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Quarterly

Insurance Journal

April, May, June 2011

Mr. Muhammad Ali
Chairman SECP

SPEAKS

SECP

Health Microinsurance Bangladesh

Flood a positive view

Inside:

- Practical Application of Various Type of Life Insurance
- Risk and Insurance
- Student's Corner
- Legal Section
- Letters
- Opinion


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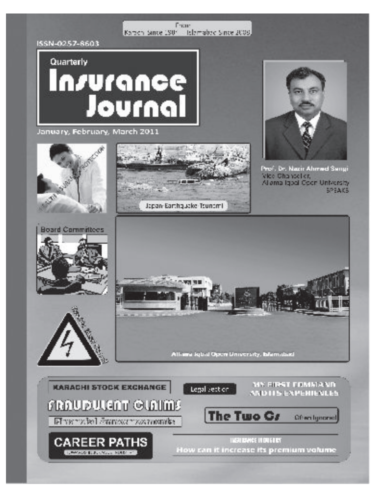

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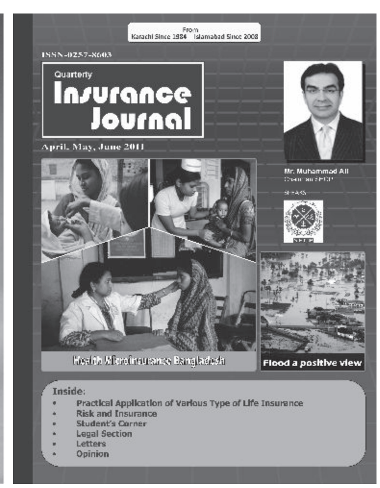


April, May, June 2011

INSURANCE SECTOR ON KARACHI STOCK EXCHANGE

(Quarter: April, May, June 2011)

Company	Paid up Capital (Rs. In Million)	Face Value Rs	Highest Rate Rs	Lowest Rate Rs	Turnover of Share	Announcement During the Quarter
Adamjee Ins. Co. Ltd.	1,237	10.00	96.40	68.92	41,577,996	Dividend = 15%
American Life Ins. Co. Ltd.	500	10.00	18.50	14.02	16,281	
Asia Ins. Co. Ltd.	250	10.00	16.00	14.00	11	
Askari General Ins. Co. Ltd.	255	10.00	11.80	9.51	492,594	Bonus Issue = 10%
Atlas Ins.	443	10.00	42.90	26.60	696,033	Bonus Issue = 20%, Dividend = 40%
Beema Pakistan Co. Ltd.	417	10.00	-	-	-	
Business & Industrial Ins. Co.	86	10.00	-	-	-	
Central Insurance Co. Ltd.	279	10.00	115.90	61.30	463,681	Bonus Issue = 40%, Dividend = 15%
Century Ins. Co. Ltd.	457	10.00	11.99	8.90	1,467,161	Dividend = 10%
Crescent Star Ins. Co. Ltd.	121	10.00	6.30	3.11	49,962	
Dadabhoy Ins.Co.Ltd.	50	10.00	-	-	-	
Delta Ins. Co. Ltd.	40	10.00	-	-	-	
EFU General Ins. Co.	1,250	10.00	45.00	32.25	3,450,179	Dividend = 12.5%
East West Ins. Co. Ltd.	251	10.00	296.00	296.00	200,000	
East West Life Assurance Co. Ltd.	500	10.00	3.74	1.50	149,673	
EFU Life Assurance Ltd.	850	10.00	79.80	51.31	1,300,351	Dividend = 50%
Habib Ins. Co. Ltd.	400	10.00	15.50	11.72	819,573	Bonus Issue = 12.5%, Dividend = 25%
Hallmark Ins.	5	10.00	-	-	-	
IGI Ins. Ltd.	718	10.00	102.44	88.11	747,567	Bonus Issue = 35%, Dividend = 20%
Ittefaq General Ins. Co. Ltd.	10	10.00	-	-	-	
New Jubilee Life Ins. Co. Ltd.	627	10.00	49.00	39.05	992,239	Dividend = 15%
New Jubilee Ins. Co. Ltd.	791	5.00	70.70	56.00	310,092	Bonus Issue = 25%, Dividend = 20%
Pakistan General Ins. Co. Ltd.	200	10.00	10.00	6.20	101,233	Bonus Issue = 10%
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	19.40	13.80	54,486,314	Dividend = 30%
PICIC Ins.	350	10.00	13.00	7.35	3,400,789	
Platinum Ins. Co. Ltd.	120	10.00	-	-	-	
Premier Ins. Co. Ltd.	303	5.00	13.27	10.10	577,760	Dividend = 25%
Progressive Ins. Co. Ltd.	85	10.00	-	-	-	
Reliance Ins. Co. Ltd.	252	10.00	8.25	6.20	180,664	Bonus Issue = 12.50%
Shaheen Ins. Co. Ltd.	200	10.00	14.20	8.55	87,364	Right Issue = 25%
Silver Star Ins. Co. Ltd.	253	10.00	8.20	6.01	361,710	Bonus Issue = 15%
Standrad Ins. Co. Ltd.	8	10.00	-	-	-	
Sterling Ins. Co. Ltd.	5	10.00	-	-	-	
Union Ins. Co. Ltd.	82	10.00	-	-	-	
United Ins. Co. Ltd.	400	10.00	7.90	5.50	134,876	Bonus Issue = 24%
Universal Ins. Co. Ltd.	263	10.00	4.00	1.68	32,258	

Muhammad Ali

Chairman SECP

SPEAKS

Mr Muhammad Ali was appointed chairman of the Securities and Exchange Commission of Pakistan (SECP) on December 24, 2010. He has extensive and diversified corporate and financial markets experience spanning over two decades.

An MBA from the Institute of Business Administration (IBA), University of Karachi, Mr Ali is a well-known professional and entrepreneur. He started his career with Citibank and then moved to Smith New Court Securities in London. In 1994, he finalized a joint venture with Indosuez W.I. Carr Securities, Asian brokerage arm of Credit Agricole Indosuez, and led Indosuez W. I. Carr Securities Pakistan for six years. During his stint as the CEO, the company became one of the largest and the best rated brokerage houses in Pakistan, attracting one of the highest levels of foreign portfolio investment in the country's equity markets among all market intermediaries. He also led the expansion of W.I. Carr's business activities to Bangladesh and finalized group's strategy for the Middle East and North African markets.

Mr Ali then changed his focus to private equity investments and setting up of new businesses. He has been the driving force behind the creation and success of various companies in Pakistan, Middle East and North America in financial, real estate development, information technology and digital content management sectors. Mr. Ali was responsible for idea generation, planning, funding and setting up of these businesses.
He has also served as a director on the boards of reputable companies like Engro Corporation Limited, Karachi Stock Exchange (Guarantee) Limited, Dawood Bank Limited, etc.

` Insurance Journal provided questions to Chairman Securities and Exchange Commission of Pakistan (SECP) Mr. Muhammad Ali, and requested for answers. Reproduced below are the questions of the I.J and the answers of Chairman SECP.

Insurance Journal: ***The supervision and regulations of insurance companies is the responsibility of the SECP. However, it has been observed that insurance was given a very low priority. Insurance is a division of the SECP and this important division is ill equipped and not adequately staffed. Some very important positions are still vacant.***

Chairman SECP From the regulator's perspective, one of the primary goals of insurance regulation is to promote the orderly development of a financially strong and transparent insurance industry, thereby increasing the insurance penetration. The insurance industry in Pakistan has shown remarkable growth over last five years. Particularly, after the promulgation of the 2000 Insurance Ordinance, when the old law of 1938 was done away, new avenues of business have opened and the niche is yet to be carved. Just over last four years the average growth in the gross premium of the industry, including life as well as non-life sector, has been recorded as 17.2%.

As a regulator, the SECP has taken many steps to promote the orderly development of insurance market. In Pakistan, the insurance industry is fairly liberalized as 100% foreign ownership and control of insurance companies is allowed. Looking at the potential and developmental pace of the industry, many major banks have also set up their own insurance companies. The minimum capital requirements are being increased in a phased manner, though they still remain modest by international standards, at Rs300 million for non-life and Rs500 million for life. Despite its relatively small size, the sector is supported by strong accounting and actuarial infrastructure. The leading listed insurance companies produce transparent financial statements, which are available on the internet. Similarly, the reinsurance requirements for the sector are also very clear and well-defined. The world's leading Reinsurance Companies like Swiss Re, SCOR, the Lloyds of London, remain committed to the Pakistan's markets. Just during last two years, two reputed foreign players, the Hollard Group of South Africa and Galleon Management LLC of USA set up their companies in Pakistan. The local insurance market has also witnessed introduction of new products like in health, crop and livestock insurance. Similarly, new distribution channels such as Bancassurance, Web-sales and Tele-sales have also recently emerged.

Talking specifically about the SECP, the Insurance Division has been restructured for the improvement of the sector. The division has been divided into two departments, i.e., Policy, Regulation and Development Department; and the Supervision Department. The Policy Department looks after the matters pertinent to Policy reforms, Registration, Reinsurance, Litigation and Advisory. While the Supervision Department takes care of On-Site Inspections, Off-Site Surveillance and Enforcement function, the enforcement of the 1984 Companies Ordinance for insurance companies has also been re-shifted to Insurance Division to make it easier for insurance companies to meet regulatory compliances for both the 1984 Companies Ordinance and the 2000 Insurance Ordinance. The division is staffed with a diversified line of professionals including chartered accountants, cost and management accountants, MBAs, lawyers and experienced insurance professionals and to augment this process, it is planned that more professionals will be hired in the near future.

Insurance Journal: ***Today there are 35 general insurance, four life and three takaful companies in Pakistan fully licensed by the SECP. The performances of the some of the companies in operation in the last 4 to 8 years have not been satisfactory. Clause 12 of the 2000 Insurance Ordinance sets criteria for sound and prudent management. However this clause has never been invoked. How do you think this can be checked and the board of directors of the company made directly responsible for the performance because of choice of C.E.O.?***

Chairman SECP A slight correction is in order here. Currently, there are 36 active non-life insurance companies; 7 life insurance companies and 5 takaful operators in Pakistan. It is pertinent to point out that in order to prepare the insurance industry to encounter the impact of globalization and shrinking margins and also to avoid maladministration, the insurance companies must be run by competent executives with adequate know-how; otherwise the insurance industry may also be caught unprepared like the textile sector in Pakistan. In order to arrive at an amicable solution and after a prolonged series of detailed meetings between the SECP and the Insurance Association of Pakistan (IAP), the 'Fit and Proper' criteria was finalized. The agreed criteria is not only acceptable to the IAP, being industry's representative body, but also serves the purpose of the SECP to ensure 'sound and prudent' management of insurance companies. In the larger interest of the industry and keeping in view the importance and gravity of the situation, the SECP will soon notify the criteria agreed with the IAP. This strengthen professionalism and discipline in the industry.

Insurance Journal: ***The clause 12 of the 2000 Insurance Ordinance explains fit and proper person. However it does not explain what should be the experience adequate know-how of insurance marketing acumen and qualifications. So far the SECP has not regulated this very Important aspect of the sound and professional management of the insurance companies. Will the SECP like the State Bank implement this important clause?***

Chairman SECP While I have already answered your question to some extent, you would appreciate that under the applicable laws, certain qualifications have already been prescribed for the insurance agents. However, with the pace of development where new lines of business are evolving such as Bancassurance, the SECP is contemplating prescribing enhanced certification requirements for such professionals through the Pakistan Insurance Institute, the Institute of Capital Markets, which has also been recently established by the SECP and other stakeholders.

Insurance Journal: ***Insurance penetration in Pakistan is one of the lowest and its relation to GDP is negligible, what measures would the SECP suggest to improve this position?***

Chairman SECP As you are already aware that insurance penetration in Pakistan has remained very low at 0.7% of GDP during last decade while the insurance density is mere $5 per capita. One of the reasons quoted for such dismal figures is the inherent element that Pakistan is a Muslim country where insurance is considered non-Islamic and prohibited under the Shariah in its conventional form. However, over the past few years, the SECP has fostered some major developments in Pakistan's insurance markets that have enabled the industry to realign the business dynamics in stronger shape like takaful rules, Bancassurance guidelines, life insurance illustration guidelines, IFRS-4 implementation; few other initiatives which are now in their final stages of culmination include new solvency rules, new takaful rules. Other recent initiatives taken by the SECP to increase the penetration include development of microinsurance regulations, Terrorism Insurance Pool.

