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October, November, December 2018

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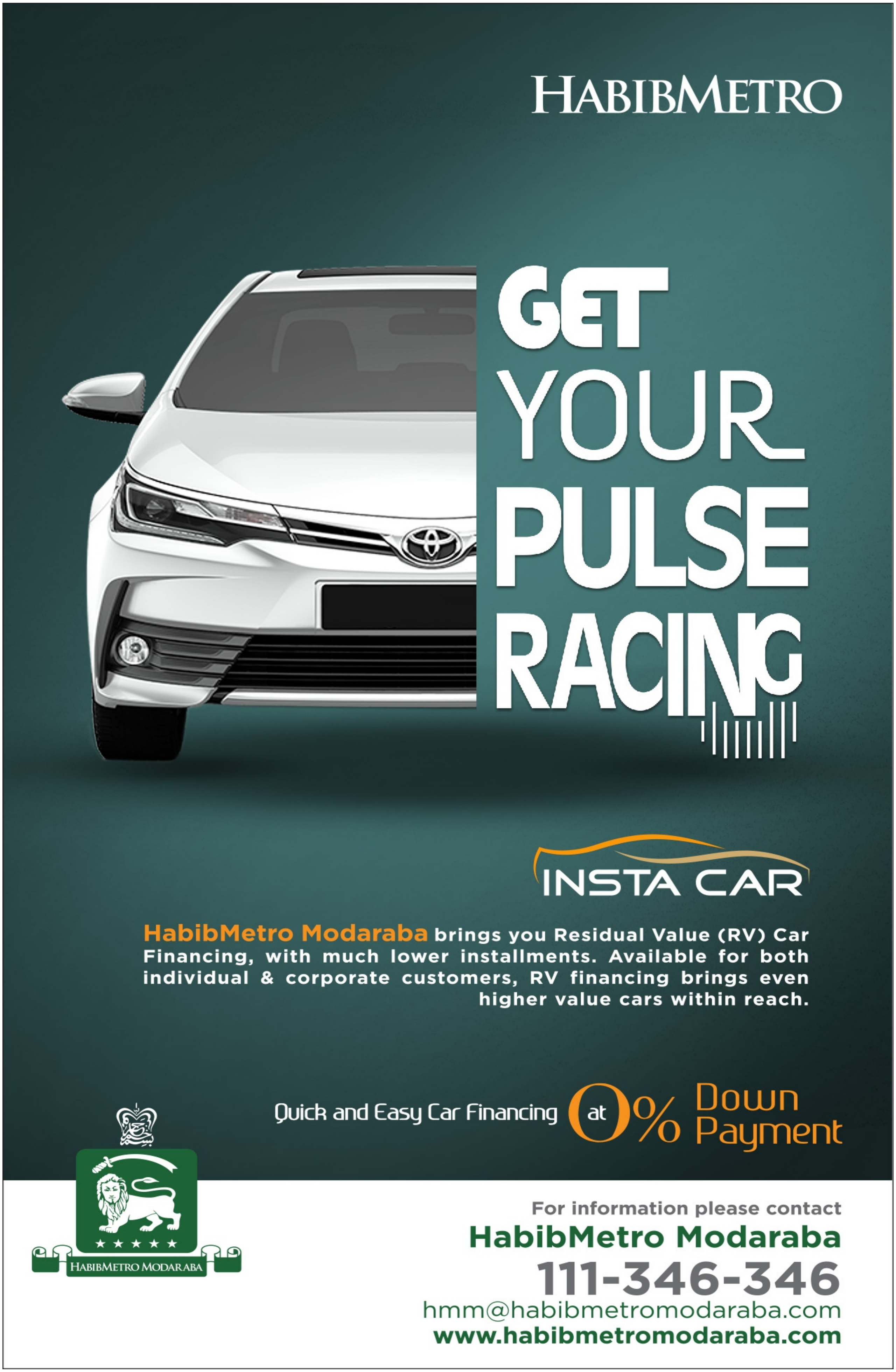
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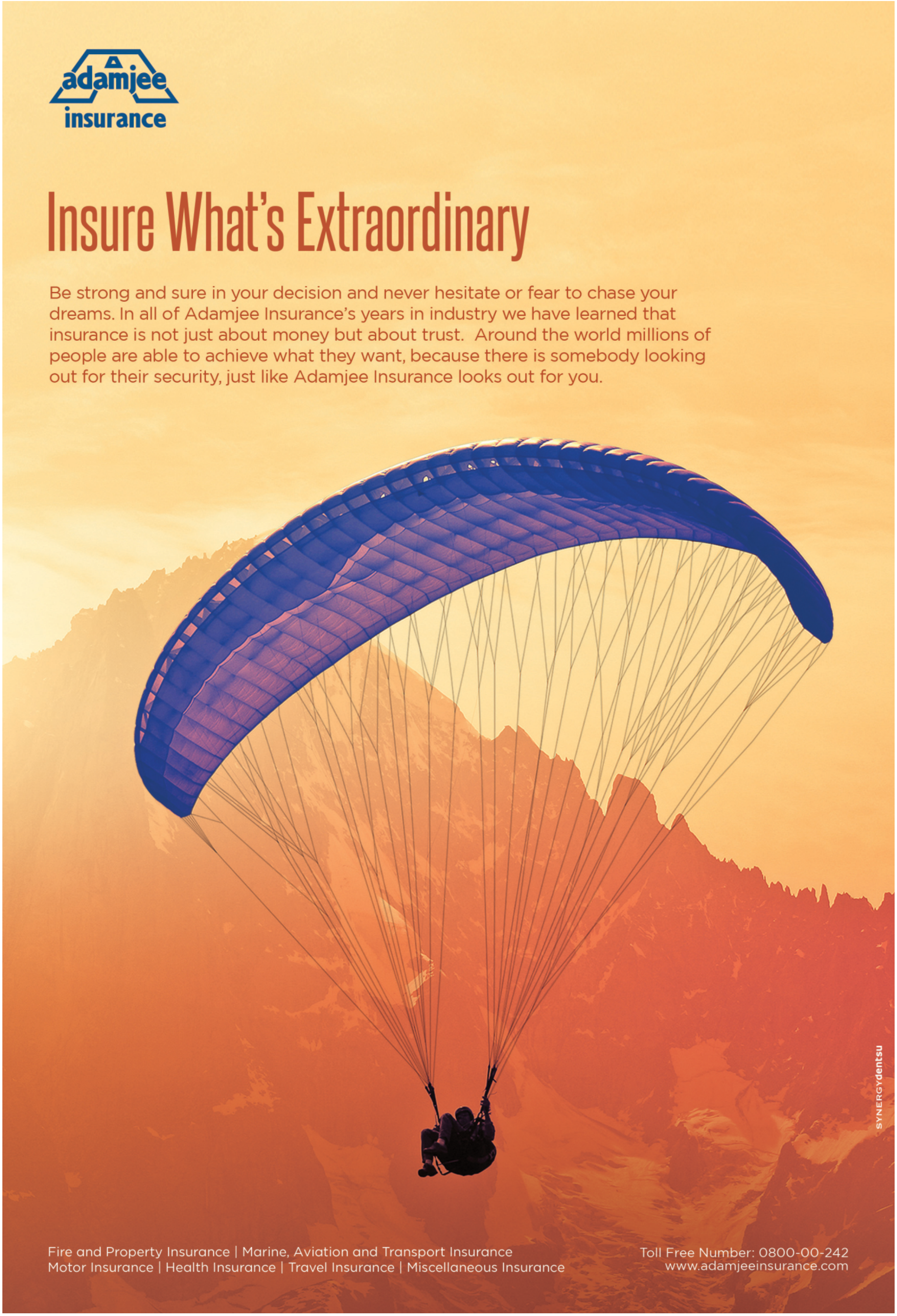
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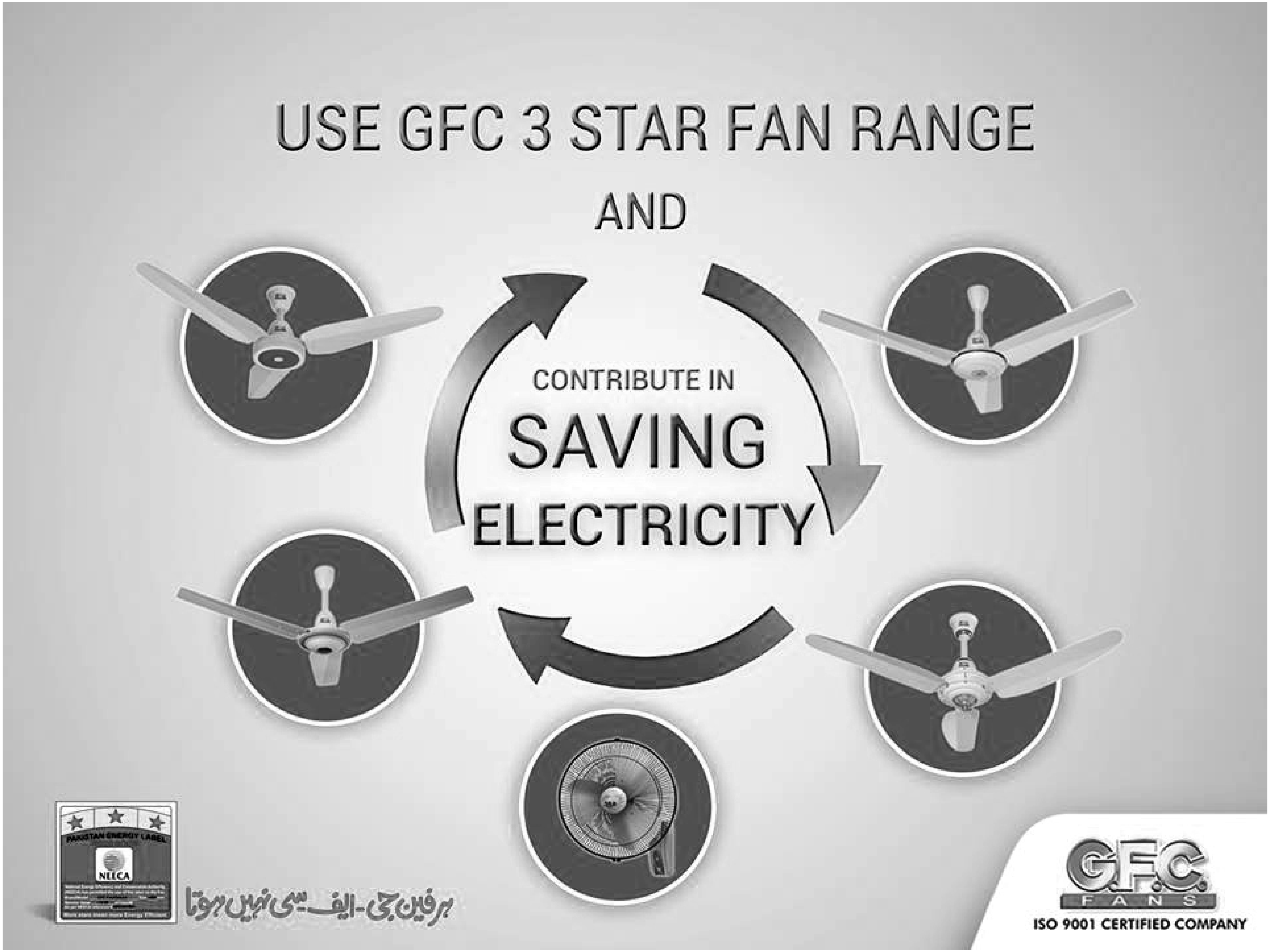
INSURANCE SECTOR ON PAKISTAN STOCK EXCHANGE

