa, some former states of the Soviet Union. Of all the countries, Malaysia saw the highest growth in the Takaful and made very rapid progress. Takaful act was placed and formation of capacity through Re-Takaful has started aggressively.

Malaysian Takaful Act 1984 states:

“Takaful business means a business of Takaful whose aims and operation do not involve by any element which is not approved by the Shariah”.

New products and solution are continuously emerging as a result of research being conducted. The Takaful industry had to struggle through many initial problems more aware of its potential.

According to one figure total size of Takaful industry in 2010 was US$ 6493 million or Rs.389.58 billion.

Estimation for the industry to grow by 2015 has given positive indication of a fact Takaful has come not only to stay but in a big way. Its boundaries will transcend all over the world. It is estimated Takaful industry size by 2015 will be US$ 10.97 billion. GCC countries, Middle East, Pakistan and India getting 33%, followed by Asia-Pacific-China with 31%. World wide market potential projected for 2015 in US$ 10.97 billion with Middle East share of 38%, South East Asia 34% and South Asia which includes Pakistan 2.1%.

is based on the principle of mutual protection and has evolved from the Islamic practice of (Aqilah) or blood money. This was practiced by Arab tribes before Islam and was later approved by our Prophet (S.A.W). Ancient Muslims businessmen also helped evolve Takaful insurance while making long journey by sea for trade. They used to collect money from each merchant and use this to compensate those among them who incurred a loss of ship of merchandise from the journey.

The principle is fairness and equity among the participants known in the conventional insurance as policyholders.

The basic fundamental underlying the Takaful concept are very similar to

Territory	Premium US$ (Billion)	Premium Pak. Rs. (Billion)	% Share
Middle East	4.17	250.02	38.0%
South East Asia	3.72	223.20	33.9%
America	1.29	77.22	11.7%
Africa	1.05	62.94	9.6%
Europe	0.39	23.28	3.5%
South Asia	0.23	14.04	2.1%
China	0.13	7.62	1.2%
Total	10.97	658.32	100%

so in life insurance such as standardization of Takaful terminology consensus for a system to determine profits (Surplus) distributable to participants and shareholders. The Re-Takaful issue has now come to grip but needs more attention and research. Lack of Re-Takaful companies rated 'A' or above. However one satisfying factor in that even non Islamic countries and companies who were skeptical about Takaful a few years back are now trying to enter into this business fully

Now the Takaful has been established to satisfy the needs of the Muslim population. Today Takaful is very well known around the world, but it has become competitive in different markets. Takaful insurance is designed to adhere to Islamic laws.

It may be made clear here that insurance is not a new concept in Islam. Joint risk sharing and providing mutual protection, in the event of loss by one of its members is the essence of Islamic insurance. This

cooperative and mutual insurance principles to the extent that the cooperative and mutual insurance scheme investing in Islamic-complaint products is one that is accepted under Islamic Law.

Today much greater awareness of Takaful system is achieved.

1. One basic impediment is obtaining Re-Takaful is now getting removed. Now Re-Takaful capacity is with 'triple A'

is available.

2. Use of modern IT technology.

3. International companies network.

4. The sale of the product through banks.

5. Encouragement and acceptance. More Takaful companies are set up with some trained professionals and are well capitalized.

Life insurance which had always been a source of discontentment to the masses has now gained acceptance through family Takaful as it meets the requirements.

The demand for Islamic products is very evident from the success of Islamic finance and banking. Now these sectors contribute billion US dollars of capital and in US dollars trillions of assets. People have deposited billions of US dollars.

It is estimated that the world population is over 6 billion people. Out of this about 25% are Muslims. At present the fastest growing segment is indeed Islamic Banking. Takaful insurance will grow as the back up.

There are indeed some issues which need to be tackled to ensure further spread of Takaful to the Muslim population.

The spread of Takaful is not matching the number of adequately trained and qualified insurance personnel in Islamic countries. General masses still not fully aware of the principles of Takaful. Most of the Islamic countries lack insurance culture.

Takaful is seen as cooperative insurance. The members contribute a certain sum of money to a common pool. Unlike a conventional insurance, the purpose of this system is not profit but to bear one another burden. The policyholders are in fact the managers of the fund and in control. However, when in practice some types of Islamic insurance each reflecting a different experience environment and different school of thought have gained clientele. The basic concept of Takaful and in complete in accordance to the Islamic tenets remain the guiding factors.

Al-Mudharaba: This is in Malaysia. The surplus is shared between the policyholder and Takaful operator details.