While your question specifically asks about the suggestions for improvement, in my opinion, there is a clear need to change the way the industry operates its business model. With the advent of technology, now is the time for local market to reposition itself and adopt new business channels. For example, insurance companies should allow instant policy issuance and renewal through their websites for all retail insurance products including car insurance, health insurance, travel insurance, etc., by way of multiple payment options available including internet banking, credit card, debit card, etc. These web-based systems should be utilized to meet all pre and post-policy transactional needs of its customers. One can compare plans, get quotes, buy, renew and keep a track of their insurance policies online.

A company should use a multi-channel approach to sales, service and other allied activities. Other than retail channel consisting of sales executives, sales officers, brokers and agents, now is the time that companies develop a web-based system. Similarly, Bancassurance can be utilized for the distribution of insurance products through a bank's network with tie-ups with various banks. With a team of product managers, sales managers and sales executives, any company can use this channel to sell, cross-sell and up-sell its products.

Insurance Journal: ***The promulgation of the 2000 Insurance Ordinance replaced the 1938 Insurance Act. What positive change in the working of insurance industry this ordinance has brought about?***

Chairman SECP Since the promulgation of the 2000 Insurance Ordinance and the SECP's birth as the regulator of the insurance industry, the industry has witnessed an average growth of 21% in gross premiums as compared to 14% of the corresponding period when the industry was not regulated by the SECP. Moreover, the industry's gross premium has multiplied by 5 times since the SECP took over as the reguator. The paid-up capital requirements and the solvency requirements have been made more prudent with the commensuration of risk; while on-site inspections of the insurance companies have also been started for effective supervision and monitoring and more stringent regulatory reporting requirements have been prescribed. Minimum statutory deposit requirements have been made stricter for the policyholders' protection. Certain tax anomalies affecting the insurance companies have also been resolved in consensus with the relevant stakeholders.

The advent of the Islamic insurance, takaful, is also considered one of the positive sign after the promulgation of the current ordinance. The establishment of the ombudsman office is also an important achievement. The key objective has been to provide analysis, investigation and timely, cost-free redress of public grievances against alleged maladministration by the insurers. It is also pertinent to mention that a sizable number of complaints against the insurance companies, which had been pending for so many years have also been resolved by the Insurance Division. I would also like to add that he SECP has also been the member of the International Association of Insurance Supervisors (IAIS) since 2004. The IAIS is an international standard setting body for insurance regulation and supervision, working closely with other financial sector standard setting bodies and international organizations to promote financial stability. The IAIS represents the insurance supervisors of more than 100 countries. The SECP will soon be doing a self-assessment of the sector to ensure compliance with IAIS standards and best practices.

Insurance Journal: ***Federal Insurance Fee (FIF) is collected on insurance policies and deposited with the government account. The collected amount was to be spent on research and development of the insurance industry. How come no amount from this collection has been spent for any insurance-related activity or project?***

Chairman SECP The government of Pakistan in the budget 1989-90 levied an FIF of 1% of the premium received on insurance policies. At present all non-life insurance companies collect 1% on the premium as FIF and depositing the same in the government treasury, under intimation to the SECP. The matter is now being taken up with the relevant authorities to recommend that this amount of FIF so collected be spent on the development of insurance industry such as insurance education and awareness, etc.

Insurance Journal: ***The SECP has an in-house H.R. and training department. How can its activity be expanded to private insurance companies and help them in developing insurance manpower, to assess the industry's needs and help the industry to spread the knowledge of insurance among the masses?***

Chairman SECP

The human resources is a relatively modern management term, coined as late as the 1960s, reflecting the adoption of a more quantitative as well as strategic approach to workforce management, demanded by corporate management to gain a competitive advantage, utilizing limited skilled and highly skilled workers. The HR and Training Department is engaged in organization-wide development of the employees of the SECP, which regulates many aspects of the financial sector including securities market, non-banking financial institutions and of course, the insurance industry. We encourage insurance companies to invest in the professional development of their employees for the optimum utilization of human resources, and in increasing the job knowledge and skills of employees at each level. It helps to expand the horizons of human intellect and overall profitability of the organization. However, the SECP is also trying to arrange few training workshops for the insurance industry with the help of other stakeholders in certain critical areas of business including corporate governance, anti-money laundering, etc. A few options for insurance awareness programs are also being explored.

Insurance Journal:

How has been the performance of the takaful companies so far?

Chairman SECP

Takaful, the Shariah-compliant mode of insurance, has seen certain growth since its introduction in 2006. Like all businesses, takaful is also market driven and requires a multi-channel distribution outreach to be sold effectively. Due to its inherent Islamic and ethical element, takaful has a stronger appeal to an individual rather than to a business, therefore a B2C selling approach should have been the right model. But unfortunately, the concept of retail insurance is new to the Muslim countries. Even in Malaysia, takaful is approximately 10 to 12% of the total insurance market. However, in its early stage of development and with a small starting base, overall takaful assets have increased by 135% in the last three years. Given the growing demand for Shariah-compliant financial products in the country, Takaful has been well received by prospective clients to some extent and gross takaful contributions increased by 456% in last three years. However, it has been seen that the takaful claim ratio has been higher as compared to the conventional insurance companies. Encouragingly however, the claims ratio has started to decline, from 150% to 72%. It is expected that with enhanced coverage of takaful and increased gross contributions, the claims ratio will further reduce.

There are five takaful operators in the market that commenced their business operations during last few years and are therefore still going through the initial phase of development. Attributed to the varying interpretations of Shariah and critical need of standardization of terms and accounts, the 2005 Takaful Rules are being reviewed and modified to remove anomalies and to address the areas which are silent in the existing Takaful Rules. A new set of Takaful Rules is being formulated and will be issued shortly.

Insurance Journal:

Changing the subject a little, in the past few years there has been a very serious discussion on the demutualization of the stock exchanges. It the proposal is still on how long do you think it will take and what benefits it will bring for small investors.

Chairman SECP

The 2009 Stock Exchanges (Corporatization, Demutualization and Integration) Bill has been approved by the National Assembly. The Senate did not take it up within the stiputated time Stock exchanges, in terms of the timelines that would automatically trigger on promulgation of the said law, would ideally be demutualized within 119 days of its promulgation.

Demutualization is the process of converting a non-profit, mutually owned organization to a for-profit entity owned by the shareholders. The process involves not only corporatization, which is conversion of a stock exchange limited by guarantee into one limited by shares but also segregation of ownership and trading rights. Hence demutualization brings balance among interests of different stakeholders in the corporate and governance structure of a stock exchange. Apart from attracting capital from international strategic partners, a demutualized/ corporatized entity would also result in improvements in the governance structure and segregation of the regulatory functions from the commercial functions of the stock exchanges.

Demutualization would engender increased investor protection, greater transparency, improved risk management, better supervision and regulation of the stock exchanges and technological advancements that better cater to the needs of the investors. Demutualization is also expected to enhance market efficiency, increase the market capitalization, turnover, and enable easier expansion of the range of products and services offered by the stock exchanges.

Insurance Journal: ***The SECP also regulates the credit rating agencies. How are the CRA doing and has the SECP provided any guidelines to them?***

Chairman SECP In today's world, credible credit rating agencies (CRAs) form an important component of a vibrant and healthy debt capital market. The Securities and Exchange Commission of Pakistan regulates the credit rating agencies under section 32-B of the 1969 Securities and Exchange Ordinance read with the 1995 Credit Rating Companies Rules. The CRAs are granted the registration certificate for one year, which is renewed on an annual basis. Currently, there are two credit rating agencies operating in Pakistan, the Pakistan Credit Rating Agency Limited (PACRA) and JCR-Vis. The PACRA conducted a total of 225 ratings during the year 2010, which comprise of 164 entity ratings and 61 instrument ratings. Whereas, JCR-Vis during the same period conducted 174 ratings including 145 entity and 29 instrument ratings.

In the interest of the public and the capital market the SECP issued a code of conduct for CRAs on February 17, 2005. In order to ensure compliance of the code of conduct the CRAs are required to file yearly reports containing a clause-wise compliance status of this code. Further, as required under Rule 8 of the 1995 Credit Rating Rules the CRAs are required to submit to the SECP a report giving sector-wise details of credit rating notified during the year.

The 2008 financial crisis forced the regulators and market players alike to examine the role and responsibilities of CRAs. Keeping in view the importance of credible rating agencies for development of a vibrant debt market, international consultants were hired by the SECP to provide technical assistance to revamp the operations and regulations of CRAs in Pakistan. In light of the consultant's recommendations the SECP is in the process of revamping the existing regulatory framework for regulating affairs of the domestic CRAs.

Muhammad Aslam Sabir

FCII (London)
Chartered Insurer, Lahore

Practical Application of Various Type of Life Insurance

1. Introduction

There are a number of basic covers provided by various types life insurance as marketed by different insurers. This article attempts to consider how some of those types fit in to the needs of individual persons at various stages and situations of their lives.

To help fix our ideas, we will follow the career of a young man from the time that he gets married throughout his working life and up to the time of retirement. As his life situation changes, we will see what different types of ordinary life insurance and annuity can be used to meet his financial needs.

2. Whole Life Insurance

Let us imagine that, when we first meet our young man, he has just qualified as an architect and is working for a firm of architects. He has just got married; his wife is continuing to work as secretary in a bank. They are living in a small upper portion of a house on rent.

Does he need life insurance cover? If he were to die, his widow would carry on working; she would be in much the same position as before marriage. But death brings financial problems even in this situation, to pay for funeral costs, to pay for hospital and medical charges, for treatment for a last illness or accident, and also to any outstanding bills at the time of death.

These costs will arise on death whenever it occurs, and so a type of life insurance is needed which will pay a sum of money on death at any time. This type of insurance is called a whole life insurance.

The money payable when the life insurance becomes a claim is called the sum insured. The life insurance may or may not participate in the profits of the life insurance company; if it does participate in profits, the sum insured will be increased by bonuses or dividends declared for the period up to the date of payment.

A premium is payable for the life insurance cover, which depends on the age of the life insured and the amount of the sum insured. The life insured is the person covered by the life insurance. The premium may be increased if the life insured is in substandard health or it following a dangerous occupation or if there is some other extra risk which requires an extra premium.

Premiums are usually payable throughout the time that the life insurance is in force, stopping only when the sum insured becomes payable. However, premiums can be payable for a shorter period of time. For whole life insurance policy, many people prefer the premiums to be payable only up to the time of retirement, so that they can pay for the premiums out of their salary and stop paying premiums when their salary stops. Premiums can be limited to age 65, for example. This would be called a whole life limited premium policy.

As the first part of his life insurance programme, the young architect buys a whole life insurance for a sum insured equal to about one year's annual pay, with participation in profits, with premiums limited to age 65 and payable on monthly basis.

3. Mortgage Protection

A couple of years later, the architect has saved enough money to pay for the deposit on house in the suburbs, together with legal costs, etc. He borrows 90% of the cost of the house from a bank. He will repay this loan together with interest in monthly installments over a period of 25 years.

The need for life insurance in this situation is to pay off the outstanding loan in the event of the architect dying during this 25 year period. In this event, his widow would then have the house free of debt.

He needs a mortgage protection

policy, which is technically a decreasing term life insurance. The amount of the sum insured is not fixed throughout the term of the policy but instead reduces month by month according to a pre-arranged schedule, taking into account his capital repayments to the bank.

The life insurance company charges him a premium which again depends on his age but which in this case is payable only for 20 years. The reason for this is that a level premium is being charged for a decreasing risk. If premiums were payable throughout full 25 year's period, then part of the cost of the claim in the early years would in fact be met out of the premiums to be received in the last few years. To avoid this situation, the premiums are payable not for the full term of the policy, but only for 80% of the term. This increases the premium to an amount sufficient to pay for the cost of current claims.

4. Term Life Insurance

The following year the architect's wife gives birth to their first child, a son. She has of course now given up work and is looking after the baby at home.

The architect's life insurance needs have now increased a great deal. If he were to die whilst the child is growing up, his widow might have to go out to work to provide money for herself and the baby to live on. He would much prefer that she stays at home to bring up the family and this means that he must provide much more money on his death than the sum insured under the whole life insurance.

Confronted with baby bills and mortgage repayments, and with his wife no longer earning an income, the architect has the minimum amount of money available for life insurance premiums but needs the maximum amount of life insurance protection whilst his young family is growing up. The solution is for him to buy term life insurance.

The sum insured under a term life insurance is payable only on death during the term of years of the policy. If the life insured survives to the end of that term, the policy terminates and no money is payable. Term life insurance is, in fact, the simplest form of life insurance cover: it resembles a fire insurance policy, which just pays a sum of money if the house insured burns down during the term of the insurance cover.