(Quarter: July, August, September 2018)

Compiled By: Khurram Shahzad

Company	Paid up Capital (Rs. in Million)	Face Value Rs.	Higest Rate Rs.	Lowest Rate Rs.	Turnover of Shares	Announcement During the Quarter
Adamjee Insurance Company Limited	3,500	10.00	52.24	43.80	7,703,000	Dividend = 10%
Asia Insurance Company Limited	603	10.00	-	-	-	
Askari General Insurance Company Limited	625	10.00	27.00	24.80	211,000	
Askari Life Assurance Company Limited	602	10.00	30.45	20.50	187,000	Right issue = 83.09% Rs.10/Share
Atlas Insurance Limited	702	10.00	66.98	62.50	487,000	
Beema-Pakistan Company Limited	417	10.00	-	-	-	
Business & Industrial Insurance Company Limited	86	10.00	-	-	-	
Century Insurance Company Limited	503	10.00	25.55	20.00	163,500	
Crescent Star Insurance Limited	1,077	10.00	3.85	2.72	22,302,500	
Cyan Limited	586	10.00	44.43	35.10	918,500	Dividend = 25%
East West Insurance Company Limited	610	10.00	141.50	141.50	200,000	
EFU General Insurance Limited	2,000	10.00	143.31	102.50	1,153,900	Dividend = 12.50%
EFU Life Assurance Limited	1,000	10.00	301.00	187.00	621,000	Dividend = 12.50%
Habib Insurance Company Limited	619	5.00	12.50	11.12	113,000	
Hallmark Insurance Company Limited	5	10.00	-	-	-	
IGI Holdings Limited	1,426	10.00	300.99	271.58	920,600	
IGI Life Insurance Limited	706	10.00	87.98	68.50	324,000	
Jubilee General Insurance Company Limited	1,804	10.00	79.80	67.30	109,000	
Jubilee Life Insurance Company Limited	793	10.00	720.00	608.76	50,050	Dividend = 30%
Pakistan General Insurance Company Limited	464	10.00	6.70	4.21	857,500	
Pakistan Reinsurance Company Limited	3,000	10.00	34.00	28.41	1,878,000	
PICIC Insurance Limited	350	10.00	3.13	2.00	13,892,500	
Premier Insurance Limited	506	10.00	8.00	6.65	211,000	
Progressive Insurance Company Limited	85	10.00	-	-	-	
Reliance Insurance Company Limited	561	10.00	8.00	6.65	390,000	
Shaheen Insurance Company Limited	600	10.00	6.20	4.50	348,000	
Silver Star Insurance Company Limited	306	10.00	-	-	-	
Standard Insurance Company Limited	8	10.00	-	-	-	
The United Insurance Company of Pakistan Limited	2,262	10.00	13.25	10.51	1,017,500	
The Universal Insurance Company Limited	500	10.00	9.35	6.05	48,500	
TPL Direct Insurance Limited	939	10.00	25.67	21.50	12,500	Bonus Issue = 13%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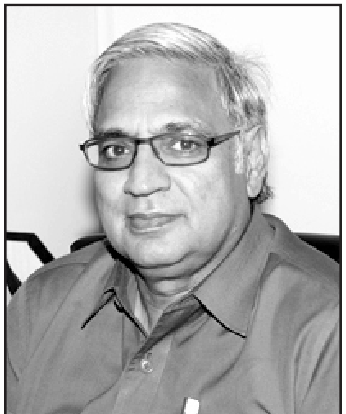

Dr. Safdar Ali Butt
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Committees of a Board:

Uses and Limitations

A board of directors is a non-executive body that generally meets no more than four or five times a year to perform its oversight, directional and advisory functions. The time at the disposal of directors is rather limited – in fact too limited to allow a comprehensive coverage of all the various issues that are presented to the board. It is therefore necessary that the board should get some assistance from certain quarters, other than the management of the company, for expert advice or briefing on the matters that are placed before it. Forming committees of the board is one way of getting such assistance. Some of these committees are required by law to be formed, while others may be formed purely for convenience and as a tool for better governance.