Al-Wakala: This is in Saudi Arabia. Cooperative risk-sharing. Takaful operator earnes a fee for services as an agent (Wakeel) and does not participate or share in any underwriting results. He may also share fee for managing funds.

Bahrain issued accounting regulations in 2000 as guidance for Takaful operations in which Al-Mudharaba practices were preferred for investment aspects of Takaful while Al-Wakala practices were preferred for risk sharing/underwriting aspects of the operation.

Ta'awani concept is for pure Mudharaba where Takaful Company and the policyholder will only share the Direct Investment Income. The policyholder is entitled to a 100% of surplus with no deduction made prior to the distribution.

Then there is Tabarru (Donation) from the participants who willfully give to the less fortunate members of the community.

The Takaful insurance can play a very sufficient role in helping the poverty alleviation.

Today the poverty line is on the increase. More and more common people are finding it very difficult to meet their basic needs. One bread earner may have five or six dependents. God forbid, if something happens to a bread earner by way if death, illness or accident the whole family suffers and falls into a ditch of complete chaos, hunger and frustration. It is only through Takaful concept which can sustain and keep the family from destruction hence liability on the society.

.........Without protection against losses and natural perils many individuals find themselves following back into poverty. Takaful can provide the safety net for communities to achieve sustainable development. Ensure continued standard of living, a sense of security. Takaful products in Muslim countries can provide protection to the middle and working classes from falling into poverty in the event of a large loss.

It will be of interest to mention here that in 1997, the Agricultural Mutual fund of Lebanon was established which provided health insurance coverage for costs not covered by the government Social Security fund. It is provided in the spirit of Takaful where protection is provided to the needy. This is perhaps the only Takaful Scheme in the world which has its focus on the needy and poor.

Coming home, Pakistan Takaful Rules were notified by the Ministry of Commerce, Govt. of Pakistan on 31-03-2005 and have been implemented. This was done in accordance with the requirement of the Insurance Ordinance 2000. The regulators are SECP. So far, five companies has been granted license for Takaful Insurance in Pakistan.

Earlier, as per the rules no window was allowed to transact the Takaful business with in the conventional insurance company, but now this compulsion has been removed by SECP, but no conventional insurance company has opened this type of window yet.

The scope for the business is tremendous in Pakistan and before actually opening of Takaful Companies, the acceptance is already there. Today there are 33 conventional insurance companies operating in general insurance and four in life. The total premium in 2010 for general insurance companies was Rs.37.59 billion a substantial share to the credit of Pakistan.

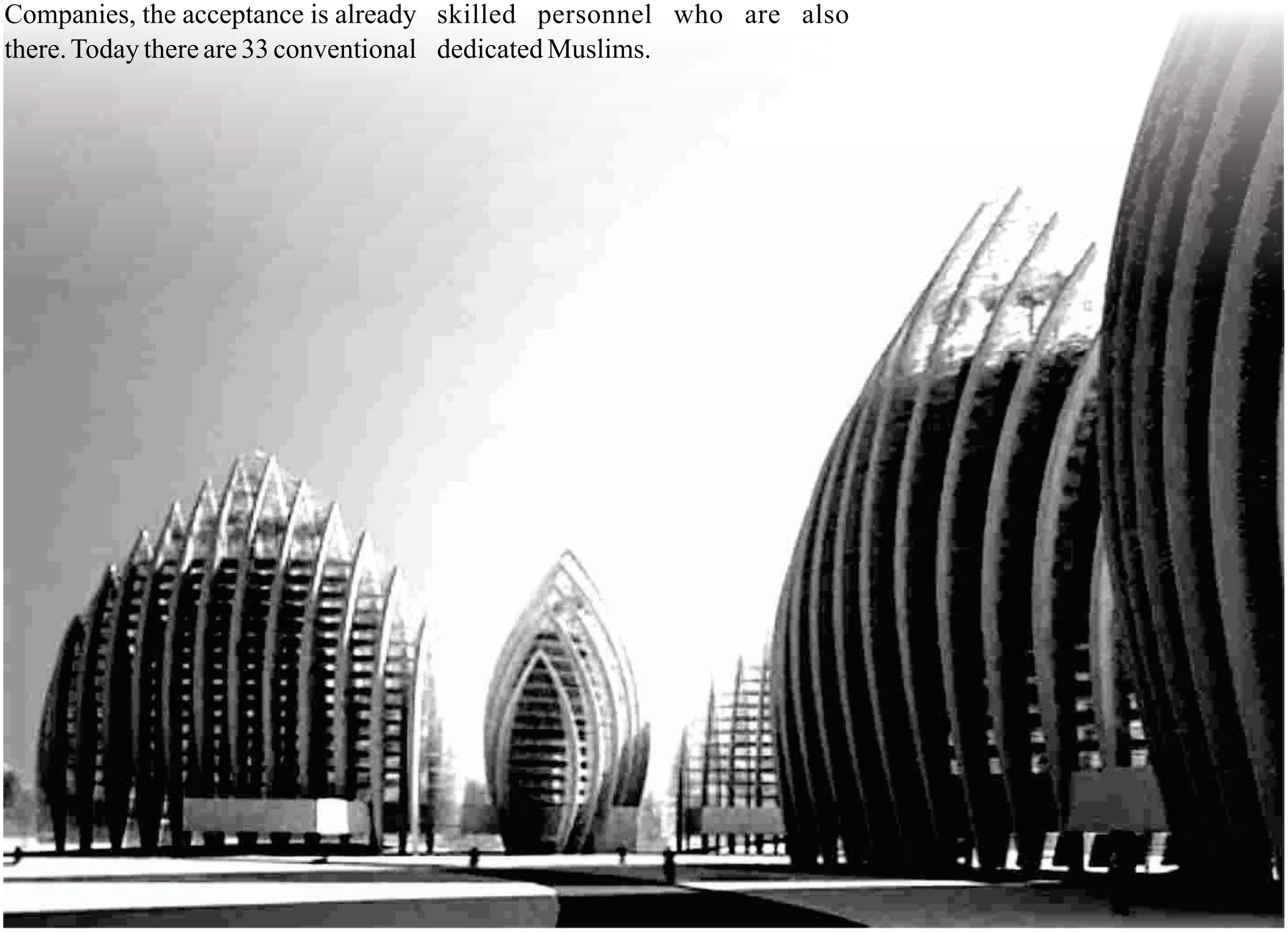
The Pakistan insurance industry if they want to survive and new who want to get into Takaful business need to plan and research in more organized and professional way, because they will encounter still competition. One very important factor would be trained professional.