The architect buys a term life insurance which has the special feature of being convertible. This means that during the term of the policy, the policyholder can covert it to another type of life insurance, as set out in the conditions of the policy, without the life insured having to provide new evidence of his good health.

The premium for term life insurance is low, because it just covers the risk of death during a short period of years. The architect thus obtains a substantial amount of cover for a small outlay, and with the option to convert; he keeps the freedom to change the policy into, for example, a whole life insurance in later years when his income improves.

5. Family Income Benefit

The architect thinks that in addition to providing a capital sum in the event of his early death, it would also be sensible to provide an income for his widow payable during the period whilst the children are growing up. He thinks that it would be better for his widow to have a regular income coming in during this period, rather than suddenly to receive a large capital sum.

He needs a family income benefit. This is a special type of decreasing term life insurance, which is taken out for a specified term of years. If the life insured dies during this term of years, then the life insurance company pays an income, either in quarterly or monthly installments, starting on his death and continuing up to the end of the period.

In Pakistan, this type of policy enjoys the further advantage that the “income” payments are treated by the taxation authorities as being capital sums and so free of income tax.

6. Endowment Insurance

Three years later the architect getting well-established in his firm is receiving a bigger pay. He decides that having made adequate protection for his family in the event of his early death, the time has come to start saving for his retirement years, when he gives up work and will no longer have an income. At the same time, because of his increase in pay, his family is enjoying a higher standard of living, and he thinks that he should increase somewhat the life insurance cover which he at present has in force.

He needs an endowment insurance. This is taken out for a specified term of years and the sum insured is payable on the survival of the life insured to the end of that term of years: this is the maturity date of the policy. If he dies during the term, then the full sum insured is payable at once.

The endowment insurance is in fact a log-term savings plan, with added life insurance cover. It thus meets in one type of insurance the twin needs of saving for the future and protection for the family in the event of early death. The endowment insurance is a very popular type of insurance in all countries, yet we are discussing it as only the fifth priority in the architect's life insurance programme. The reason is that the catastrophe risk of early death is far more important to the young man and his family than saving for old age: in a well-organized life insurance programme, the endowment insurance is not the first priority. But so often, it is the easiest form of life insurance for the salesmen of a life insurance company to sell.

7. Accidental Death Benefit Rider

The salesman of the life insurance company – the agent – tries to interest the architect in an accidental death benefit rider. This is a special provision in the basic life insurance policy – the endowment insurance policy in this instance – which would double the amount of the sum insured payable if the life insured were to die in an accident. The architect decides against having this feature, because he realizes that the need of his family for money in the event of his death is the same whether he dies in an accident or not. The architect decides that his total life insurance cover in force is adequate at the present time: otherwise, he would have bought more term life or whole life insurance, paying money in the event of his death on any cause, rather than choosing the accidental death benefit rider.

8. Child's Endowment Insurance

With the birth of the second child, a girl and with further increases in his pay, the architect reviews his life insurance portfolio, and decides that he needs more whole life insurance, term life insurance and family income benefit. He also decides to arrange a special type of endowment insurance which will provide money for the education of his son and a dowry on the marriage of his daughter.

The special type of endowment insurance is called a child's endowment, or sometimes an education or marriage endowment. The sum insured is payable when the child reaches a specified age, for example 18 years. Premiums are payable during the life-time of the parent who is the life insured: if the parent dies before the child reaches the specified age, then no more premiums are due but the full sum insured is still payable when the child reaches the specified age.

9. Retirement Annuity Contract

The architect has now acquired much experience and sees that he is building his own reputation: he is attracting business to his firm, to the benefit of the partners. But he continues as a salaried employee and does not receive the full benefit of this new business. After much thought, he finally decides to leave this firm, and to start in practice as an architect on his own account.

This change from salaried employment to self-employment brings the need to increase his provision for retirement. There is now no employer to take care of him on his retirement: he must provide his retirement income himself.

To provide money for his retirement, he could purchase another endowment insurance. Instead, he decides to purchase a retirement annuity contract, which will pay him a pension from his retirement age or return his premiums if he dies before that age.

The special feature of the retirement annuity contract which he buys is that it is arranged on a single premium basis instead of at yearly or other periodic premiums. A single premium means that just one premium is paid for the entire contract. The advantage of this feature to him, as a self-employed person, is that he is not committed to paying a regular premium of a fixed amount year by year in the future. His income is likely to fluctuate from year to year, according to the profits of his business. He can choose each year what single premium he wishes to pay for new retirement annuity contract that year.

If the retirement annuity contract were to pay him a capital sum at retirement age, instead of a pension, then it would be called pure endowment. This means that the sum insured is payable on survival to the specified age, and premiums are returned on death before that age. It is possible to go a stage further and have a pure endowment without return of premiums in the event of death before the maturity age, but this would be considered only by a man without any dependents.

10. Disability Cover

A self-employed man is in need of disability insurance, which will pay him an income whilst he is unable to work due to an accident or illness. This type of insurance is very specialized and not all life insurance companies offer this type of cover. The reason is principally the difficulty in administering disability claims.

There is no difficulty in deciding whether or not to pay a claim under a life insurance policy: proof of death is usually straightforward. But proof of disability requires some assessment of the claimant's inability to carry on with his normal work because he is suffering from the effects of some illness or accident. There is often the danger that someone who is out of a job will try to persuade the life insurance company that he is in fact disabled so that he can qualify for a disability income.

However, there is no disputing the need for a disability income cover and if the practical difficulties can be overcome then this is a very worthwhile benefit for a life insurance company to offer. A less hazardous type of disability cover, from the point of view of the life insurance company, is a waiver of premium rider attached to life insurance policies. This states that if the life insured becomes disabled, according to a definition of disability, then the payment of his premiums need not be made for as long as the disability lasts.

11. Surrender Values, Paid - up values and Loan Values

Let us now imagine that the architect does not at first prosper in his practice and that his profits fall below expectations and indeed he has difficulty in finding the money to pay his premiums to the life insurance company.

The premiums under whole life and endowment insurance policies are worked out in such a way that money is accumulated with the life insurance company in the early years against the payment of heavier claims in later years. The life insurance company receives premiums in the early years, pays expenses and agent's commission, pays current claims and administration expenses. The excess money set aside in the early years is called the reserve under the life insurance policy.

A life insurance company will offer a cash surrender value under a whole life or an endowment insurance after two years' premiums have been paid.

For many years, the cash surrender value is less than the total of the premiums which have been paid under the whole life or endowment insurance. The reason is that a large part of the premiums is used up in paying for first year expenses, running expenses and agent's commission. Also the cost of claims has to be met: this is similar to fire insurance, where at the end of the year there is no cash surrender value for a person whose house did not burn down.

As an alternative to taking a cash surrender value, the policyholder can take what is called a paid-up policy. This means that the sum insured is reduced to take into account the premiums which are not paid.

When a policy has cash surrender value the life insurance company is prepared to lend money to the policyholder on the security of the policy. The maximum amount which can be lent is typically up to 90% of the cash surrender value. This amount is called the loan value. The policyholder pays interest on the loan at a rate fixed by the life insurance company and can repay the loan at any time.

Sometimes this loan is automatically made by a company if a premium is not paid, under what is called non-forfeiture provision.

12. Partnership Insurance

Imagine that after some difficult early years, the architect's practice is now prospering, and he decides to bring in an other architect as his partner. They enter into a partnership agreement which specifies how much capital each one of them must contribute to the business, how the profits are to be divided and also, amongst other things, what happens if one of them should die.

If one of the partners dies, then the surviving partner will want to buy out his interest from his estate. Certainly the deceased partner's beneficiaries will want to withdraw his share of the capital from the firm as soon as possible. This presents the surviving partner with a need to find cash and partnership insurance will meet that need.

The simplest type of partnership insurance is based on a term life insurance which is taken out by each partner for the benefit of the other. This means that the surviving partner will receive a sum of money which he can then use to buy out the deceased partner's interest. The term of each policy runs up to that partner's normal retirement date.

13. Annuities

Let us now look at the situation where the architect retires from his practice, selling his firm to the other partner in return for income payment over a period of years.

In addition, the architect has his pension from the retirement annuity contract which he took out when he entered self-employment. And he also has the capital sum under his endowment insurance, which are now maturing.

With this capital sum, he decides to buy an annuity from life insurance company. This will mean that the life insurance company will pay him a regular income for so long as he lives, even he lives to the age 100 or more. The person on whose life the annuity is payable is called annuitant.

There are many different types of annuity. The simplest type of annuity just pays an income for as long as the annuitant lives. On his death, the income stops.

14. Summary from the point of view of the policyholder

In the perspective of how the different types of insurance product can meet the varying situations in a man's life, we have seen all the main types of ordinary life insurance, disability cover and annuity in practice. The story has been idealized, because the architect always chose exactly the right type of policy for his particular circumstances. Of course, in real life, matters are not so straightforward as that. What in fact we have seen is an example of life insurance programming, which means working out the best type of life insurance cover for an individual's situation.

Thus the story of the architect has illustrated how the types of insurance which a life insurance company sells meet everyday needs in practice.

15. Summary from the point of view of the life insurance company

It is ambitious to try to define the objectives of a life insurance company. They can be looked at from the point of view of the policyholders, the shareholders, the staff, the community, or indeed the national economy. But an essential objective in all companies is to ensure sound and profitable financial growth. A life insurance company will grow soundly and profitably if it sells the right type of insurance product at the right level of premium rates and provided also that this business stays in force: the business that pays is the business that stays.

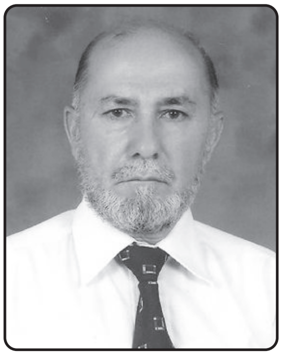
The first essential for a life insurance company is to sell long term business, which will increase the regular premium volume and build up a large life insurance fund. This means concentrating on long term whole life insurance and endowment insurance business. These classes of business bring in premiums over a long period of years and so enable a large life insurance fund to be built up which can be invested to the best advantage. Income from investment is the most important single source of profit for a life insurance company.

Short term business, in particular term life insurance, does not build up the same high rate of premium volume in relation to sums insured. On the other hand, by careful selecting of lives, mortality profits are possible.

Disability insurance, as we mentioned earlier, raises many problems of administration, underwriting and settlement of claims. Disability insurance should be attempted only when a life insurance company is very well established.

Annuity business, both retirement annuity (deferred annuity) and immediate annuity business, brings in large amounts of money for investment. However, the premium rates must be calculated with special care, because of the trend in all countries for people to live longer.

But profits will be made by a life insurance company only if the right types of insurance product are sold in the first place. So the management of a life insurance company must identify the nature of their market and sell the types of insurance which best suits it. The types of insurance which architect bought in our example illustrate what might be the suitable in a particular market.



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Floods a Positive View

ALLAH The Al-Mighty says that He has made life from Water. If we ponder-over this matter, we can easily under-stand that not only Human-beings but all Living-creatures, either on Earth, in the Air or in the Seas, cannot exist without Water.

Allah is Al-Rahman on all His Creatures of the Universe, especially Human-beings, irrespective of their Colour, Creed, Religion and Beliefs and we, in Pakistan, have been particularly endowed with a lot of Assorted Natural Resources by Allah.

We have Agricultural-lands, Deserts, Plains, Mountains, Rivers, Sea and a large Coast-line, as well as numerous sorts of Minerals and, above all, Four Seasons.

But the most precious of them all, in my opinion, is the Rains and Snow-falls we receive in abundance every year.

In the form of Snow-falls, Allah has very kindly arranged for the Storage of abundance of Water for us over our Hill-tops which would supply Water to our Rivers/Canals for our Irrigation-purposes, as well as numerous other needs.