Advantages of Committees

The advantages of forming specialized committees are as follows:

a. The directors are able to get impartial, yet professional, input from a source other than the management of the company. If the board continues to rely solely on the information provided by the management, it will fail to perform its function of effective oversight. A board that does not look beyond the papers presented to it by the management will not be able to control the management; rather it will be controlled by the management. This reversal of roles is against the spirit of good governance and should be diligently avoided. Hence, in this respect, committees help to improve the quality of governance at a company.

b. The work load of directors is reduced. The detailed work is done by the committee members while the Board receives a summarized report and/or recommendations for its consideration. At least theoretically, this should not result in dilution of powers of the board. While the board retains the power to make the final decision on all issues, the issues themselves are assigned to various committees in order to get a meaningful division of work. In this way, more work can be done in lesser time, thereby improving the overall efficacy of the board – and hence the governance.

c. With the induction of outside consultants or specialists in board committees, the board can get more detailed and specialized information for a more dependable decision making. This is perhaps the most important argument in favor of committees and the role they can play in improving the quality of governance. Board members should be provided this access to outside specialists without having to rely exclusively on the company's own management in order to get an independent view on the issues.

Issues and Problems with Board Committees

Board Committees are however like firearms. If they are used properly they defend the company and improve its governance. However, if they are not handled well, they can seriously harm the company. The following issues and problems are commonly associated with board committees:

a. Committees are often accused of slowing down the process of decision making. Quite often, certain matters can be decided by the board but are referred to a committee which takes its time in coming up with recommendations for the board. Again, quite often discussion on these recommendations takes more time than the discussion on the issue itself. It is not only the governmental committees that are known for delaying decisions; corporate committees are often quite as guilty.

b. Once a committee is formed about a particular matter, many (if not all) board members (i.e. directors) stop caring or even thinking about it. This leads to abdication of responsibility. As it is, most non-executive directors are neither aware of, nor concerned about, their specific responsibilities as board members. Committees provide them an excellent means of escape because less than diligent directors can easily hide behind the recommendations of the committee. If a wrong decision is reached by the board and a process of accountability begins, such directors conveniently point a finger at the committee and escape unscathed. It has been commonly observed that once the board members have a ready scapegoat for any error in decision-making, the level of their diligence and vigilance somehow subsides.

c. Board Committees are often not competent. Since, most boards still confine the membership of their committees to their own members only; they may frequently fail to find sufficient talent in the board to constitute a meaningful committee on a particular subject. Such a committee may not have specific competence to deal with the matters referred to it. Forming a committee that does not have adequate intellectual or technical capacity to look at a difficult problem is like going to an optometrist for a heart implant. Quite unfortunately, this malice is fairly common.

d. When a committee fails to perform its duty, it also prevents others from performing that function. This relates to the general psychology of directors. Those who are not in a particular committee, do not want to interfere in its work – this means if the committee is not performing its work properly, the whole board and hence the company suffers. At the same time, those in the committee do not approve of other directors raising objections to their recommendations even when such recommendations are faulty. This is one of the biggest disservices of board committees.

e. Given the board structures in Pakistan, Board Committees often become one-man show. The head of the family who owns majority of the shares tends to chair all the committees, or attend their meetings without being even a formal member. In this way, he strips the committee of any real power, taking all decisions individually. Even, if the top honcho is not involved in such committees, certain committee chairmen tend to make their committees their personal domain and rule over it with a strong hand. I came across the definition of an effective committee some time ago. It said “an effective committee comprises of four members, three of whom don't give a damn and one who wants everything his way.” Quite unfortunately, if the board is not vigilant most board committees get transformed into such bodies.

f. And lastly, Board Committees are often used by the real management of the company to get legitimacy for their decisions without taking responsibility for them. For example, the family controlling a company may form a board committee to give recommendations on a new project and make sure that the recommendations are all in line with what the group really wants to do in the matter. Manipulation of committees by crafty managers (in Europe) and controlling shareholders (in countries like Pakistan) is fairly common. Committees are used as a rubber stamp for decisions made elsewhere. The corporate sector appears to have learned this trick from the politicians who are very fond of making committees. Committee members are hand-picked by the government and asked to give a report supporting the government's point of view. Naturally, such committees are no real help in improving the quality of governance of a company.

Common Committees

According to the code of corporate governance issued by Securities and Exchange Commission of Pakistan (SECP), there are only two mandatory committees that must legally be formed, namely the Audit Committee and Human Resource & Remuneration Committee. However, better managed companies find it necessary to form certain other committees as well, for example nominations committee, executive committee, compliance committee, risk management committee, etc. Some companies combine the functions of two or more committees into one, e.g. many companies have only one nominations committee that also functions as remuneration committee. Similarly, the functions of compliance committee are often assigned to the audit committee. We will now discuss the functions of some important committees that are commonly found in Pakistani listed companies, namely audit-cum-compliance committee, HRM committee, nominations-cum-remuneration committee, risk management committee and executive committee.

Mandatory Committees

Only two of the Board Committees are mandatory for listed companies to be established under the Listing Rules of PSX and SECP. These are Audit Committee and Human Resources & Remuneration Committee.

The Audit Committee

The relevant laws in most countries now require listed companies to form an audit committee comprising of three or four board members. It is charged with the responsibility to oversee certain functions on behalf of the board and to brief the board thereon.

Membership of Audit Committee

In most developed countries the following standards are followed in this regard:

a. All its members are independent non-executive directors (INEDs). In particular, no executive director is made a member of audit committee to ensure its independence. Similarly, the chairman of the company, even if he is a non-executive director, should not be a member of this committee.
b. The chairman of the audit committee must be INED.
c. USA law requires that at least one member of the audit committee must have financial expertise or background. However, such a member should not be an executive or paid employee/consultant of the company.
d. The audit committee can however get outside professionals to assist it if its members deem it necessary.

In Pakistan, the only requirement set by Code of Corporate Governance is that at least one member of the Audit Committee should be an independent director while other members should be non-executive directors.

Terms of Reference of Audit Committee

The Code of Corporate Governance issued by SECP has prescribed the following terms of reference for an audit committee:

- Board of Directors of every listed company shall formulate the terms of reference of Audit Committee.
- In general, the Audit Committee shall recommend the appointment of external auditors to Board of Directors; and advise the Board on issues related to resignation or removal of external auditors as well as audit fee of external auditors.

Itemized responsibilities of the Audit Committee as per the Code are:

1. Determination of suitable measure for protecting the assets of listed company; examination of initial declaration of results before publication;
2. Review of quarterly, half-yearly and annual financial statement of listed company before presenting to Board of Directors;
3. Facilitate the external audit by discussing significant observations resulting from interim and external audit with external auditors;
4. Assessment of management letter which is issued by external auditors , along with management response in this regard;
5. Guarantee free communication between external and internal auditors;
6. Evaluation of scope and degree of internal audit and make ensure its independence;
7. Consideration of significant outcome of internal audit as well as management feedback regarding it;
8. Ensuring the effectiveness of internal control systems (financial and operational), accounting structure and reporting system;
9. Reviewing of company's statements which contain description of internal control systems, before presenting them to Board of Directors;
10. Consideration of special projects, value for money studies or any other matters as determined by Board of Directors in consultation with CEO,
11. Participate in negotiation on the issue of remittance with external auditors or other external bodies;
12. Specifying compliance practices related to statutory requisites;
13. Managing the compliance with best Corporate Governance practices and
14. Highlighting any major violation observed;

The Code also states that the audit committee of a listed company shall appoint a secretary who is responsible for recording and distributing minutes of Audit Committee meetings to all members, directors and CFO within a fortnight. Generally, but not always, the head of internal audit function in the company serves as the secretary to Audit Committee.