The Organization of Islamic Conference (OIC) is very actively in the process of establishing an International Reinsurance Corporation.

There appears a severe shortage of skilled personnel who are also dedicated Muslims. This is applicable to life family Takaful, as the fund is entirely distributed to the participants.

Some Plans, strategies and actions for Takaful are as under:

- Increase number of Takaful Companies
- Building Financial Capability
- Building Expertise – Professionals, Training and Information Technology.
- More Re-Takaful companies and strengthening to retain maximum retention.
- Strong shareholders Group.
- Shariah-Compliant.



Future Growth

Size of Muslim population.

- ★ Over One Billion
- ★ Representing 25% of the world population

• Accounts only 5% of global insurance premium

• Most Muslim Countries are situated on the Earthquake Zone e.g. Turkey, Indonesia, Iran & now Pakistan also.

• In the Event of disaster to provide mutual assistance.

• Enhancement of Islamic finance and banking to increase matching demand for TAKAFUL.

Insurance Penetration
Premium as share of G.D.P

• Pakistan	0.7%
• Saudi Arabia	0.5 %
• Iran	0.80 %
• Indonesia	1.20 %
• Malaysia	6.00 %

Plans Strategies & Action

- **Increase number of Takaful Companies**
- **Building Financial Capability.**
- **Building Expertise - Professionals, Training -I.T**
- **More Retakaful Companies and strengthening to retain maximum retention.**
- **Strong shareholders Group.**
- **Sharia-Compliant**

Fiqh Academy Ruling

Pluralism of Fatwas has been an integral element of Islamic law, resulting in the variations of Takaful models throughout the industry:

WAKALA and MUDARABAH

Projection 2015 Takaful

- US$ 10.9 billion
- This will be 0.7% of the total premium of Insurance Industry.
- Family Takaful would grow at faster rate of 20% p.a than Takaful General of 8% p.a.

Looking at 2015 Projected Takaful worldwide

Source: Insurance Publications.Sigma

Territory	Premium US $ (Billion)	Premium Pak Rupees (Billion)	% Share
Middle East	4.17	250.02	38.0%
South East Asia	3.72	223.20	33.9%
Amercia	1.29	77.22	11.7%
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Total	**10.97**	**658.32**	**100%**

Growth of Insurance is closely linked with Insurance Education and Training

By

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This article was published in October, November, December, 2000 issue of the Insurance Journal.