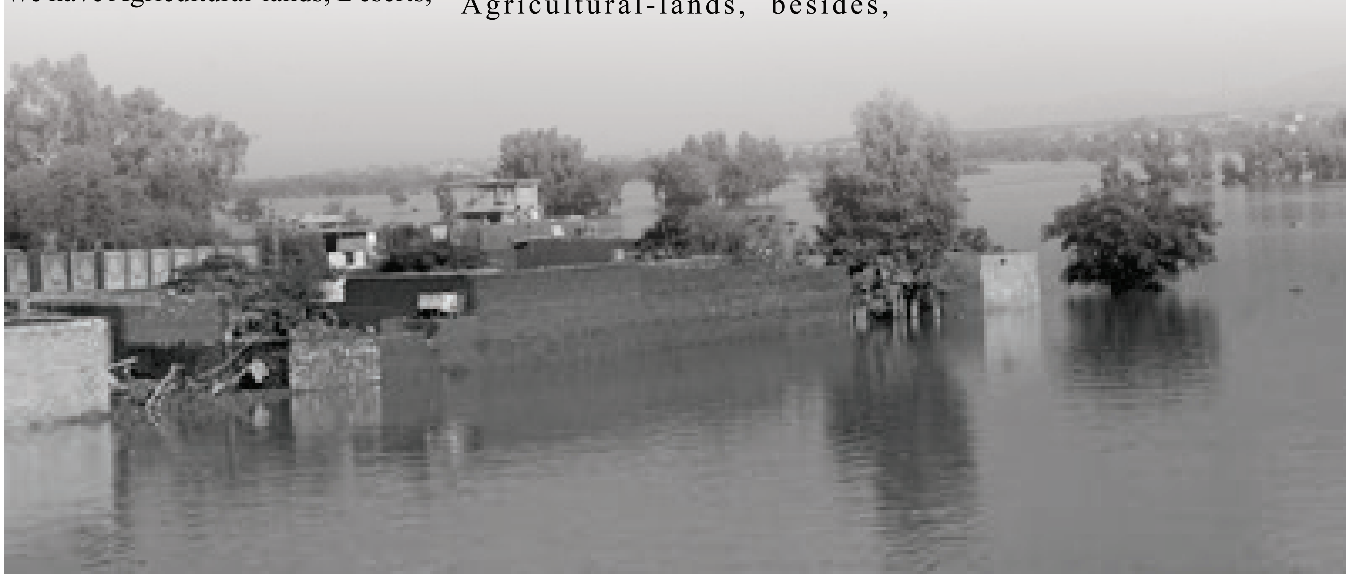
At times, there do occur Floods, due to excessive Rain-falls and last year's Floods have been historically devastating which have not only displaced millions of people but also destroyed Standing-crops and Agricultural-lands, besides, sweeping away entire Villages as well.

More-over, Factories, Ware-houses, Stocks and Live-stocks had been completely destroyed, consequently causing in the Loss of Billions of Rupees to the National-ketty.

Though, a very minute ratio of these Interests was Insured but, irrespective of whether Insured or Un-Insured, it has been a Colossal National Loss which would take decades to be made-up.

However, there are certain positive aspects of the Floods as well and it is for the Right-thinking People to take the most advantages of alike Catastrophes.

If we ponder-over the matter, we can under-stand that the Flood-waters can be turned from a bane into a boon.



Small-dams can be constructed at Suitable-locations to store the Flood-waters which, in turn, can be diverted to Baren-lands for irrigation and thus deserts can be converted into Productive Fertile-lands to yield assorted Crops and prosperity to local people and the nation, at large.

We can install Electric-turbines at these Dams and produce Electricity in abundance to cater to our various Power-needs and round-the-clock running of our Industries and Commercial-establishments, as well as domestic needs.

The construction of these Dams would also greatly lessen the Occurrence of Floods and the Consequential Losses in the form of Men and Materials and, when converted into controlled Rivers/Canals, the same would provide assorted jobs to the Rural-population and the consequent prosperity.

It will also mitigate the burden of population on Cities, through migration of people from Rural-areas to the Cities in search of jobs.

The influx of population into the Cities would always result in various problems e.g. shortage of Dwelling-houses, Road-traffics, Sanitation-problems, Strains in the provision of Utility-services, Class-conflicts for acquisition of self-interests etc. etc.

Previous year's Atmospheric Disturbances/Floods and the consequent Land-slides must also awaken us to look for ways and means how to distribute the Losses and mitigate the sufferings of the people directly affected by these calamities.

Thus, Insurance Risks Coverage will instantly come to mind and we ought to educate the population at large through powerful Electronic, as well as Print Medias which, though, would certainly be confronted by orthodoxy, but the same are not Un-surmountable obstacles which will gradually fade away with consistent endeavours and passage of time.

Prompt payments of Claims to the affected people will also build public confidence in the utility of Insurance Coverage of Interests which will immensely contribute to popularization of the Insurance Profession, consequently contributing to enlargement of the Underwriters' pools.

Risk and Insurance

Ashraf Dhedhi

Assistant General Manager
PICIC Insurance Co.
Karachi

Taking or buying insurance cover is making financial risk management or controlling the financial aspects of unknown occurrences or future uncertainty known as Risks

Things in this world, whether living, like human being, animal, or non living like building, machinery or furniture etc, or any other material like money, all these things are continually exposed to some kinds of danger, like living things human being and animal might suddenly die or injured in an accident, Machinery and Furniture might damaged or destroyed by fire, water etc, Money, Stock of Goods, or any other valuable items might stolen or lost.

Any occurrence, which can harm to living things and non living things result in LOSSES which are called RISKS. Primary purpose of insurance is concerned with risk elimination or reduces the effect of risk and also reduces the fears which arise from existence of risk, more risk can be managed in a way that risk of uncertainty become less harmful through the recommendation in respect of housing keeping, storage, installation of equipments like sprinklers, etc.

Through-out world most people and most organization need some protection or cover against losses or the harmful effects or consequences of losses.

In world there might be small section of people who rejects insurance cover on religious basis and some on poverty basis besides these people all other are having possessions or potential losses and liabilities which need to be protected through insurance covers.

Protection against losses was requirement of people from the pre-history era since contract of insurance are only way; in which people can be protected. Some countries developed mutual societies to help their members if any thing happens to member or his belongings all contribute to make his loss good. This system is not fair since every members possesses different risks some have more belonging like animals or have more family members whereas other have lesser and all have to contribute same amount which is not on fair basis..

Current insurance industry is based on many years of research and study by many maestros, development made from prehistory like marine insurance was developed from 3000 years age by race called Phoenicians they were sea faring traders, in the Mediterranean's sea. Many other property insurance dates back to the Industrial Revolution in Britain, with growing business houses and textile mill etc., using expensive materials, before no coverage against fire to property were available.

Modern day insurance principles and practice root back over thousands of years and same have been developed, modified, codified in a systematic ways over many years keeping in view past experience and changing current circumstances from time to time in different country and region of world. Some countries have their own principles of insurance without outside influences, but some other countries principles and practices based on past influences from other countries although they have modified as per their national needs and their prevailing circumstances.

Due to growing of International Business and Globalization world is shrinking for this matter more and more need arises to standardize insurance practice and principles, between different countries in this respect some countries are developing computerization, rapid internet service and new marketing methods, international workshops etc., all these are getting enormous impact on insurance practice in many countries. Many countries and insurance companies therefore have developed their own Manuals and Guide lines accordingly since existing tariffs and insurance wordings are based on Old British English Law. These new manuals and guide lines have simple English which can be understand by all people, Many Maxims/Principles used in insurance were originally from Latin and when same were communicated to the Business men its create problem in understanding its meaning since technical words and terms used in insurance have specialized meanings, whereas these words are having different meaning in everyday language.

Things on which a monetary value can be placed, whether living or non-living faces danger known as Risk. The risk of person being injured in an car accident or are plane, train etc., the risk of building, stock, machinery etc, being damaged or destroyed by fire or water, the risk of theft or malicious damage to property etc., risks are of many different kinds and risks can not define in one definition, for example risks are undesirable event and there is possibility, but not certainty of an undesirable event will occur. If risks be come real its effects, will vary for example damage to Paint Manufacturing Factory by fire will be more severe comparative to Factory manufacturing machinery due to hazardous chemicals/stuff present in paint factory, which increases the severity of loss whereas machinery is less hazardous to the risk of fire.

Risks are categorized by considering their effects;

Fundamental Risks; the affect of fundamental risks, can not be controlled since its affect falls on large area or city, country or group of people like incidences of nature i.e. tsunami, floods, earthquakes etc, the affect of damages are devastation which can not be controlled or predicted another cause is inflation (increases in costs etc) which affect the entire nation.

Particular Risks; the affect of particular risk are partially controllable, but can not predict the same since this risks arises from one individuals decision, like driving a motor car, crossing the road, purchasing property etc which can be insured.

Pure Risks; Majority of insurable risks are called pure risks like fire, accidents, theft etc, pure risks are those which results in loss or breakeven but not gain.

Speculative Risks; are those risks which also called trading risks, because possibility of loss or gain are present like investing in stocks may be profitable, status quo or losing money, in general this risks are not insurable

Possibility of occurring risks is very wide, but one thing is common i.e. if a risk becomes reality then this incident will be resulting in a monetary loss. Loss is used for lost in common language but in insurance instead of lost, loss is used and its plural is losses, word used in Insurance context differ from language used in normal business context, where loss is opposite of a profit.

I have the pleasure to enclose my company annual report for year 2010. There in conveyed is our company view point on minimum requirements. As editor publisher of the respected Insurance Journal, I request a great need to debate the issues for the overall good of the insurance industry.

The way I see things, there will be calls for increasing the minimum requirements every few years. The visible intent as I understand is to reduce the industry size to fewer companies and creating monopolies. In the years ahead, I see all this at the expense of the insuring public and retarding the development of the industry. I see disparity in thoughts and actions which make me wonder if the insurance industry lacked a direction of purpose. The insurance sector participation in our economy is very small. To be specific it is 0.7% of our GDP. Our next door neighbor India has insurance share at 5% in its GDP. We are seen engaged in conduct of many exercises for improving the sector' s share. Our actions are however quite to the contrary. All this waste of time and resources without direction is a matter of concern. This establishes the need for a respected journal like yours to discuss and dwell upon the issue which confronts and conflicts the industry.

I recently participated in a seminar held by SECP in February of 2011. The topic of the seminar was to encourage insurance companies' participation in the development of Micro Insurance at grass root levels and to seek its spread to rural areas to increase the sector participation in the economy. The risk needs and requirements were small and a need was felt that the industry must work to create more employment and job opportunities.

However, we are seen engaged in doing the opposite . I find text book approach rather then a realistic assessment of our actual needs as disturbing. We talk of building and encouraging talent growth in the industry but are engaged in reducing job opportunities. How are we supposed to achieve the objectives with reduced job opportunities with dwindling number of companies every few years. Our country needs and requirements are far different from the west. We do not need to follow the west. We must determine our industry requirements against our needs if we desire progress and achieve the standards of the developed world. We need to formulate our requirements as per our needs. I hear many insurance executives say the minimum capital requirement should be Rs. 50 crores and 100 crores. It makes me question their intelligence and their far, farness from the business realities of our needs. The insurance industry where it could help create employment and job opportunities in a country where unemployment runs in double digits and ever rising, its policy planners and industry leaders are engaged in limiting the job market and opportunities by creating redundancies.

We all need to rise and do our little bit where ever possible. I am a witness to a wrong turn being made. My company has taken a stand for reasons at a great cost which is discussed in our annual report. I feel there is little future in an industry where its business leaders remain unconcerned with the surrounding realities. The industry has come a long way and has done reasonably well in the past. I have shared my thoughts and comments hopefully to enlighten us by initiating discussions on the subject. I hope you will find the issue an interesting topic for the Insurance journal to share and discuss with your readers and experts for generating a consensus view for seeking a clearer vision and direction for the industry's future.