Nature of Audit Committee

Despite its apparent importance and influence on the governance of a company, it is wise to remember that an Audit Committee is not an executive body. It does not carry out any executive function at all. It does not draw up the accounting policy, neither does it approve it. The management draws accounting policies and procedures while the Board of Directors approves them. The role of Audit Committee is to advise the Board on the efficacy of the policy and its implementation.

Similarly, an Audit Committee does not perform internal or external audit. It does not issue any instructions to either of the auditors. It simply oversees their work and reviews their reports in order to keep the Board of Directors informed of the status vis-à-vis the audit matters.

Audit Committee reports to the Board of Directors and gives its reports, findings, advice and recommendations to the board. The Board in turn may decide on whatever action needs to be taken on the basis of Audit Committee's reports or advice. The Audit Committee does not have the powers or mandate to issue any directives to the management of the company, including the internal auditor. It may at times provide views and observations to relevant managers, but not instructions to carry out any specific task. Any such instructions must come from the Board.

In certain situations, it lies within the prerogative of the Audit Committee to give a report direct to the shareholders, or to communicate with them through some other formal or informal means to convey its views. If for example, the Audit Committee finds that the Board Chairman is not paying adequate attention to its recommendations, it may opt to send these recommendations direct to major shareholders, or present them at AGM. However, in Pakistan such incidences are extremely rare.

Situation of Audit Committees in Pakistan

While almost all companies are complying with the PSX and SECP requirement of having an audit committee, sadly most audit committees are far from independent. Some companies assign the chairmanship of audit committee to the chairman of the company. In many companies, since most directors are family members, it is not uncommon to find that one brother is chairman of the company; another is the CFO while the third is chairman of the audit committee, thereby totally killing the independence and effectiveness of the audit committee. Again, since the local law does not prescribe any qualification for members of the audit committee, companies take advantage and nominate such members on the audit committee who are not competent or trained to handle its functions. With the advent of SECP's code of corporate governance and amendments thereto, the situation has improved slightly. Now most companies nominate a non-executive director as the chairman of Audit Committee, but most such chairmen remain far from being independent.

Human Resources and Remuneration (HR&R) Committee

SECP has recently made it mandatory for listed companies to have an Human Resources and Remuneration (HR&R) Committee to perform the following functions:

- To oversee the Company's compensation and benefits policies generally;
- To evaluate performance of executives;
- To review the Company's management succession plan;
- To oversee and set compensation for the Company's executive directors, CEO, and other senior managers;
- To retain and terminate compensation consultants where needed;
- To prepare its report on company's HR policies that the SECP's rules require to be included in the Company's annual report.
- To perform any other tasks that may be assigned to it by the Board from time to time.

This committee should have at least three members, preferably all non-executive directors.

Non-Mandatory Committees

In addition to the Audit Committee and HR&R Committee, that are mandatory, companies find it convenient to form one or more of the following non-mandatory committees.

The Executive Committee

Board members are very busy people. It is therefore not possible to summon a board meeting for every minor issue. At the same time, a considerable number of matters must be brought to board's formal attention, which must be deliberated upon and decided on by the board. It is therefore often considered helpful to form a special committee, from among the board members, to look at all the different issues and documents that need to be presented to the board, before they are presented to the board. This special committee, called Executive Committee, is often granted powers to make a decision on many of the matters (up to a specific limit) thereby eliminating the need for bringing those matters to the board. On other matters that exceed the Ex-Com's powers, it prepares a brief so that when the matter is put forward to the full board, Ex-Com is able to explain it to the board members, thereby helping them reach a decision in a more enlightened and informed manner. Ex-Com therefore essentially offers two main advantages:

a. It reduces the work load for the board of directors by handling many of the relatively minor matters that would otherwise have to be sent to the board.
b. It studies the issues, seeks detailed information from the management or collects whatever additional data is required from inside or outside the company on major issues, so that it is able to provide a more informed and comprehensive brief to the board. This in turn makes the job of the board easier and speedier.

The membership of an executive committee may come from both the executive and non-executive directors. In certain companies some non-board members who are senior managers in the company may also be co-opted in this committee to make it more effective. In most companies, Executive Committee has more frequent meetings than the board. In effect, an Ex-Com serves as the lower tier of a unitary board in absence of a formal two-tiered board.

Compliance Committee

A Compliance Committee is often set up by a Board of Directors as a main committee, or as a sub-committee of its Audit Committee. Its principal function is to ensure that the Company (and its Board of Directors) comply with all relevant laws and statutes governing the company's business and its conduct.

A Compliance Committee, or Corporate Compliance Committee (CCC), does not have any executive powers. It does not perform any compliance audit. It is an advisory committee that assists the Board in ensuring compliance with the different requirements of the law, e.g.

a. Has the company made all the disclosures in its financial statements as required by accounting standards and the Companies Act?
b. Has the company prepared and distributed all the statutory reports (financial, secretarial, industrial, social, or otherwise) as required by the various laws affecting the company?
c. Do the contents of company's various reports meet the standards prescribed by various laws? In particular, have all due statutory disclosures been made properly?
d. Has the company complied with the requirements of all the different laws and regulations that are applicable to its business, e.g. labour laws, regulations specific to its industry, environmental laws, industrial laws, etc.?
e. Has the company taken all due precautions and steps necessary to protect its various interests and those of its stakeholders? (Also see the chapters on Risk Management and Internal Controls)

Generally, the membership of a CCC comprises of two or three (independent non-executive) directors plus the CFO and/or Company Secretary or any other senior official nominated by the Board. In larger companies, there is a designated Corporate Compliance Officer who has executive responsibility for corporate compliance. Such an officer works with and is often made the secretary to the Corporate Compliance Committee.

Finance or Financial Planning Committee

This committee is specifically charged with reviewing all periodic financial plans and budgets, etc and advising the board on their finer points. Quite often budgets and revisions of budgets are presented to the Board by CFO and a decision on their approval is made within a few minutes as board members do not have adequate time (or expertise) to review all the information contained in the budget, or in the assumptions on which such figures are based. This may have unpleasant consequences for the company. Therefore, having a Finance Committee (or Financial Planning Committee) is helpful. This committee may not only review all the figures and assumptions contained in the plans, but also question the methods and models used for drawing up the plans. It can then prepare its recommendations for the Board who has the ultimate power to approve the plan. In some companies, this committee is also assigned the task of reviewing all major capital expenditure proposals, or debt raising proposals, before they are placed before the Board of Directors.

Risk Management Committee

This Committee keeps an eye on the various risks to which a company is exposed and advises the board on means of handling such risks. One of the prime responsibilities of this committee is to draw up, with professional help, a Risk Profile document of the company, listing all the risks faced by the company, rating them in order of importance and likelihood, and continuously updating it to ensure that consequences of each major change in internal or external environment are promptly covered. Negotiations with insurers is also a part of this committee's responsibilities.