Pakistan inherited a tiny part of insurance business at the time of partition. The private insurance companies existing then started their business operations in a meager way mainly in the city of Karachi with small branches in Lahore and some big cities. However, with entry of foreign insurance companies in the field of insurance business, the pace of development gained some momentum. Some of the foreign composite insurance companies together with most of local composite insure pooled their operational resource so as to sustain their smooth running and survival. American Life doing only life insurance, did not have extra financial burdens on its operational cost as most of the marketing planning and product development works were carried out at its, headquarters outside Pakistan.

With whatever resources the insures had in their possession when they started procurement of business and its management, they felt greatly motivated by the expectations of potentially unexplored insurance markets in the country. However, one very crucially important factor which strongly supports i.e. wellfounded insurance education and training arrangement lacked in its totality. The sales-force recruited and employed by the insures comprised mostly individuals with very low level of school and college education and virtually very little or zero level of professional education and training exposures as a result of which the insurers focused mainly on the results i.e. premium collections rather than on the sales and marketing activities which produce genuine results with guaranteed persistent business with stable income to the sales force.

The only institutionalized insurance education arrangement then existing was the self-study courses offered by the Chartered Insurance Institute (London) subsequently shared by the services of Life Offices Management Association- LOMA (USA). Pakistan Insurance Institute acted only as the facilitators to administer the exams conducted by these Institutes. It had also designed short-duration certificate courses on different insurance subjects which were offered to the employees working in insurance companies as well as to some outsiders with good academic background who wished to have a career in insurance profession in sales as well as in office management cadres... Unfortunately, this very limited function stands terminated drastically negating the objective of the Institute itself.

Due to unsatisfactory reward/ incentive system poorly supported by the Insurers before nationalization of life insurance business, only the employees who were academically rich and resourceful ventured to participate in CII (London) and FLMI's programmes with a clear objectives in their mind to acquire technical know-how and professional expertise so as to build up their career-paths with expectation with the hope of gaining professional reputation in insurance industry. Sales-force, because of its very weak education background and also because of the fact that an overwhelming majority of this class worked as part-times, did not have the will, monetary resources and courage to take the risk of facing failures.

State Life Insurance Corporation of Pakistan which, upto recent past happened to be the sole Life Insurers had chalked out a comprehensive training programmes based on LIMRA's (USA) Agent Development Programme for its established sales representatives and Marketing Management Courses for Sales Managers and above. However, due to negative attitudes of the stake-holders i.e. Managers Development and Zonal Heads etc. only marginal success could be achieved. Besides, two more relevant factors which have discouraged even the willing learners amongst the people engaged in marketing development activities include:

1. Very low SKA (Skill, knowledge and attitude) levels of salespersons hitherto recruited ramdomly because of unsatisfactory marketing management experience combined with professional incompetence amongst the Marketing Managers in general and amongst senior marketing executives in particular.

2. Inexperienced and untrained instructors placed in Training Centers. For a trainer/educator of adult learners in insurance profession particularly in life insurance, it is a must for him or her to (a) have mastery over the product knowledge and (b) be professionally trained to have learned and practiced training techniques which is a must for creating a positive and learnable learning environment.

Now that the monopoly of State Life has come to an end with the entry of private life insurers, there is now a genuine need to create the much-needed intellectual capital in insurane industry as a whole and specially in life insurance portfolio being shared by private companies and State Life.

Needless to emphasize that professional education is the front line of defense for insurance companies including State Life to fight to win the war on the bottom line. In today's competitive markets, no organization can survive without investing in its employees. If promotion is to come primarily from within, then the onus of management development has to fall internally. The combination of internal promotion and strong emphasis on management development can be a two-edged sword unless the swift pace of growth can be maintained. Failure to grow can force an exodus of talents and widespread frustration.

The business world is gradually being to recognize the importance of insurance education and training rightly called as “INTELLECTUAL CAPITAL”. This is the value of every thing that everybody in an organization knows that gives the organization a competitive advantage in the marketplace. Many of us in the insurance business have recognized this for quite some time, but the concept becomes more important as the industry faces increasingly mounting pressures in the financial services marketplace.

The key to Intellectual Capital is education. As the industry challenges, as new technologies are introduced, as new service strategies are adopted, the workforce must be continuously educated to properly and effectively do its job.

Professional education is necessary not just to allow employees to do their jobs. Increasingly, it is important as a way to provide a competitive advantage. Today, the business organization essentially all have the same technology, the same networking systems, the same software. The only way they can beat out their competitors is by enabling their biggest asset-their workforce to be more innovative in using new products and services that sell well.