Munir. I . Millwala
Chief Executive
The Crescent Star Insurance Company Limited
Karachi

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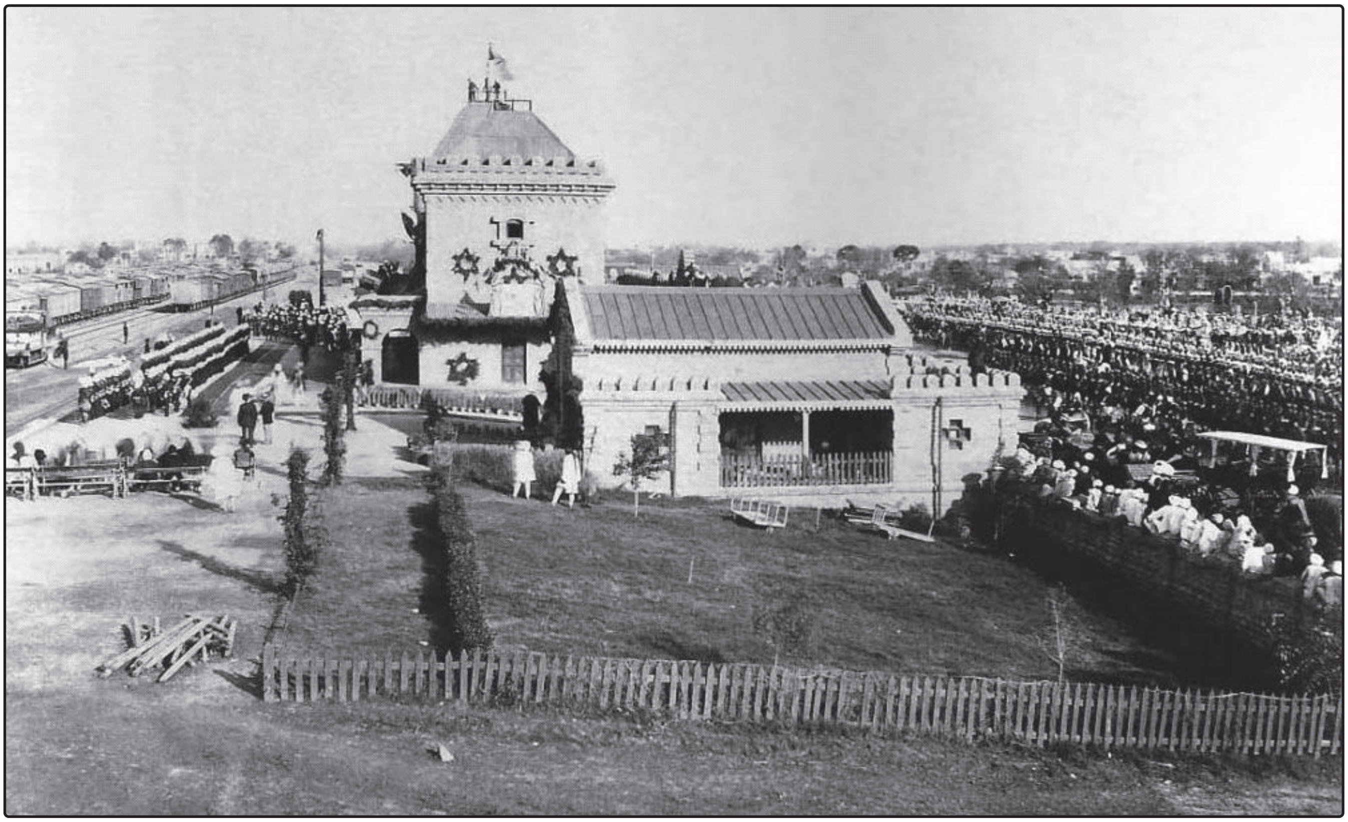


Pindi Point 1861

Ali Munem Shamsi

President Asia Insurance Lahore

Insurable & Non-Insurable Risks

When we talk of insurance, we are referring to risks in all forms. Hence, having for an insurance policy is just a way of sharing our risks with other people with similar risks.

However, while some risks can be insured (i.e. insurable risks), some cannot be insured according to their nature (i.e. non-insurable risks).

Insurable Risks

Insurable risks are the type of risks in which the insurer makes provision for or insures against because it is possible to collect, calculate and estimate the likely future losses. Insurable risks have previous statistics which are used as a basis for estimating the premium. It holds out the prospect of loss but not gain. The risks can be forecast and measured e.g. motor insurance, marine insurance, life insurance etc.

This type of risk is the one in which the chance of occurrence can be deduced, from the available information on the frequency of similar past occurrence. Examples of what an insurable risk is as explained:

Example1: The probability (or chance) that a certain vehicle will be involved in an accident in year 2011 (out of the total vehicle insured that year 2011) can be determined from the number of vehicles that were involved in accidents in each of some previous years (out of the total vehicle insured those years).

Example2: The probability (or chance) that a man (or woman) of a certain age will die in the ensuring year can be estimated by the fraction of people of that age that died in each of some previous years.

Non-insurable Risks

Non-insurable risks are type of risks which the insurer is not ready to insure against simply because the likely future losses cannot be estimated and calculated. It holds the prospect of gain as well as loss. The risk cannot be forecast and measured.

Example1: The chance that the demand for a commodity will fall next year due to a change in consumers' taste will be difficult to estimate as previous statistics needed for it may not be available.

Example 2: The chance that a present production technique will become obsolete or out-of-date by next year as a result of technological advancement.

Other examples of non-insurable risks are:

1 . **Gambling**:

You cannot insure your chances of losing a gambling game.

2. **Loss of profit through competition**:

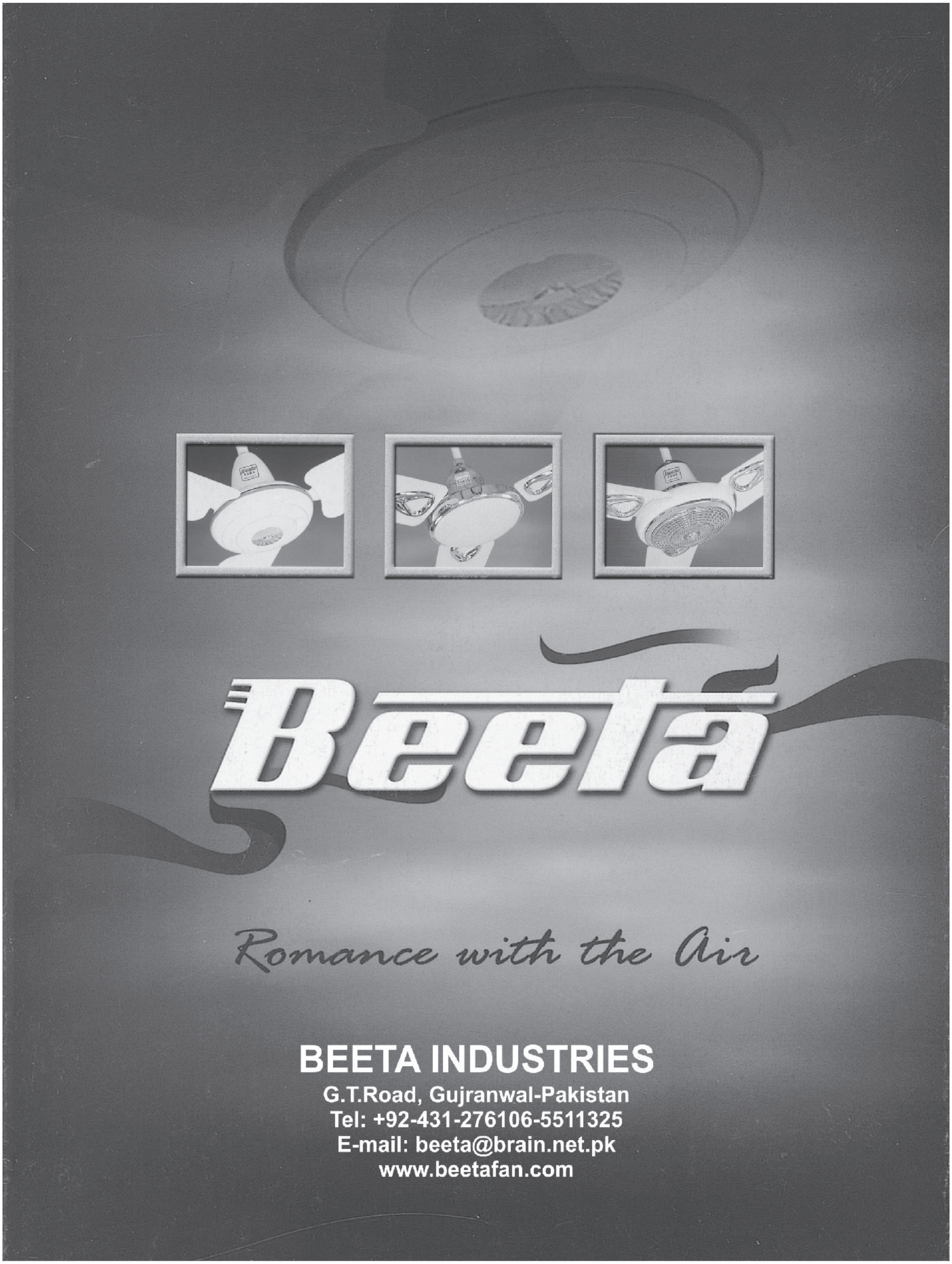
You cannot insure your chances of winning or losing in a competition.

3. **Launching of new product**:

A manufacturer launching a new product cannot insure the chances of acceptability of the new product since it has not been market-tested.

4. **Loss incurred as a result of bad/inefficient management**:

The ability to successfully manage an organization depends on many factors and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the profit/loss depends on the judicious utilization of these factors, one of which is efficient management capability. The expected loss in an organization as a result of inefficiency cannot be insured.

5. **Poor location of a business**:

   A person situating a business in a poor location must know that the probability of its success is slim. Insuring such business is a sure way of duping an insurer.

6. **Loss of profit as a result of fall in demand**:

   The demand for any product varies with time and other factors. An insurer will never insure based on expected loss due to decrease in demand.

7. **Speculation**:

   This is the engagement in a venture offering the chance of considerable gain but the possibility of loss. A typical example is the action or practice of investing in stocks, property, etc., in the hope of profit from a rise or fall in market value but with the possibility of a loss. This cannot be insured because it is considered as a non-insurable risk.

8. **Opening of a new shop/office**:

   The opening of a new shop is considered a non-insurable risk. You don't know what to expect in the operation of the new shop; it is illogical for an insurer to accept in insuring a new shop for you.

9. **Change in fashion**:

   Fashion is a trend which cannot be predicted. Any expected change in fashion cannot be insured. A fashion house cannot be insured because the components of the fashion house may become outdated at any point in time.

10. **Motoring offenses**:

    You cannot obtain an insurance policy against expected fines for offenses committed while on wheels.

However, it should be noted that there is no clear distinction between insurable and non-insurable risks. Theoretically, an insurance company should be ready to insure anything if a sufficiently high premium would be paid. Nevertheless, the distinction is useful for practical purposes.

The increased capital demanded of insurance company as a minimum requirement is a failed idea that serves little purpose and is too difficult to ignore. In fact its flawed introduction had far reaching negative consequences for the Pakistan insurance industry and particularly so for a developing economy. The 2008 global financial crisis and the failure of AIG has dawned realities to demand a review for change. Measures are afoot internationally to rein in the past mistakes and bringing in a conceptual change.

In a staff research report titled " The Too Important To Fail Conundrum" published and issued by the IMF on 27th of May 2011 it has been stated that the increased capital requirements for financial institutions should be specifically imposed and directed towards such companies who cross specific milestones and carry substantial risk on their books in relation to their capitals and equity base. The report clarifies that the increased capital requirements must be in proportion with the volume and size of risk financial institution carries on its books. Extra regulatory controls and increased monitoring must be effectively put in place for financial institutions who attain the status of becoming too big to fail.

The IMF research is a awakening call for our regulator to re visit the issue of minimum capital requirements so as not to allow the wasting of our national institutions ad assets. In Pakistan where growing unemployment is a big challenge and investment environment poor and unfriendly, to seek closure of good working institutions for not meeting the failed concept of increased minimum capital is nothing but tragic.

The insurance sector participation in our GDP is a insignificant 0.7% andwhere as the risk needs and requirements are not large, there is a need to have more insurance companies to promote and develop insurance at micro level and to generate employment in our economy. Making of unrealistic and untenable demands on small successful insurers was a bad idea. The changed facts now requires the regulator urgent attention for legislating amendments in the minimum requiremnt law. The regulator earlier would have done well to discuss the requirement with all the insurance companies. A established, successful insurer needs to be regulated through capital increases in relation to the volume of risk it underwrites linked to a scale of purpose based on aggregate risks on its books. Whenever the aggregate risks premium increases for a insurer and additional doze of capital requirement must be put in place. The enforcement of a simplistic minimum capital as requirement for established insurer was untenable and a meaningless proposition that provided only a false cover of security.

The regulator would do well to remodel the capital requirements for insurance companies in light of the realities dawned through 2008 global financial crisis. The IMF research study challenges the myth of the minimum capital as a security element. This should be enough for a wake up call. The increased capital requirements favour large insurers at the expense of small insurers. The small insurers are too important to the development of a developing economy to be ignored.

The minimum requirement for new entrants is understandable but to stop well managed successful small insurers from functioning for not meeting the minimum capital is a sheer national waste. The key to the is issues that haunt the regulator for securing insured's interest lay in increased monitoring of companies. The larger the size and volume of business, it must be more closely monitored and regulated with a demand to meet up withadditional doze of capital to meet its risk obligations.