Ad Hoc Committees of Board

In addition to the Audit Committee, a Nom-Rem Committee and an Ex-Com, companies also form special purpose committees from time to time to attend to issues that arise during the course of company's operations and once they have been resolved, the committee ceases to exist. Examples of such ad hoc committees are:

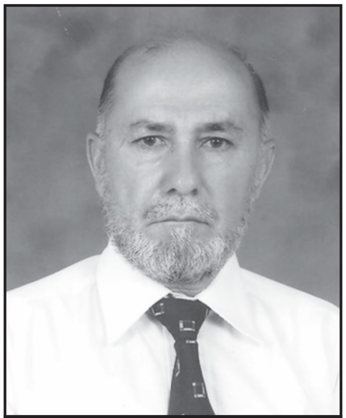
• ***Investigation Committee***
This is often set up to investigate a serious breach of company's operational codes. It may draw membership from the board as well as non-board members to suit the nature of investigations to be carried out.

• ***Negotiation Committee***
This committee may be set up when some major negotiations with workers' union or government or some external party are to be carried out. It may be conferred some special rights or powers by the board to enable them reach an amicable agreement. Not granting adequate powers to a negotiation committee leads to unnecessary delays in concluding the negotiations as the committee has to revert to the Board after each session, or after every new proposal made by the other party.

• ***Projects Committee***
It is usually set up when a company plans to undertake a major project, or make a major acquisition.

• ***Communications Committee***
It is often charged with the responsibility to maintain a healthy relationship with stakeholders, investors, and the media.

Terms of reference and powers of each ad hoc committee are decided by the board of directors on need basis whenever such a committee is to be created.



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M/s. Pakistan Inspection Co. (Pvt.) Ltd.

Motor Insurance Claims;

In-House / Self Surveys by paid Employees of the Insurance Companies

Prior to independence, Insurance Industry was being governed by the Insurance ACT-1938 and Rules devised there-under.

However, after the creation of Pakistan, the Insurance ACT-1938 was adopted as Insurance (Amendment) ACT-1948 and Rules were also accordingly re-devised thereunder to suit the requirements of Pakistan's Insurance Industry.

In that era, the Affairs of the Industry were being looked after by the Insurance Department, headed by the Controller of Insurance, which functioned under the Ministry of Commerce, Government of Pakistan.

The Insurance Rules 1958, devised under the Insurance (Amendment) ACT-1948, had a Provision for Payment of Insurance Claims by the Insurers to a certain limit, without any Survey thereof having been conducted by a Government Licensed Insurance Surveyors Organization.

Here, I have used the words Insurance Surveyors organization, because the Insurance (Amendment) Act-1948 had the Provision for 2-different types of Insurance Surveyors Organization, namely a Company Licenced Surveyors Co. and an Individual Licence-holding Person. Under the Criteria of a Company Licence-holder Entity, the Organization might engage paid employees, who would conduct Insurance Surveys and Loss Assessments/Adjustments, as apprentice Surveyors, under the supervision/control and Sole responsibility of the Licensed Chief Surveyor of the Company.

However, in case of an Individual Licensed Surveyors, only the Licence-holding Surveyor of the Entity could conduct an Insurance Survey by himself/herself only and none of their employees had been authorized to conduct any Survey and Loss Assessment/Adjustment.

But, payments of Insurance Claims without a Survey, having not been conducted by any Licensed Surveyors, had been conditioned to fact that No Government Licensed Surveyors would have been available to conduct a Physical Survey of the Claimed Interests within a Specified Limit of Distance from the Location of the Loss.

Yet again, and if I correctly recollect, alike settlement of an Insurance Claim, without any Survey having been carried-out by a Government Licensed Surveyors, had been restricted to Rs.25,000/= only in Motor Class and Rs.50,000/= only in Fire Class Insurance Claims, respectively.

Any Claims, in excess of the said amounts, would have to be essentially sighted, physically conducted, documentarily verified and numeratically accounted/assessed & adjusted by a Government Licensed Surveyors, at any Cost.

However, the afore-mentioned self-approved Claim Payment Provision has been done awaywith within the now enforced Insurance Ordinance-2000 and Rules devised there-under.

Since a few years ago, some Insurers, in clear violation of the Insurance Ordinance-2000 and Rules promulgated thereunder, started to pay Motor Class Insurance Claims upto the limit of Rs.25,000/=, despite the Express Non-provision of alike declaration and permission within the Insurance Ordinance-2000 and Rules devised there-under, which, in my opinion, has been the brazen violation of the Insurance Ordinance-2000 and the Insurance Rules thereunder.

Emboldened by the absence of any notice and/or action taken against them for the afore-mentioned violation of the Insurance Ordinance-2000/Rules, the same Insurers embarked upon the settlement of Motor Claims of higher amounts as well and devised a unique method of bifurcating Claims of higher amounts into two (2) or more different Occurrences for payment of Claims accordingly.

Thus, the Practice of alike In-house/Self-conducted Surveys and

Assessments/Adjustments of Claims of the Insureds' Vehicles has been continuously carried-out by the Paid Employees of the Insurers, who are NOT AUTHORIZED by the Securities and Exchange Commission of Pakistan (SECP), as per the Procedure laid down under the Insurance Ordinance-2000 and Rules thereunder.

As such, by this practice, Insurers themselves are playing the role of Judges, by themselves deciding Insurance Claims, lodged against them by their Insureds, thereby implying that they have taken over the role of the Government Licensed Surveyors to decide the quantum as well as Status of Insurance Claims lodged against their own Insurance Policies.

Thus, the Rights of the Insureds, to be fairly treated, have been compromised and infringed, coupled with the taking-over of the Professional Job of the Insurance Surveyors' fraternity by the Insurers, without any Legal Authority.

This, in my opinion, would amount to running amoke over the Authority of the Securities And Exchange Commission of Pakistan, and by extension, the writ of the State of Pakistan, which is one of the most Important Commissions of the State in the augmentation of the National kitty and accruing to the Volume of the Exchequer.

I am, therefore, of the opinion that, if not checked, this practice shall creep into all other Classes of Insurance Claims as well, whereby the very purpose of Section-85, as well as other pertinent Sub-Sections of the Insurance Ordinance-2000, besides the Rules formulated there-under, would be rendered in-effective and the institution of Independent Government Licensed Surveyors, as envisaged by the Ordinance/Rules, shall, eventually, cease to exist.

Let me endeavour to explain this situation by a maxim afloat in Pushto which goes to express that a mouse had run-over one of the many friends, lying on the floor of a room and playing cards.

The guy had raised a lot of hue and cry and his friends had admonished him, by saying that: **just a mouse had crossed over you, man!**

The guy had explained that: **it was not just a mouse, but it would be followed by a Cat, by a Dog, by the Owners of the Cat & Dog and, ultimately, by the members of the entire families of the said animals' Owners.**

Thus, in the process, I would be crushed and chipped out to bits and, therefore, it is most essential that concrete steps must be taken to prevent the running-over of a mouse over my gody, so that my complete inhalation is halted at the first step of the mouse.

It is also most pertinent to mention here that Sub-Section-24 of Section-85 of the Insurance Ordinance-2000 would authorize the SECP to direct an Insurer to arrange for an independent or another Survey through another Surveyors or through Surveyors nominated by the Commission, in respect of the Claimed Loss. But alike directive would be given by the Commission, in case:-

a) If the Commission would have the reason to believe that an already appointed Surveyors would have given "A FALSE REPORT."

OR

b) If the Surveyors would have given "A GROSSLY OVER-ASSESSED OR UNDER-ASSED LOSS" Report.