The insurance industry is fortunate to have many educational resources, among them the programmes offered by CII (London) and Life Offices Management Association (LOMA-USA) are precisely tailored to improve and update the job performance requirements in office as well as in the field side. However, the rapidly increasing cost of financing the studies in respect of examination fee and course materials is viewed as a strong barrier for the companies as well as for the intending candidates to buy the service being offered by these internationally-recognized Insurance Institutes. It is therefore, of utmost importance now that the insurance industry, as a whole must give a serious thought to pool its' collective resource to establish or preferably restructure and strengthen the existing Pakistan Insurance Institute by assigning it the following jobs as its primary responsibility:-

1. To design and develop suitable courses based on insurance products and services in respect of life and non-life portfolios as has been done by Insurance Institute, India for the employees of insurers there. Of course, this Indian Institute completed the job after putting a lot of time, efforts and intellectual resourcefulness shared by professionally qualified employees working in insurance companies as well as in public sector Indian Insurance Corporation. Not only that the Institute has become self-sufficient in imparting insurance education and holding examinations and awarding its' certificates and diplomas, but they also been successful in providing institutionalized training and management development services to sales as well as office employees.

The interesting thing is that banking and accounting sectors in our country are privileged to have their full-fledged institutionalized banking and cost management arrangements. The diplomas and degrees awarded by these institutes are of no less valuable than CA/CPA of Britain and USA. If banking and accounting sectors can run their self-sustaining professional education programmes, why not we in insurance sector follow the suit.

2. We certainly do have quite a good number of professionally qualified Resource Person both in service and retired who can be effectively mobilized to perform the job. The venture, though somewhat painstaking, is sure to get off and take a good start provided the present Pakistan Insurance Institute is effectively activated and reorganized and made reasonably resourceful with, if need be, with the collaboration and support of Security Exchange Commission.

3. For the purposes of imparting product knowledge as well as peoples' management development programmes, let PII act as an independent training and research institute leaving sales and management orientation part of the training to be individually handled by the inhouse training arrangements in the companies which have enough financial and leadership/instructional resources.

For decades, training and education were viewed as the great money pit: all cost, little return, no effect on the bottom line. Now, as pointed out earlier, the business organizations are recognizing the human mind has balance-sheet value, times-and expenditure-are changing dramatically. More and more money on employees education and training than ever-before.

Companies in the insurance industry are vocal about the reasons why the spending is up: change, competition, customer satisfaction, employees effectiveness, and morale. New Technology, new customer service strategies, downsizing, decentralization-over the past few years, everyone working in insurance has been blown by the winds of change. The one effective way to work through changes in business is to make sure we are prepared to face the differences that are surly coming.

Being in a service industry, professional education and training happens to be one of our largest investments in our people. The nature of our work is changing, and jobs are becoming increasingly complex. It is, therefore, high time that we must recognize the need to invest on our intellectual capital so that employees have skills they need to contribute to the future success of insurance profession and its' business. Intellectual capital, sustained by employee education can also make a tremendous difference in the competitive edge we do have in our markets. Our employees knowledge and education are the fuel that can give employees a real competitive edge and make a big difference in our success. The only way to keep our employees in top-notch shape, ready to handle any customer, is by promoting education and training. Another important, and often forgotten, aspect of customer satisfaction is trust. Insurance, specially life insurance and financial services are highly sophisticated business dealing with professionals at all levels. Anyone, from a shopkeeper to magistrate judge to a multi-billionaire. The knowledge the employee gained through continuing education allows the insurers to provide their clients with the service they both expect and desire. A knowledgeable employee populace contributes to s reduction in errors, improved efficiencies, and satisfied customers. Education can also make a difference in employee performance and job satisfaction. Employees notice the presence and absence of the necessary training to improve their job performance. Even beyond the immediate knowledge grained by our employees, the benefits of change in morale among almost all our employees who have successfully earned a professional designation is very much there.

It is no accidence that companies that believe strongly in value of intellectual capital have a strong education culture. They have seen and experienced the difference education and training can make, and they find that supporting education and training can make, and they find that supporting education is worth the investment. The most basic ways to encourage employees in their pursuit of education are promotion, monetary incentives and recognition programmes. Besides, if education is not vocally supported by senior management, many employees many mistakenly feel education is not a valid or important pursuit. Gone are the days when some of highly placed (more appropriately said as wrongly placed) Insurance executives/stakeholders used to condemn highly educated employees by saying that only marginally qualified employees could do the job more economically for the benefits of the insurers. Let me say here that his sort of moral corruption in their mind-set has eventually led to a very distorted growth and progress of the insurance business in the country.