This would be the correct methodology of doing things

In 2006, at the time of implementation of the demand for insurance companies to have minim um capital of Rs. 300 million by 2001, it was opinionated that the intended measures were for generating increased financial strength for the companies. No proper study of the industry needs and requirements of the insurers was conducted. This lead to a free for all and the consequent imbroglio that the insurers currently find themselves in. It was an unprofessional way f doing things and carried vasted interest support. The minimum requirement were said to be demanded by the Asian Development Bank. The failure of AIG insurance of North America in 2008 has evidenced that this demand of Asian Development Bank was flawed. It is now much clear that the increased capital requirements should be based on aggregate risks milestones. It is unfortunate that the minimum requirements have been used a tool for eliminating the small successful insurers with an edge to large companies. The regulator must not fail to take cognizance of the changing facts and bringing in timely changes in view of the IMF study right quarters in its correct perspective. A revisit of the issue of minimum requirements is a necessary demand for generating fresh investments in the insurance sector. Failure to act for bring in the change will only hurt the development and growth of our country and progress of the insurance industry.

The writer is the Chief Executive Officer of The Crescent Star Insurance Co. Ltd. The company has reservations on the issue of minimum capital requirements in the aftermath of 2008 global financial crisis.

HEALTH MICROINSURANCE

A Comparative Study of Three Examples in Bangladesh.

International Labour Organization (I.L.O) commissioned a study group on behalf of the C.G.A.P working group on Microinsurance. A team of consultants consisting of MR. MOSLEH UDDIN AHMED, SYED KHAIRUL ISLAM, MD ABDUL QUASHEM AND MR. NABIL AHMED carried out comparative study of three health Microinsurance programs. These programs were implemented by Bangladesh Rural Advancement Committee (B.R.A.C), Grameen Kalyan and society for social services (SSS Health Program).

Below we reproduce some part of the paper commissioned by the "Good and Bad Practices in Microinsurance" project.

The health care system in Bangladesh is mainly urban-based, elite-biased and curative orientated. Even though nearly 75% of the population lives in rural areas, the public and private health care development has concentrated mainly in urban areas. The standard and the level of health care provided by the public sector is inadequate due to low investment, bureaucratic mismanagement, and the lack of equipment, facilities, and trained medical professionals. The strengthening of public sector health care by successive Bangladeshi governments has not improved the availability of health care services for the rural poor and in particular for poor women in rural areas.

With around 3,100 persons per hospital bed and 23 doctors per 1000,00 people, only the upper and middle classes and those with political influence have access to the public health care system. The poor are unable to penetrate the bureaucracy and the deliberately biased system. Thus, they have access to public health care only in theory. These circumstances highlight the need for alternatives, including the provision of inclusive health insurance.

This comparative study looks at three health insurance schemes in Bangladesh, namely those run by BRAC, Grameen Kalyan (Gk) and the Society for Social Services (SSS). All three organization are NGOs registered with the NGO Affairs Bureau under the Foreign Donations (Voluntary Activities) Regulations Ordinance of 1978.

The BRAC Micro Health Insurance for poor Rural Women in Bangladesh (BRAC MHIB) started as a pilot project at Madhabdi in Narshingdi District in July 2001. It was formally launched in November 2001 when a 3-year financial and technical assistance agreement was signed with the ILO's Women's Empowerment through Employment and Health (WEEH). At that time, the project was extended to also include Phulbari in Dinajpur District. The project falls under the administration of BRAC, but operates as an independent entity. Membership is open to all poor families living in its two areas of operation. The project has not yet expanded its operation outside these two areas.

Grameen Kalyan was launched in November 1996 when Grameen Trust handed over 10 of its clinics to the newly registered NGO. Membership of its health scheme is open to all Grameen Bank borrowers and their families, as well as to poor villagers living within an 8 km radius of a GK health centre. Grameen Kalyan now operates 28 clinics in eight districts in the country.

The SSS health program began in January 1996 when the organization established a 20-bed hospital in a rented two-story house in the town of Tangail with donations from SSS staff and other Bangladeshi philanthropists. Membership of its health card scheme is open to all families living in the urban and rural areas of SSS's operation. Today, SSS operates 1 urban hospital and 16 rural clinics in 6 Upazilas of Tangail Zila.[1]

1 UNDP Report 2001

None of the organizations considers itself a health micro insurance (HMI) provider in the strict sense of the term, as each model contains a mixture of social equity, service provision and financing. However, all three organizations pool risks over their target populations and provide health care services in exchange for membership or cardholder fees, which can be considered premiums. All three employ a co-payment system and/or a limitation on the amount reimbursed. None are associated with any insurance companies or outside service providers. There are no reinsurance arrangements.

Before they began providing HMI, these organizations were engaged in development activities for years-initially savings and credit before diversifying into other spheres. Their HMI schemes grew out of their social agendas to alleviate the suffering of poor rural Bangladeshis. In line with this social agenda, they aimed to provide affordable and quality health care services to those who would otherwise have to go without.

Statistics that illustrate the relationship between the HMI schemes and poverty alleviation are not readily available; but they can be construed from the experiences of the organizations and their clients. As clients demand for products and services are growing, the organizations are increasing their outreach and diversifying their services. Most of their clients are able to pay for the services they receive.

The target population initially had a poor understanding of HMI and, as a result, all three organizations faced difficulties in convincing them of the benefits of their services. In addition, poor people in rural Bangladesh are not willing to pay for health services until they face illness or accident, and they look at premiums as expenditures rather than payments for protection against future risks.

These organizations have deliberately overlooked the risks of adverse selection and have enrolled members without any restrictions. They accept that their organizations are the only hope for these people to receive treatment for their illnesses. Fraud is not a major problem. Their staffs frequently interact with members and get to know their families personally. The organizations feel that this works as a moral deterrent against fraud and false claims.

GK and SSS play a dual role, that of insurer and of direct service provider; BRAC MHIB provides the

health care service through associate organizations. Since starting their services, all three organizations have strengthened their administration to monitor the usage of the services. This enhanced control, however, has resulted in higher administrative costs.

BRAC MHIB and SSS provide free treatment to the very poor or destitute. GK does not provide any free health care service. All three organizations provide treatment to non members as well, but only at their own clinics/hospitals; non-members are required to pay higher charges.

All three organization received funding from donors and/or their parent NGO to set up their initial health care facilities, and they still require ongoing support. Operational results of BRAC MHIB and SSS show that without subsidy, they are not financially viable, which is a direct consequence of prioritizing their social agendas over financial sustainability.

GK has an operating loss, but a net surplus after investment income. Grameen Kalyan received an endowment fund from its parent organization that generated a substantial investment income. The endowment fund was returned to the parent organization in 2002.

The income generated by investment of the endowment fund and reserves has strengthened the financial position of GK significantly, and has contributed to the financial viability of the program.

The managers or employees of the three organizations did not have any prior training or experience in insurance when they started their HMI schemes. There is no evidence that organizations sought any advice from insurance professionals or retained any insurance experts before or after launching their schemes. The management and staff of all three organizations are still learning through a process of trail and error.

Lessons Learned

Institutional Mission

- Ill health and the cost of health care act as major obstacles to persons trying to break out of the poverty cycle and therefore the health of the poor must be addressed before they can rid themselves of want.
- Poor people require quality health care services at an affordable price. NGOs are often the only source of health services in rural areas, and the only one trusted by the population they serve.
- Running a health micro insurance program requires different expertise and different experience than needed to operate an MFI.
- To have successful client relationship and a positive poverty impact, the organization needs to allow greater voice to the clients to influence the organization, agendas and pricing options.
- For a variety of reasons, poverty has a women's face and therefore the prime target population for almost all microfinance programs in Bangladesh, HMIs included, are women. Making sure that the female member of a household is, whenever possible, the principal member through whom the rest of her family can access the benefits contributes to the empowerment of women.

Institutional Capacity

- Poor people choose an HMI provider if it is known to them, provides quality care, has a good reputation, is nearby and the consumer is treated appropriately.
- Existing NGOs and MFIs have advantages in terms of HMI provision as they already have the infrastructure, the manpower and the resources.
- Large membership is desirable for any HMI scheme. It brings economy of scale and covers the administrative overheads of large branch networks.

Marketing and Client Education

- Poor people do not normally have a concept of risk pooling and are skeptical of a scheme in which payments come first with no immediate return. They are normally reluctant to part with funds before a health problem arises.
- Door-to-door visitation is one of the tools that can be used by an HMI scheme to market its product cost effectively.

Product Design and Controls

- Product design must be demand-driven, decided after consultation with the end users and field staff.
- Premium collection should be simple, easy to understand and to administer.

Claims Management

- Simple claims reimbursement systems enhance customer satisfaction, keep administrative overhead express low, and allow clinic staff to concentrate on health care activities.

Financial Performance and Sustainability

- A direct consequence of BRAC MHIB and SSS prioritizing their social agendas over financial sustainability is that operational costs are not recovered.
- The strategy to serve the community at large, and to charge higher rates to the less poor allowing for cross-subsidization, has some merit and should be explored in more detail. Of particular importance are effective marketing strategies to attract the non-poor.
- GK's experience shows that, with a large endowment fund for a limited period and with

sound investment management, it is possible to reach financial viability. This mechanism can be applied by donors or parent NGO instead of subsidizing operational shortfall each year for an indefinite period.

Key Issues in Offering Health Micro insurance

Health micro insurance can be defined as a type of insurance where accessibility to essential health services is made available to individuals and families, who are unable to afford formal health insurance schemes, through affordable premiums and low prices for health services.

Health risks such as illness, accident or injury, which require households to incur medical treatment costs, are some of the most common concerns to low-income households. Risk pooling over a large number of people through health insurance schemes can provide at least partial protection against these health risks at an annual cost that is within the household budget. HMI schemes use the principles of insurance to fund a-tangible service like health care. They must be designed with risk pooling mechanisms to harness private funds for health care financing.

The large rural informal workforce in Bangladesh makes it difficult to offer work-based social insurance and therefore health insurance provision should be incorporated within the framework of an overall national health plan and treated as a social security program. Successive Bangladeshi governments have failed to incorporate it due to misplaced priorities, poor planning and scarcity of resources. The poor cannot access the private health care system because of high costs.

Before embarking upon the provision of a complicated service like health care, HMI providers need to consider six critical areas: 1) institutional mission, 2) institutional capacity, 3) marketing and client education, 4) product design and controls, 5) claims management and 6) financial performance. Key questions around these topics are introduced in this section, and then the evidence from the three organizations will be used to answer the questions in Section 5.

Institutional Mission

NGOs in Bangladesh exist to serve the development needs of the poor. The lofty goals of poverty alleviation and empowerment of the disadvantaged are enshrined in their mission statements. The challenge, then, is to combine effective management and cost controls with a social agenda, and to maintain focus and insurance technical expertise while the organization are involved in a whole spectra of poverty alleviation activities.

The structure for delivering health insurance often depends on the organization's mission. Typically, there are two different options: a provider model, the health care provider and an insurer are one-in-the-same, like a health maintenance organization (HMO). In the insurer model, policyholders can (usually) receive treatment from a variety of different health care providers.

The social mission also requires HMIs to take into consideration the unique characteristics of the vulnerable population that they are seeking to serve. In Bangladesh, gender issues are a particular problem. Socio-cultural barriers that exist in society are aligned against the equal status of women and girls. That the last three Prime Ministers of Bangladesh have been women belies the fact that the majority of the females in Bangladesh, specifically those in rural areas, endure substantial deprivation. They have been, and continue to be, consistently denied many basic human rights. A well-planned health insurance scheme in Bangladesh needs to take into account the disadvantaged situation of women.

Institutional Capacity

Health micro insurance providers need access to information about the local environment, the resources, the market reality and potential. HMI service providers also need to have committed and skilled managers and staff, and a well-integrated team of other supporting players. They also need sufficient expertise to design the products, including the benefit package and the pricing such expertise requires actuarial skills and an understanding of the target market.

Another critical issue is having systems to manage the reams of data necessary to run a health insurance scheme. Unlike life insurance, where there is only one insured event, health insurance covers a range of eventualities that can occur frequently and repeatedly. To manage a health micro insurance scheme, it Is therefore more complicated to keep track of results and performance.

Marketing and Client Education

The intended beneficiaries for micro insurance are a reluctant market. Low -income households are wary to part with their limited funds for a promise of future benefits that they may or may not incur. Consequently, one of the greatest challenges in micro insurance is convincing the target market that they should indeed appreciate the policy. To accomplish that, it requires salespersons who understand insurance, have the marketing tools to persuade skeptics, and are backed by an institution that can deliver its promises.

Product Design and Controls

Even though risk pooling can provide more complete compensation than individuals' capacity to pay, it cannot provide coverage against all health service requirements, and so a benefits package has to be developed with resultant costs and benefits in mind.[1] To provide microinsurance, some hard decisions need to be made about the benefit package to ensure that it is affordable.

Decisions on the part of insurers regarding the provision of HMI depend on three main factors; demand, affordability, and availability of services. The high costs of care services requires the levying of premiums that may exceed the insured's ability to pay, especially in a poor country like Bangladesh. At the same time, the majority of the population may find that they are unable to bear the high costs of health care without insurance. In addition, most low-income households have irregular income flows. To make HMI schemes attractive to them, they need to be provided with premium payment schemes.