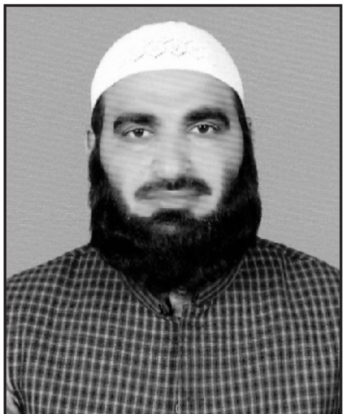
OR

c) If the Surveyors would have made "AN ADJUSTMENT OF THE LOSS IN A GROSSLY UN-JUST MANNER.

Thus, a careful study of Sub-Section-24 of Section-85 of the Insurance Ordinance would reveal that the said Legal Provisions under the same would relate to **DISPUTED CLAIMS ONLY**, where the Insureds would not agreed to the **FINDINGS of the Surveyors appointed by the Insurers.**

In my opinion, these Provisions of Section-85, Rule-24, pertain to the **DISPUTED CASES ONLY** and the same too would apply only **when an Insurance Surveyors would have already issued their relative S/Report and would have assessed the Loss as elaborated in No. (a) (b) and (c) above.**

Thus, it is abundantly clear that there is **NO PROVISION WHAT-SO-EVER**, within Section-85 of the Insurance Ordinance-2000, as well as the Rules devised there-under for **ANY SELF/IN-HOUSE SURVEY OF ANY CLASS OF INSURNCE CLAIMS BY THE PAID EMPLOYEES OF THE INSURERS** and, in my opinion, all alike **SURVEYS AND ASSESSMENTS/ADJUSTMENTS OF LOSSES,** which are now-a-days being continuously carried-out by the **LEGALLY UN-AUTHORISED AND PAID EMPLOYEES** OF THE INSURERS, would fall in the category of **BRAZEN BREACH/VIOLATION** of the Law, as envisaged in the Insurance Ordinance-2000/Rules devised thereunder.



Mufti Asad Mahmood
Cert CII (Insurance-Cont.) UK
Shariah Compliance Officer
Adamjee Insurance Company Limited
(Window Takaful Operations)

Is Takaful Business Worship of Allah?

Supremacy of Allah SWT and Purpose of Life

Being a Muslim, we believe that supreme power is only for Allah SWT who is the creator of the whole world, Sun, Moon, and unique creation of Human beings and etc.

Allah SWT created everything with a specified purpose as mentioned in Quran Kareem:

والذی قدر فهدی (الاعلی ۰۳ :Verse No)

And who determined a measure (for everything) then guided.

As well as, human beings are also creation of Allah SWT who is kind and blessed the human beings with many blessings requires saying thanks to Allah SWT which can only be made through offering worship of Allah SWT that is the fundamental purpose for the creation of human beings as mentioned in Quran:

وما خلقت الجن والانس الا لیعبدون (الذاریات
(Verse No:56)

And I didn't create the Jinn and mankind except to worship me.

Although, some people have been forgot the real purpose of their life's and have been made their own purposes such as good foods, expensive clothes and furnished homes.Whereas, Allah SWT himself created human beings who can provide the real purpose as mentioned above.

What is Ibadah?

Ibadah (the real purpose for human beings and Jinn) described by Allah SWT is not only the name of offering prayers, Hajj,Umra, and paying Zakat. But Ibadah means every act which can lead to receive the happiness of Allah SWT would be considered Ibadah either it belongs to worships (عــــبادات)such as offering prayers, Hajj and Umra or belongs to the financial transactions(معـــــاملات) such as trade, employment (HR, Sale, Purchase, Accounts & Finance) and Services as mentioned in a Hades Mubarak:

انما الاعمال بالنیات

Deeds are by intentions

Holy Prophet SAW described blessings for employees and Traders who do their jobs and business with the conformity of Islamic guidelines.

Blessings for Traders:

التاجر الصدوق الامین مع النبیین والصدیقین والشھداء۔(ترمذی ۹۲۲)

The truthful, trustworthy merchant is with the Prophets, the truthful, and the martyrs-

Blessings for Employment:

ان اللہ یحب ان یرى عبده تعباً فى طلب الحلال۔ (کنز العمال)

Allah SWT likes to see his slave tired for seeking Halal.

Whatever the filed/financial transaction a person chooses for fulfilling the financial needs of his belongings and family, could be the source of receiving Allah's blessings not only here but also in the life would be hereafter.

The only requirement for the entitlement of getting Allah's blessings by using the channel of financial transactions is remove the non-sharia elements found in that adopted financial transactions. It would lead to the shariah compliant deals would be source of earning Halal.

How does Takaful business worship of Allah SWT?

As mentioned above that intentions and conformity of financial transactions with the Shariah laws and regulations can make the deeds (fiscal transactions) acceptable towards Allah which would be source of getting the happiness of Allah SWT (Purpose of creation).

There is no doubt that Takaful business (Trade) which has been introduced as an alternative of conventional insurance and departments working under the umbrella of Takaful business such as sale of Takaful, finance, Accounts, HR, compliance and etc (employment) are all of financial transactions. Therefore, it is sharia requirement that all of the functions and operations should have to be purified from all of the non-sharia elements such as Riba, uncertainty, gambling, telling a lie, bribery and others non-conformities with Sharia in order to achieve the set goals for which Takaful (Islamic insurance) was introduced.

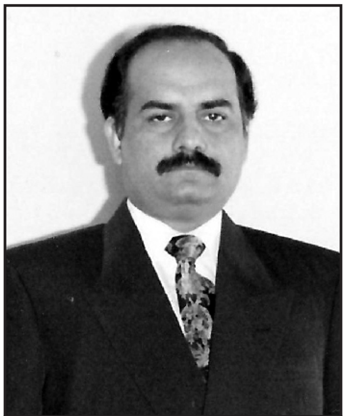
As it is known very well that Takaful is purified form of conventional insurance in which three main non sharia elements (Interest, gambling and uncertainty) found in conventional side of insurance have been removed in order to Islamize the conventional insurance which would be called sharia compliant insurance. So, Takaful business is a source of earning halal for the management as well as for the employees working therein. Efforts for earning halal is also worship of Allah SWT that is why The Holy Prophet SAW described the blessings from Allah SWT for traders and workers as mentioned above.

I would like to also mention here that Takaful management and employees working therein should thanks to Allah SWT that they all are blessed with a source for earning halal. Because Allah SWT said in Quran;

لئن شکرتم لازیدنکم

(Surah: Ibrahim, Verse :07)

If you express gratitude, I shall certainly give you more.



Qayyum Pervez Malik
Insurance Surveyor & Loss Adjuster / Claims Investigator
Qayyum Pervez Malik & Co. (Pvt) Ltd

Cotton Ginning Factories Fire Hazards and Safety
(Safety - Part-3)

God knows better why this final warranty form as issued by the IAP as a result of an agreement with PCGA under supervision of ministry Agriculture was deviated and different insurers issued different/contradictory warranties forms which were being attached with their respective insurance policies. Since more than one insurer underwrite business of a cotton ginning and pressing factory so at one insured premises having same risk, interest, location, rates of premium the set of cotton warranties form consisting of contradictory warranties, were imposed with the standard fire policies creating difference of opinion/conflict during the loss adjusting and claim settlement process.

Although the adjusters are not legally obliged to obtain insured's agreement on the amount of loss so assessed and adjusted but since it has become the practice of insurers to avoid any future conflict with the insured the adjusters go through this process.

During this process when the mortgagees bank and mortgagors come to know about the deviation from the stated positions of warranties they argue with the surveyors/adjusters and the insurers. Sometime the issue is brought to the PCGA for dissolution of conflict where the adjusters are shown the agreed cotton warranties form which is found different from the warranties form attached with the policies.

The areas where contradiction from the agreed set of warranties found is being highlighted hereunder for consideration of the stake holders.