2010 PLJ 143

[Peshawar]
[Dera Ismail Khan, Bench]
Present: Attaullah Khan, J.
CHAIRMAN, STATE LIFE INSURANCE CORPORATION OF PAKISTAN, KARACHl and 7 others--Petitioners

Versus

UMAR ZAD SHAH BUKHARI, ADVOCA TE--Respondent

C.R. No. 304 of 2004, decided on 26.4.2010.

Insurance Ordinance, 2000--

----S. 122(3)--Civil Procedure Code, (V of 1908), S. 115--Civil revision=Suit for specific performance of contract in respect of insurance=Policy along with business partner--Civil Court has no jurisdiction-- Tribunal has got Exclusive jurisdiction--Validity--Under S. 122(3) of Insurance Ordinance, tribunal is vested with exclusive Jurisdiction to be constituted by Federal Government--Tribunal was not constituted by Federal Government-- In Absence of tribunal, S. 122(3) of Insurance Ordinance cannot be pressed into service--In such eventualities, Civil Court has jurisdiction to entertain and adjudicate upon the matter in dispute=Revision was dismissed. [P. 145] A

Insurance Ordinance, 2000--

----S. 72--Non-impalement of legal heirs of deceased-Reference might be made wherein the details regarding nominee are given--Policy was matured for payment-Nominated person in the policy shall be paid in the events of his death--Partnership deal-- Validity--During the course of joint business, they secured a joint insurance policy for Rs. 4, 00, 000/- from the petitioners and same was sanctioned after completion of required codal formalities and a sum of specific amount was deposited and first premium receipt was also issued--After the sudden death of the partner the insurance claim was submitted but after its refusal, the matter was referred to Mohtasib's Aala Office who accepted it. [P5. 145] B

Civil Procedure Code, 1908 (V of 1908)--

----S. 115--Insurance Ordinance, 2000, Ss. 122 & 123--Jurisdiction to entertain and decide the suit-Suit for specific performance of contract along with business partner=Divergent pleadings of the parties=Inquiry by Doctor=Insurance claim was not paid--During inquiry it transpired that deceased was sick person--Validity--State Life conduct medical examination for policy holders through its own Doctor=Holding of enquiry regarding health of deceased was complete having been mitigated by the petitioner before the issuance of required policy-- Subsequent enquiry was not believable because he was employee of petitioner and was interested-No independent evidence in support of the claim that deceased was seriously ill-Deceased was declared medically fit by Doctor of State Life--No other ground was proved to justify interference in the impugned concurrent findings of the Courts below-Revision was dismissed. [Pp. 145 & 146] C & D

2000 SCMR 146, PLD 1994 SC 291 & PLD 2002 SC 293, reI.

Mr. Muhammad Kamran Niazi, Advocate for Petitioner.

Respondent present in person.

Date of hearing: 26.4.2010.

Judgment

Chairman, State Life Insurance Corporation of Pakistan and seven others under his subordination, petitioners herein, have filed the instant revision petition under Section 115 CPC against the judgment and decree dated 7/7/2004 passed by the learned Additional District Judge-I Bannu, whereby their appeal against the judgment and decree dated 11/7/2003 passed by the Civil Judge-III Bannu was dismissed.

Facts of the case are that Umer Zad Shah Plaintiff filed a suit for specific performance of contract dated 30/7/1998 in respect of Insurance Policy which he along with his business partner, namely, Nezam Khan had taken from the petitioners on the grounds detailed in the plaint. The defendants/petitioners contested the suit by filing written statement and the divergent pleadings of the parties gave birth to the framing of eleven issues. The learned trial Judge after recording evidence pro and contra and hearing arguments decreed the suit of the plaintiff/respondent where against appeal of the defendants/petitioners was dismissed as mentioned above, hence this revision petition.

3. I have perused the written arguments filed by the parties.

4. The contentions raised by the petitioners are that the Civil Court has no jurisdiction to entertain and decide the suit because under Sections 122 and 123 of the Insurance Ordinance 2000, only the Tribunal has got the exclusive jurisdiction; that the legal heirs of the deceased partners Nezam Khan have not been impleaded and that the evidence of the Claim Manager, Dr. Muhammad Ishaq (DW-l) has not been appreciated correctly.

5. On the other hand, the written arguments of the plaintiff/respondent discloses that there was no need of impleadment of legal heirs of the deceased Nezam Khan, because the respondent is nominee of the deceased and as the Life Policy was joint one, therefore, the respondent could claim it. Regarding the point of jurisdiction, the stand of the respondent is that at the relevant time, Insurance Tribunal was not constituted and that is why the suit was adjudicated upon by the civil Courts.