Health insurance plans the world over have inherent risks; in developing countries, the risks of adverse selection, moral hazard, over use, fraud and cost escalation are high. In Bangladesh, with its high population density, co-variant risks are also a big issue for the insurance providers.

One of the more significant challenges is fraud, especially efforts to claim treatment for individuals not covered under the scheme. Organization need to have effective management information and identification systems to know who is and is not covered, and who is up-to-date with their premium payments.

Cost control is another challenge. One solution is to have a ceiling on the amount of benefits available, or to limit the recovery time. Such strategies may solve the HMI service providers' problems but it merely transfers the burden to the insured and acts to make the HMI schemes less attractive to the rural poor.

Over-usage of facilities by the insured is another cost issue faced by health insures. The insured often feel like they are not getting their money's worth unless they avail themselves of the health services provided and may, for example, insist on hospitalization for minor illnesses. There are also issues of unnecessary visits and fake illnesses. One way to control over-usage is through co-payments or deductibles.

Many health insure control costs by requiring the insured to notify them in advance of any treatment, however such an arrangement may not make sense with micro insurance, especially in areas there communication can be difficult.

A general problem of private insurance provision, which is particularly true for the health insurance industry, is that insurers may try to limit their risks by for example, only insuring low risk people or restricting the range of risks covered. This practice again excludes the people who need health insurance the most.

Claims Management

Claims management in health insurance is somewhat different from other types of insurance because often the claim is paid in-kind, that is through health care services. The claims management procedure will depend on the delivery model. In the provider or HMO approach, policyholders do not usually have to submit[1] claims since they are handled internally, from one department to another. The only time policyholders

1 Providing Insurance to Low Income Households Part 2, Brown and Churchill 2000.
1 Regulated insurers would replace "affordability" with "profitability"

would request cash reimbursements is if they had to see a specialist outside the HMO or had an emergency outside the provider's geographic area.

Sustainability and Financial Performance

From a review of the literature, it appears that there are very few success stories of health micro insurance where the schemes are viable based on the income received from policyholders and users. The question then is how to design a sustainable health care delivery model (including insurance) that serves the poor over the long term.

Overview of Micro insurance in Bangladesh

Micro insurance, though gaining popularity in Bangladesh, is relatively new as a concept and data and documents are fairly scarce. Several major NGOs have some level of micro insurance provision covering health care, disability, or death. Despite the NGOs growing role, this sector has not yet reached a level where it can make a significant impact given the scale of the problem.

For life insurance, some regulated insurers have entered the micro insurance market following the lead of Delta Life's endowment policies. Life products are becoming competitive and there is an increasing variety of life insurance options available to the low-income market in Bangladesh today.

The non-governmental organization involved in micro insurance are not registered with the Insurance Directorate and are not regulated or supervised under the Insurance Act. The NGOs are of the view that since the NGO regulations do not prohibit such a service, it is not illegal to provide health micro insurance to its members.

The Chief Controller of Insurance has the authority to regulate the provident funds, mutual and cooperative insurers, and provide a mechanism to formalize these organizations. Confusion over whether micro insurance activities of NGOs falls under the jurisdiction of the Controller's office, which is under the Ministry of Commerce, or the NGO Affairs Bureau, may become an issue in the future. There has been no attempt to regulate or facilitate micro insurance in the country.

Bangladeshi micro finance NGOs came into the health micro insurance scene in the late 1990s and early 2000s. Throughout the 1990s, the flagship organization like Grameen Bank and BRAC were pre-occupied in their diversification programs IT, mobile telecommunication, renewable energy, band, university and consumer products and very little resources were applied to the health micro insurance except for some studies and a few pilot schemes.

Important players in health micro insurance are Gonoshashtho Kendra, Sajida Foundation, Shakti, Dhaka Community Hospital, BRAC, Grameen Kalyan, Nari Uddug Kendra, Dushtha Shasthya Kendra, Integrated Development Foundation and Society for Social Development. Most call themselves 'health card systems' and employ risk pooling to cover a large number of people. Two large micro finance NGOs, ASA and Proshika, have not entered health micro insurance; they state that they do not have the recourses to provide the service to provide the service.

Although HMI has not been incorporated into the Government of Bangladesh's National Health Policy the Ministry of Health and Family welfare has shown greath interest in the concept and is considering the inclusion of HMI programs as a method of extending existing government health service outreach. In the non-government sector, the provident societies, and mutual and cooperative organizations offer an important option for micro insurance. There is also a feeling among other non-NGO health service providers that a legal framework should be developed to facilitate the expansion of NGO provided health care services and introduce standardized operational procedures and maintain quality assurance.

In 2001, the ILO launched the Women's Empowerment through Employment and health project (WEEH), to assist poor women to access decent employment, skills, income opportunities, and to viable social protection schemes such as health insurance and quality health services. The two projects implemented under the WEEH heading were:

a) Women's Empowerment through Decent Employment (WEDE) b)Micro Health Insurance for Poor Rural Women in Bangladesh (MHIB)

The MHIB supports community schemes working towards women's access to quality health services and health micro insurance. The project has three components:

a)The implementation of a health micro insurance scheme through Grameen Kalyan

b)The implementation of a pilot health micro insurance scheme through BRAC

c)Advocacy and knowledge development through training materials and guidelines, promotion of social protection , action research and awareness raising

MHIB as concept and mechanism has emerged as a way to provide health care facilities to the poor. Generally, the MHIB schemes offered are open to all, but with some variation in the service packaging and with differently applicable price schemes for members and non-members. The prices are low compared to market rates and within the affordability of the target groups. The outreach of these MHIB schemes remains very limited however, especially compared to the population covered by the flagship NGOs (Grameen and BRAC) in their savings and credit activities.

In general, the insurance packages have been designed to include basic service elements of general consultation and treatment, selected antenatal and postnatal care, simple preventative and curative care including drugs, low-cost pathology and other tests, and referral services to higher level hospitals and clinical facilities. Assisted normal deliveries and surgical deliveries are often included as well. Individual family members, mostly women, typically make premium payments for policies that cover the whole family.

Most of the NGOs under the MHIB scheme have their own community-based mini-clinics with limited laboratory facilities staffed by medical professionals and/or paramedics. Some, such as GSK and SSS, have larger clinical facilities, in some cases hospitals. Some of the NGOs have linked up with clinics or health care service providers in their area of operation to offer their schemes. The NGOs with their own facilities and referral arrangements tend to have more service options than those that depend on a third party to supply the health service.

In 2003, the ILO's WEEH project carried out an extensive study of micro insurance schemes operating in Bangladesh. The study covers nineteen organization that provide thirty-six schemes and involve six million policyholders benefiting approximately seventeen million people in various parts of the country. A small proportion of the schemes have been in operation for more than six years while the majority have operated for three years or less.

The evolution of the micro insurance concept stems from the development and widespread implementation of micro-credit models as a development strategy for Bangladesh. As the viability of the 'credit-model' has been constrained by loan defaults, NGOs needed to complement credit with social security-type services. Today, the micro insurance model has become an important development tool to reduce the likelihood of loan defaults by addressing certain high economic costs to borrower groups and their families, for example resulting from emergency health expenditures, death of a family member, and damage to property caused by fire or natural disasters.

Moth of these schemes cover loan and life insurance; health care schemes, though larger in number, have a very small membership. Two of these organization, BRAC MHIB and Grameen Kalyan, are part of two large development NGOs that have nationwide reach. The other 17 organization , including SSS, are small to medium-sized, locality-based NGOs that provide primary health care, hospitalization, life insurance, load protection and property insurance. Several commercial insurance companies run micro insurance schemes; however, their risk-coverage is limited to life insurance. The micro insurance schemes in Bangladesh fall under five categories, as shown in table on next page.

Table Types of Micro insurance in Bangladesh

	Type of Scheme	No. of Schemes	% Distribution
1.	Health	13	39
2.	Life	12	36
3.	Loans/Capital	8	19
4.	Livestock	2	4
5.	Disaster	1	2
	Total	36	100

The types of service offered by health micro insurance schemes in Bangladesh include preventive care, such as educational programs on cleanliness, food preparation, AIDS prevention and prenatal care' and primary care, e.g., medical exams, consultation with certifies doctor, and prescription for medicines. Lab tests, such as x-rays, and major medical care level such as surgeries are also available. The organization covered in this study provides a complete coverage of all services.

The Institutions

Table Institutional Comparison Summary [1]

Issues	BRAC MHIB	Grameen Kalyan	SSS Health Program
Legal structure	Component of NGO BRAC	NGO	Component of NGO SSS
Start of micro insurance operations	2001	1997	1993
Target market	All families in their area of operation		
Delivery model	Insurer	Insurer/Service Provider	Insurer/Service Provider
Reinsurance provider, type	None		
Product offerings	Preventive, Curative & Pregnancy-related Care	Preventive & Curative Care	Curative Care
Outreach 2004: number of policyholders	12,258	58,000	45,424
Number of persons covered [2]	43,522	290,000	227,120
Premium income & Copayments 2004	BDT 516,622 (US$8,803)	BDT 4,396,361 (US$74,912)	BDT 219,782 (US$3,745)
Claims expenses 2004 [3]	US$4911	US$5,164	-
HO & admin expenses [4]	US$34,904	US$207,462	US$92,129
Claims/premiums (%)	55.8	6.9	-
Expenses/premiums (%)	396.3	270.0	2460.0

1 Exchange rate used 1USD$= BDT58.687.

2 Assuming 5 members per family.

3 Only BRAC MHIB shows the full claims costs since it actually makes payments to the BRAC clinics; the claims costs for GK and SSS only include the cost of referrals.

4 Gk & SSS: includes cost of providing treatment at own claims/ hospital.

BRAC Micro Health Insurance Program[5]

BRAC (Bangladesh Rural Advancement Committee) was set up in 1972 as non-profit development organization to offers relief to people whose lives were dominated by extreme poverty, illiteracy and disease. Since its inception, BRAC has grown to become one of the largest NGOs in the world, working in 65,000 villages in all 64 districts of Bangladesh, employing over 35,000 regular staff and 61,750 full-time and part-time teachers. Its cumulative load disbursement to date in US$2.8 Billion, with 98.7% recovery rate, and its deposits stand at US$136 million. BRAC's microcredit program follows the Grameen Bank group-borrowing model, delivering services through at network of 1,172 branches and 155,065 Village Organization (VO). BRAC's microcredit program in each village is referred to as a Village Organization, and poor people who participate in the program are referred to as VO members. The current Vo membership is 5.1 million.

1. Exchange rate used 1 US$=BDT58.687.
2. Assuming 5 members per family.
3. Only BRAC MHIB shows the full claims costs since it actually makes payments to the BRAC clinics; the claims costs for GK and SSS only include the cost of referrals.
4. GK & SSS: includes cost of providing treatment at own clinics/hospital.
5. Data source: BRAC at a Glance, 2005.

5 Data source: BRAC at a Glance, 2005.

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[KARACHI]

Before Faisal Arab, J

MUSLIM COMMERCAL BANK LTD.

Through Secretary and 2 others---Plaintiff Versus

ABDUL HAMID ADAMJEE and 6 others---Defendants

Suit No. 522 and C.M.A No.2503 of 2005, decided on 20th November,2006.

Insurance Ordinance (XXXIX of 2000)---

---S. 12---Companies Ordinance (XLVII of 1984) S. 187---Disqualification to become Director of company plaintiffs in their suit had sought disqualification of defendants on the ground that they were not fit and proper persons to act as Directors within the meaning of S.12 of Insurance Ordinance, 2000---Security and Exchange Commission of Pakistan, in its report had not found anything which suggested that said defendants did not qualify the test of sound and prudent management as stated in S.12 of Insurance Ordinance. 2000---Integrity or professional skills of defendants had not even been doubted--- Only ground on which disqualification of defendants was sought, was that two other companies in which they held the position of Directorship, had become Bank defaulters--- Nothing had been brought on record to establish that any court of law had declared the defendants as defaulters in payment of loan to a financial institution in order to attract the provisions of S.187(1) of Companies Ordinance, 1984--- Main objective to disqualify a person from acting as a Director of a company was to save the community from the consequences of his mismanagement or fraudulent, acts or incompetence--- Report of Security and Exchange Commission of Pakistan, however, did not point any such deficiency; in absence of any material to justify disqualifying defendants from acting as Directors under S.12 of Insurance Ordinance, 2000 or S187 of Companies Ordinance, 1984, suit was dismissed. [pp. 168, 169, 170] A, B, C, D & ERe:Pamstock Ltd. Ch. D. Re (1994) 1 BCLC 716; Swift 736 Ltd. Ch. D. (1993) BCLC 1 and Secretary of State for Trade and Industry v. Gray and another Ch. D. (1995) BCLC 276 rel.