IAP is suggested to issue a circular along with the IAP approved cotton warranties form to all concerns including the adjusters in order to resolve this issue once for all.

1. Distance from buildings/godowns and stocks
2. Distance from buildings/godowns and hazardous material.
3. Packing of cotton bales.
4. Standard weight of fully pressed iron bound cotton bales and margin.
5. Maximum size of cotton heap.
6. Maximum stock of cotton bales.
7. Exemption of distance for storage of 24 hours production of cotton bales.
8. Availability of minimum firefighting facilities in the factories.
9. Deduction on a/c of firefighting warranty.
10. Deduction on a/c of breach of other warranties.

The format and specific wording as used in agreed draft is also varied in different warranties forms which creates different impact on the situation and application of warranty. Warranty of covering cotton bale from all the six sides was denied by the PCGA as the cotton bales are packed according to the specification of buyers. 9 rounds of binding rings or hoop is also not practicable as the bale pressing chambers already installed in the factories have no capacity for 9 turns.

Maintaining all the 3 specification of bales pressing i.e. 360kg/m3 density, 170-kilogram weight and 1.09 x 0.606 x 0.45 cannot be maintained. According to the cotton control rules the specification allowed is 170 kilograms with 3% plus/minus margin. The density could be determined after keeping in view this weight and the size of existing bale pressing chambers. Which could only give a correct/rational density to follow by all the cotton ginners.

Storage issue of un-ginned cotton is also left ambiguous. Most of the cotton factories store large number of small cotton heaps in the open compound so maintaining distance of 20 feet between the heaps from all sides, is practically impossible. It is mentioned that no cotton heap would exceed 5000 mounds and each such heap will be separated from other by 20 feet distance from all sides.

Now the issue that what if such heap still does not reach at weight of 5000 mounds no distance would apply? It means there is no distance warranty for cotton heaps if the weight is maintained lesser than 5000 mounds.

This ambiguity should have been clarified.

The exemption of distance for cotton bales production of last 24 hours has also not be properly worded.

At the end of each warranty it is mentioned that this warranty is absolute and cannot be deleted by paying additional premium and then at the end of some forms it is mentioned that in case of breach of above warranties a deduction of 25% shall be applied on loss amount.

In some of the warranties forms few warranties have been mentioned out of place which were not part of this form or brought under discussion during the meetings with PCGA. For example, a warranty regarding deductible on stock of process is seen in one form. Another warranty preventing the insured from manufacturing at night from 9 pm to 5 am. Warranty of prohibition of artificial lighting is also seen in this warranty form which was not part of the originally agreed set of warranties form. So, the cotton warranties forms of different Insurance companies are not identical.

Bale binding hoop specification is also contradictory. Somewhere it is mentioned as ¾ of an inch and somewhere 2.75 mm- and/or 12 gauge creating ambiguity. Previously the cotton bales were packed with iron hoop (strip type) with the width of ¾ or ½ of an inch but for the last almost one decade a steel wire is being used.

Comparison chart of different set of warranties forms being used by different Insurers cannot be given here in order to maintain the privacy. The Insurance Association of Pakistan may obtain copies of all the cotton ginning and pressing warranties forms from the respective members for comparison for issuance of necessary notification to bring the warranties forms in line with the agreement between PCGA and IAP.

As from this office various reports were sent to all concerns from time to time which were never acknowledged by the respective stake holders for reason better known to them. Various other anomalies, factors, contradictions, abnormalities and difficulties were pointed out.

For all practical purposes the selectors from textile Mills visit various cotton factories and pick up cotton samples from various lots. When the samples are picked up from specified cotton bales of each lot those particular bales got loosened and prone to burst out quickly on introduction of any ignition source. This factor causes spreading of fire in to the stock. After picking up repeated samples that particular cotton bale loses its density. So, this part of stock must be isolated.

Some incentives in premium should have been proposed in case any cotton Ginner fulfills all the requirements of cotton warranties form.

Warranty of spark arrestor is not being followed since inception. It is not practical to implement it in fact. In a cotton season hundreds of vehicles enter in to the factory every week which includes relatives, friends, business concerns, insurance agents, buyers, selectors, growers, Govt. entities and so on. However, the factory office where they visit, could be isolated from the factory compound/stock areas. The spark arrestors should only be installed with the loading vehicles transporting the cotton to and from the factories.

No smoking and cooking warranties has not been imposed through this cotton warranties form which was very crucial.

A large number of fire losses occurred because of electric short circuiting, sparking, over-heating etc. but no warranty in this respect has been inserted in set of cotton warranties.

Another one of the major causes of fire incidents is heap settler machine but no warranty is present to address this issue of major ignition source.

Poor maintenance of machinery, electric motors, switches, starters, circuit breakers is considered another main cause of fire and no warranty in this respect is imposed.

In cotton factories the stock of un-ginned cotton is spread on all the passages, fire breaks and no proper sweeping is carried out. This negligence provides trail to spreading fire and this issue is not addressed in warranties form.

Various technical reports based on expert opinion have been issued for the information of all concerns in past 40 years from this office which may be taken in to consideration while making cotton policy. These reports can be obtained free of cost on request. Copies of various reports/study materials have already been sent to the stake holders on various occasions. Last time it was sent on 15.11.2011 in exchange of no acknowledgment in return.

The insurance industry of Pakistan can only progress by establishing a positive and healthy atmosphere by granting due favor, respect and value to experienced & senior professionals and acknowledging their efforts for the betterment of Industry. It could progress only by team work of all stake holders. All the issues may be worked out, discussed, addressed and resolved by initiating healthy discussion and developing consensus. By establishing an atmosphere of mutual existence and respect we may stand up with dignity in this world of competition. Our efforts, struggle and resources should be invested for the progress of institution as a whole and it should not be utilized to eliminate the competitors or people who maintain different opinion on certain issues. We should welcome the difference of opinion open heartedly because this is part and parcel of the evolution process.

Chairman
M/S Insurance Association of Pakistan
Karachi/Lahore

Dear Sir,

Please refer a set of new warranties required to be imposed/applied for underwriting cotton insurance business in cotton zones and also please refer my comments narrated in my previous letter of greeting about your election as Chairman IAP. As previously mentioned I have been writing to different stake holders regarding suggestions to improve the conditions in the market having 29 years of practical experience of cotton related fire claims so I feel honored to make a brief commentary on the newly proposed set of cotton warranties/amendment in fire tariff which I already have done and sent suggestions to various insurers in Pakistan by offering various suggestions in order to meet with the challenge of grossly increasing claims.

WARRANTIES FOR BUILDINGS, GODOWNS AND OPEN

These warranties are the same as given in the Fire tariff and already being applied/accepted by the insured (mortgages and mortgagors) so are in practice for a long time but the change introduced in your new set of warranties is to declare these warranties as absolute warranties which cannot be deleted by paying additional premium, is a new addition and this would cause practical problems both for the insurers field staff and the insured, so it would not be accepted largely by the factory owners and thus by the Banks.

If the Policy makers have ever visited few cotton ginning and pressing factories in the peak season i.e. in the months of October, November, December and January they themselves would have found that it is practically impossible to place stock of un-ginned cotton and cotton bales in the manner as set out in relevant warranties and that is why the insured prefers to pay heavy additional premium against distance loading. Now, in order to implement these so-called absolute warranties either the insured will have to buy more land to extend their open compounds or they would shrink their business volume buying less quantity of cotton in order to maintain the given absolute distances.