6. As far as the jurisdiction point is concerned, no doubt under sub-section (3) of Section 122 of the Insurance Ordinance 2000, the Tribunal is vested with exclusive jurisdiction to be constituted by the Federal Government under Section 121 thereof. The record reveals that at the relevant time, such Tribunal was not constituted by the Federal Government. In the absence of such Tribunal, sub-section (3) of Section 122 of the Ordinance ibid cannot be pressed into service. In such eventualities, the Civil Court has jurisdiction to entertain and adjudicate upon the matter in dispute.

7. With regard to the non-impleadment of legal heirs of the deceased Nezam Khan, reference may be made to Section 72 of the Insurance Ordinance 2000, wherein the details regarding nominee are given. According to it, before the Policy is matured for payment, the person/persons who are nominated in the Policy shall be paid in the events of his death. In The First Policy Schedule, the respondent is mentioned as Nominee which is Ex. PW. 2/1. The record further reveals that there was partnership deal between Nezam Khan and the respondent and during the course of joint business, they secured a joint Insurance Policy for rupees four lacs from the petitioners and the same was sanctioned on 30/7/1998 after completion of required codal formalities and a sum of Rs. 29,068 was deposited and first Premium receipt was also issued. After the sudden death of Nezam Khan Partner, the Insurance claim was submitted but after its refusal, the matter was referred to Mohtasib's Aala Office who accepted it on 10/7/2000.

8. As far as the subsequent inquiry by Doctor Muhammad Ishaq is concerned, the petitioners impugned the said judgment and did not pay the Insurance claim of the respondent The main reason prevailed with them was that Nezam Khan at the time of obtaining policy was seriously ill and this fact was concealed. They produced Dr. Muhammad Ishaq as DW-I who had conducted inquiry after receipt of death claim. According to him, during inquiry it transpired that the deceased Nezam Khan was a sick person but his cross-examination is not in line with the case of the petitioners. He has made so many admissions, for example, he admitted that the State Life conduct medical examination for Policy Holders through its own Doctor. This means that the holding of enquiry regarding health of Nezam Khan was complete having been initiated by the petitioners before the issuance of the required policy.

9. As far as the subsequent inquiry by Doctor Ishaq is concerned, it is not believable because he was employee of the petitioner and was interested. There is no independent evidence in support of the claim that Nezam was seriously ill. This Nezam was declared medically fit by the Doctor of State Life and, thereafter, the policy was issued. No other ground has been proved to justify interference in the impugned concurrent findings of the Courts below.

10. The concurrent findings on facts recorded by the learned two Courts below cannot be set at naught unless it is proved that the same are either perverse, fanciful or erroneous in view of the dicta handed down in the cases of Abdur Rahim and another Vs. Mst. Janatay Bibi and others (2000 SCMR 146), Haji Muhammad Din vs. Malik Muhammad Abdullah (PLD 1994 Supreme Court 291) and Muhammad Rashid Ahmad vs. Muhammad Siddique (PLD 2002 Supreme Court 293).

11. Consequently I find no substance in this revision petition which is accordingly dismissed with no order as to costs.

(R.A.) Petition dismissed.

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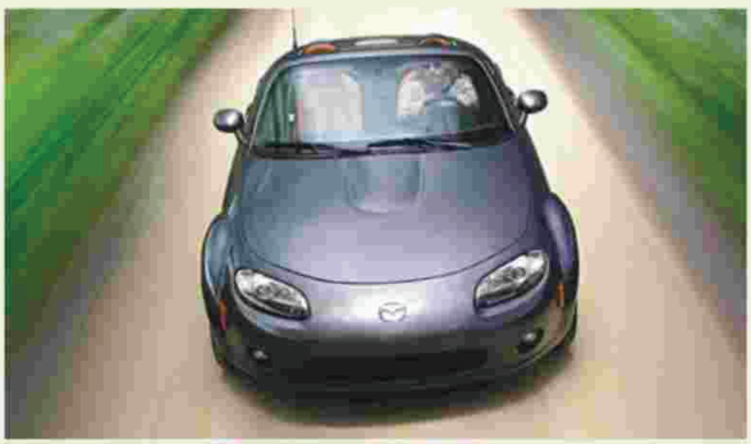