BilalShaukat for Plaintiffs. Qutubuddin Sain for Defendants Nos. 1 to 3.

Muhammad Shahid for Defendants. Nos. 4 and 5.

ORDER

FAISAL ARAB, J. 1 & 2. The plaintiffs are shareholders of Adamjee Insurance Company Limited, which company is defendant No.6 in the present suit. The elections of directors of defendant No.6 were lastly held on 29-5-2004. In the said elections, nine directors including plaintiffs Nos.2 and 3 and defendants Nos.1 and 2 were elected. Prior to such elections, defendant No.6 was under the managerial control of members of the Adamjee family including defendants Nos.1 to 3 and others on the strength of majority shareholdings that they held in defendant No.6. By the year, 2002, the shareholding of the members of Adamjee family was reduced to only 18% on account of their gradual disinvestments that started in 1998. The shares were mainly purchased by the plaintiffs, who gained majority in the share capital of defendant No.6. It is the case of the plaintiffs that the defendants Nos.1 to 3 when faced with the situation of losing the managerial control over defendant No.6 to its new shareholders, made several attempts to delay the takeover by the new majority by filling suits and constitution petitions both in this Court and in the Lahore High Court. According to the plaintiffs, this was done with the specific intent to delay the elections of directors that were then due in 2002. However, members of the Adamjee family could not prevent the new majority from exercising their right of vote as the much-delayed elections were finally held on 29-5-2004. In suit No. 594 of 2004 that was filed by defendant Nos.1 to 3 and others, they however succeeded in obtaining in order on 3-6-2004 from this Court for examination of the credentials of the elected directors by SECP under the provisions of section 12 of the Insurance Ordinance, 2000. The relevant portion of the order, dated 3-6-2004 is reproduced as follows:

"Let the Board of Directors so elected on 29-5-2004 function and discharge its duties in the matters relating to day to day affairs of the company. In the meantime credentials of all the directors elected on 29-5-2004 be ascertained by SECP independently in accordance with the requirement of Ordinance, 2000 more particularly section 12 thereof together with code of good governance within two weeks. All parties including the plaintiff will be entitled to be heard by SECP. This arrangement shall continue till the next date of hearing. Till such time, the independent evaluation of directors elected by SECP to reach this Court."

SECP however examined the credentials of only such directors who were new in the company and submitted their credentials vide its report, dated 8-7-2004. In the report all six directors who were new to the company were found fit to hold the office of directorship. SECP however, did not report on the credentials of such directors who were associated with the Adamjee family. After submission of the report, Suit No. 594 of 2004 was withdrawn.

The order of this Court, dated 3-6-2004 passed in Suit No.594 of 2004 was not fully complied with by SECP for the reason that credentials of all the directors elected on 29-5-2004 were not examined by SECP as SECP left out such directors who were elected on the strength of share holding of Adamjee family. This prompted the plaintiffs to file the present suit seeking disqualification of defendants Nos. 1 and 2 on the ground that they are not fit and proper persons to act as directors within the meaning of section 12 of the Insurance Ordinance, 2000. The plaintiff also obtained orders of this Court whereby SECP was directed to examine the credentials of defendants Nos. 1 to 3 as well. On 23-12-2005 SECP submitted its report. In the Report defendants No. 1 and 2 were shown as directors of two companies which had defaulted in payments of bank loans and on account of such defaults, these companies were placed on CIB list of the State Bank of Pakistan.

The question that needs to be examined is whether at this sage of the case, is there any lawful justification to restrain defendants Nos. 1 and 2 from acting as directors of defendant No.6 on the basis of SECP's recommendations. Section 12 of the Insurance Ordinance, 2000 provides criteria for sound and prudent management and section 187 of the Companies Ordinance, 1984 provides basis for disqualifying a person from acting as director of company.

Section 12 of the Insurance Ordinance, 2000 reads as follows:
(12) Criteria for sound and prudent management. (1) For the purposes of this Ordinance, the following shall, without limitation, be recognized as criteria for sound and prudent management of an insurer or applicant for registration as a person authorized to carry on insurance business;

(a) the business of the insurer or applicant is carried on with integrity, due care and the professional skill appropriate to the nature and scale of its activities;

(b) each director and officer or (in the case of applicant which is a body corporate incorporated outside Pakistan) the principal officer in Pakistan of the insurer or applicant is a fit and proper person to hold that position;

(c) the insurer or applicant is directed and managed by sufficient member of persons who are fit and proper persons to hold the positions which they hold;

(d) the insurer or applicant maintains adequate accounting and other records of its business; and

(e) the insurer or applicant maintains adequate systems of control of its business and records.

SECP in its report has not found anything which suggests that defendants Nos.1 and 2 do not qualify the test of sound and prudent management as stated in section 12 of Insurance Ordinance, 2000. The integrity or professional skills of the defendants Nos.1 and 2 have not even been doubted. The only ground on which disqualification of defendants Nos. 1 and 2 is sought is that two other companies in which they hold the position of directorship have become bank defaulters. Section 187 of the Companies Ordinance, 1984 enumerate several grounds for disqualifying a person from holding the position of a director. Clause (i) of section 187, which could only be relevant in the case of defendants Nos. 1 and 2, reads as follows:

(187) Ineligibility of certain persons to become director. No person shall be appointed as a director of a company if he---

(a) ……………..
(b) ……………..
(c) ……………..
(d) ……………..
(e) ……………..
(f) ……………..
(g) ……………..
(h) ....

(I) has been declared by a Court of competent jurisdiction as defaulter in repayment of load to a financial institution, exceeding such amount as may be notified by the Commission from time to time; and

(J) ……………...

Nothing has been brought on record to establish that any Court of law has declared the defendants Nos. 1 and 2 as defaulter in repayment of loan to a financial institution in order to attract the provisions of section 187(i) of the Companies Ordinance, 1984.

There is no denying the fact that good governance demands that the shareholders and the public at large are protected from persons acting as directors whose conduct is dishonest or who commit breach of standards of commercial morality or through their actions they demonstrate gross incompetence. Person possessed with such traits and deficiencies would certainly be a danger to the public and the shareholders if they were to be allowed to continue with the management of a company. Therefore, such factors obviously are to be considered while examining the credential of persons acting as directors. The main objective to disqualify a person from acting as a director of a company is to save the community from the consequences of his mismanagement or fraudulent acts or incompetence. The report of SECP however does not point any such deficiency in defendants Nos. 1 and 2.

Even otherwise, defendant No. 1 or 2 who though are directors in defendant No.6 but the majority on the board do not belong to the group of defendants Nos.1 and 2 and they cannot exercise any substantial or overwhelming role in the decision making process of defendant No.6 which control admittedly lies with the plaintiffs.

Learned counsel for the plaintiffs cited the cases of Re Pamstock Ltd., Ch. D Re (1994) 1 BCLC 716; Re Swift 736 Ltd., Ch. D. (1993) BCLC 1 and Secretary of State for Trade and Industry v. Gray and another, Ch. D. (1995) BCLC 276, in support of his case. However, in these foreign judgments which were decided under the English law disqualification was ordered after the Courts finally came to the conclusion that director's conduct fell short of the minimum standard which the Court requires to be observed, or a director committed breach of commercial morality or misuse of privilege. In the present case at this stage there is no material to justify disqualifying defendant Nos.1 and 2 from acting as directors under section 12 of the Insurance Ordinance, 2000 or section 187(1) of the companies Ordinance, 1984. C.M.A No. 2503 of 2005 is therefore dismissed.

2007 C L D 555

[Lahore]

Before Maulvi Anwar ul Haq and
Syed Asghar haider, JJ
IMRAN ENTERPRISES through Proprietor
And other---AppelllantsVersus
MUSLIM COMMERCIAL BANK through
Manager and another ---Respondents

Regular First Appeals Nos.197 and 450 of 2004, heard on 21st December 2006

Financial Institutions (Recovery of Finances) Ordinance (XLVI OF 2001)---

---Ss 9, 10 & 22---Suit for Recovery of loan by Bank—Leave to appear and defend suit—Appeal –Application for leave to defend suit filed by appellant had was dismissed and suit filed by bank was decreed—Appellant had alleged that accounts had not been verified as mandated by law; that statements of accounts was also not in consonance with the disbursements made to the appellants and that defence set up by appellants in application for the grant of leave, had not been dealt with properly especially qua the effect that a fire broke out in the factory of the appellants which destroyed the hypothecated stocks for which Insurance Company was bound to make payments---Insurance Policy had reflected that the right of the Bank recover claim was unimpaired---Stance for appellants that recovery had to be made from the Insurance Company was without substance, in circumstances ---Statements of account was in consonance with the claim made by Bank---Preponderance of documents attached with the plant had clearly reflected that appellants had availed the facility in question---Trial Court appraised the documents appended with the plaint and impugned judgment of Banking Court had dealt with all objections raised by appellants in their appeal—Assertion of appellant that judgment impugned in appeal was not in consonance with requirement of law, was untenable and without substance—Appeal against impugned order was dismissed {p. 556] A

Mirza Aaamir Baig for Appelllants
Raza Farooq for Respondents

Date of hearing 21st December, 2006.

JUDGMENT

SYED ASGHAR HAIDER , j ---This appeal is directed against the judgment and decree dated 18-3-2004, passed by the Banking Court, Lahore.

2. Respondent No.1 filed a suit for recovery of Rs. 40,41,635.38 along with mark-up etc ., the appellants and respondents No.2 filed applications for leave to defend the suit, the leave application of defendants Nos. 1 and 2/appellants was dismissed, however the leave application of respondent No.2 was allowed, thereafter the suit decreed to the extent of appellants. The appellants are aggrieved of the aforesaid judgment and decree, hence the present appeal.

3. Learned counsel for the appellants contended that the suit has been decreed in haste without fulfilling the requirement of judgment as contemplated by order

XLI, rule 31, C.P.C., the respondents have charged the mark-up in violation of the State Bank Instructions , the accounts have not been verified as mandated by law, the statement of accounts is also not in consonance with the disbursements made to the appellants and the defense set up by the appellants in the application for the grant of leave has not been dealt with properly, especially qua the effect that a fire broke out in the factory of the appellants and destroyed the hypothecated stocks for which the insurance company was bound to make payment.

4. Learned counsel for respondent No. 1 controverted the assertions made by the appellants and submitted that the accounts are in consonance with the disbursements made, the facility was enhanced from Rs. 3 to 4 million, the appellants have accepted their liability and therefore, the present appeal is without substance. On merits, he submitted that the Banking Court adverted to the defense raised by the appellants and dismissed the leave application after application of proper judicial mind.

5. we have heard t he learned counsel for the appellants and also perused the impugned judgment and decree. The pith and substance of the arguments made by the learned counsel for the appellants is that the leave application was not considered properly qua the effect of fire breaking out in the factory and destroying the hypothecated stock, he submitted that the stocks were insured on the insistence of the respondent-Bank with the insurance company of the choice of respondent-Bank, therefore, recovery ought to be made from the insurance company. Perusal of the insurance policy reflects that the right of the bank of recover claim is unimpaired. Reference may be made to clause 1-(b) which reads:--

"…..And it is further agreed that whenever the company shall pay the bank may sum in respect of loss and damage under this policy and shall claim that as to the Mortgagor or Owner no liability therefore, existed, the Company shall become legally subrogated to all the rights of the bank to extent of such payment but not so as to impair the right if the Bank to recover the full amount of any claim it may have on such mortgagor or Owner or any other party or parties insured hereunder or from any securities or funds available."

Therefore, the stance of the learned counsel that the recovery has to be made from the insurance company is without substance. As far as the objection qua the statement of accounts is concerned the facility in question was enhanced from Rs. 3 to 4 million, therefore, the statement of account is in consonance with the claim made by the bank. There is preponderance of documents attached with the plaint which clearly reflect that the appellants availed the facility in question and also admitted the same. Reference may be made to the agreement for financing. The trial Court appraised the documents appended with the plaint, the impugned judgment has dealt with all objections being raised now, including the leave application, therefore, the assertion of the learned counsel for the appellant that the judgment is not in consonance with requirements of law is untenable and without substance. Resultantly, this appeal has no merits and is dismissed, no order as to costs.

Appeal Dismissed

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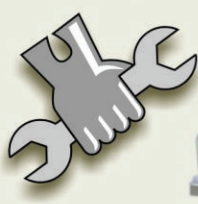

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