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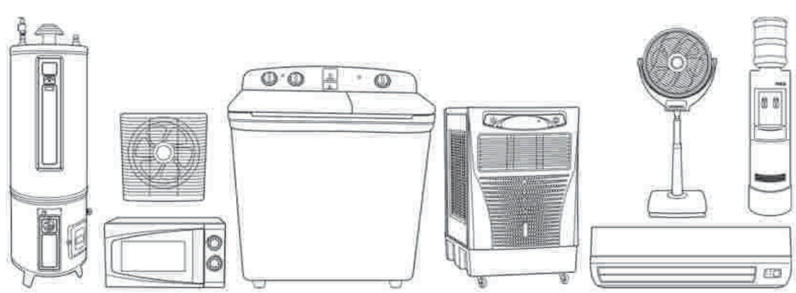

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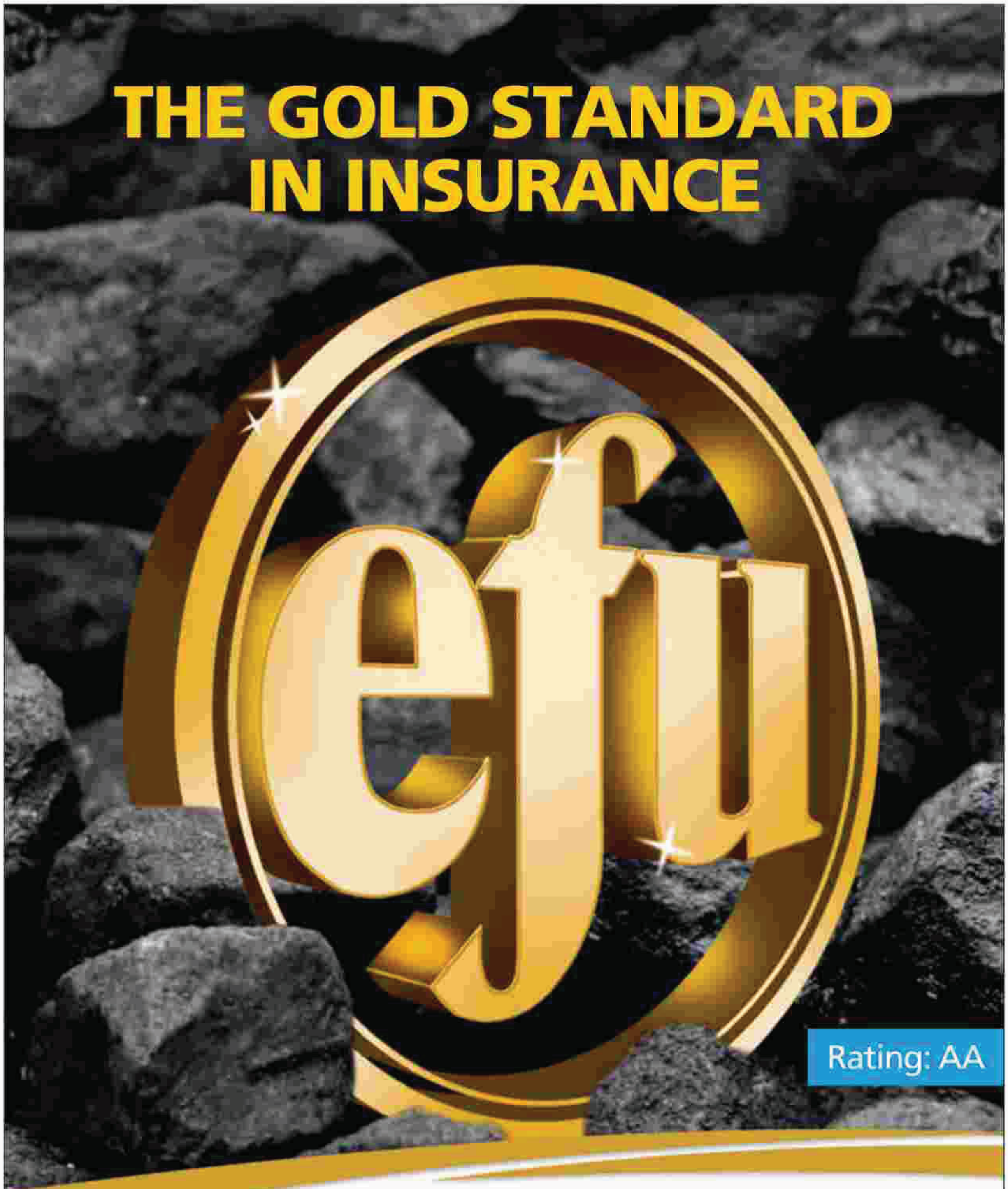
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