As a matter of fact, the reality has been ignored while drafting these warranties. If you go through the survey reports of cotton losses you would hardly find a report where in the cause of fire origination is building. I have conducted thousands of fire surveys in cotton factories and only in few occasions the cause was denoted as electric short circuiting of electric bulbs/tubes/wiring fixed on building otherwise the building or its machinery has never been the cause of outbreak of fire in stock of raw cotton or cotton bales lying in the open compounds. Other than that, since applicability of these distance warranties are not possible so the alternatives should be worked out like designing warranties about electric fittings and fixtures, opening of buildings to the open compounds while decreasing the distances from 50 feet to a manageable distance like 30 feet which is safe too.

Here it is very important to mention that the burning issue and the most prominent and common cause of fire has been ignored totally. That is raw cotton drying/spreading/cleaning machines installed in open compounds and then pneumatic pipes network with hanging electric wires, pre-cleaners which are installed in the open compound close to the raw cotton heaps. Loose HT electric cable lying on the floor of open compound to drive dryer machine has been the cause of fire in many cases and then the friction sparks of dryer machine rotor. Further the extra ordinary low density of cotton heaps formed by this dryer machine causes the greater extent of damage after fire. Stacking of raw cotton heaps under the HT electric conductors and poor maintenance of electric fittings / fixtures outside the ginning hall and in open compound like improperly fitted electric wires for supplying current to tube lights/bulbs, cooking in the labor quarters of the factory and then smoking.

50 feet distance warranty should therefore be limited to presence of non-cotton hazardous material like waste, husk, grass, wood, timber, bushes, trees, etc. 50 feet distance between cotton bales and raw cotton in heaps/boras is also not practicable in the peak season which could however be reduced to 30 feet.
Allowing the specified size for raw cotton heap i.e. 10000 mounds is unrealistic and hazardous too. We have never seen a raw cotton heap of more than 3 lots i.e. 36-3700 mounds. Allowing that much quantum of raw cotton storage at one place at one time would be harmful on the following grounds.

1. Gross quantum of cotton may involve at one time in a single fire.

2. Cotton gets heated up in warm weather condition and so the loss of quality occurs which consequently would increase the frequency of arson.

3. Moist cotton seed get deteriorated in the deeper layers.

4. It is a deviation from the usual practice of forming raw cotton heap by the ginners in which various factors are considered e.g. separate storage of different quality/variety of

cotton, fulfilling mandatory duties imposed by the Punjab cotton control Act prohibiting for mixing of different varieties of cotton etc. so would not be maintained for practical purposes.

For the practical purposes the maximum quantum of a heap should be limited to 3 lots i.e. 3800 mounds or less maintaining 20 feet clear distance between the heaps.

Maintaining 20 feet distance between the raw cotton in boras and loose raw cotton is quite essential.

20 feet distance between the stock and machinery i.e. raw cotton dryer, pre-cleaner installed in the open compound is essential.

20 feet distance of stock from the electric wires / cables / conductors / bulbs / tube lights and other electric fitting/fixture/tool/machine etc. should always be maintained.

Overhead or on-ground water tank of 25000 gallons would remain ineffective in case there is no electricity in the factory at the time of outbreak of fire so the alternative should be proposed and warranted e.g. diesel water pump driven engine etc. water pond, water/sand buckets in bulk.

Water tabs should be installed at 10 feet from each and every plate form used to stack the raw cotton and cotton bales.

No stock other than stock of cotton should be present/stored/kept inside the factory.

WARRANTIES FOR FPIB BALES

Height of bales stack i.e. 6 bales is not practically followed because the common practice is the 4 bales high so allowing 6 bales high stacking would be harmful. If you analyze this set of warranties keeping in view the practical business environment in the cotton factories you would feel that leaving space of 100 feet distance among each stock of 10000 bales is not practical for the given environment.

Density of cotton bales is not based on facts and usual practice. The standard as per Punjab cotton control Act should be followed. Standard weight of 170 kgs with 3% + - variation should be followed with in the same dimension forming density of about 17kgs per cubic feet which is a standard compaction. Or this issue could be further studied.

Wrapping of cotton bales from all the 6 sides is not possible practically because bale binding and packaging is made according to the buyer's specifications.

9 rounds of Bale tie is un-usual so it should be reduced to 8 rounds which is a usual practice in the market keeping in view the provision of baling press and it provides the standard packing grade.

Warranty against use of old / rotten / rusty baling ties should be drafted because the extent of loss increases grossly because of low heat resistance.

Galvanized steel MS wire ties should be used with 3.20 mm dia and 650 kg breaking load, however use of baling hoops of standard grade/quality is strongly recommended in place of wire rings.

RAW COTTON PACKING

This is new warranty and not included in fire tariff or is in practice. Further it is practically difficult and time consuming to press each and every bale at 170 kilograms in the present ginning environments. Mostly ginneries are equipped with old fashioned plant machinery and un-trained staff. Prevailing law i.e. Cotton control Ordinance governs the phenomenon and allow certain margin. We suggest that at least 3% plus minus in above weight should be allowed.

The density of cotton bales should be fixed after taking the data from the existing market keeping in view the size and allowed weight of cotton bale customarily pressed in the market. Usually it should be 17kg/cft with 3% variation allowance.

9 rounds of bale tie is not possible. 8 rounds are in practice and it makes no difference keeping in view the international standard. In order to meet with the given criteria, the insured will have to modify their baling presses by spending heavy amount so they would prefer to pass on their insurance business to other insurers who are always ready to offer more and more incentives and facilities to the clients.

Warranty of placing all such stock at 100 feet distance is making the whole issue more complicated so may be withdrawn.

SPARK ARRESTERS

Dozens of tractor trolleys, trucks, trailers and other vehicles of visitors, friends, relatives, colleagues, selectors, buyers etc. enter in to the factories daily. Binding all these people to fix spark arresters is practically impossible.

Further in our practical experience of 27 years I have never witnessed any fire origination by sparks emitted through the silencers except very few fire incidents, so imposing this un-usual and out of practice warranty would irritate the insured community rather than reducing the risk.

COMPULSORY FIRE FIGHTING FACILITIES

Number of factories are not facilitated with 25000 gallons capacity water storage where as others who have this facility do not meet with the criteria of minimum water storage of 25000.

In our opinion this warranty is good enough to reduce the amount of loss but should be implemented through IAP by endorsing the tariff warranties and also after developing consensus in all the concerns i.e. Banks, APTMA, PCGA etc. in shape of a written agreement after allowing reasonable period to provide the stipulated facility.

FURTHER COMMENTS

In the present atmosphere of competition and mindset of insured community towards the insurance companies any new warranty which is beyond the scope of prevailing IAP tariff rules should have been designed/written after developing a comprehensive consensus among the concerned communities i.e. Insured, mortgagors, mortgages, associations, chambers, SECP, Pakistan Banks association, Surveyors and underwriters. Further it should be in form of endorsement/addition to the relevant tariffs. All newly designed warranties should be given enough time to be criticized / debated in the circle and all legal formalities as per insurance Ordinance 2000 should be complied with in that respect.

Further the warranties should be realistic and compatible to the market. These should be widely accepted for practical purposes.

For example, the cotton ginners press the bales according to the specification and demand of buyers as far as weight and covering (bale bagging) are concerned so they cannot ignore the buyer's demand only to meet with the requirements of insurance warranties.

Further they always place order for bale hoops/wire rings (ties) in advance for the season and in most of the cases the consignment is arrived 2-3 months in advance of season. Now mostly ginners have already purchased the stock for the season because of fluctuation in rates and shortage of stock in the market. Now binding them for this gross change due to requirement of warranty is not justified.

It is also seen that the most common cause of fire origination is electric short-circuiting/smoking and many others as mentioned above which could not attract your attention so far and no warranty in that respect has ever been designed/imposed.

We further suggest that the warranties related to the issue of stacking should be separated in to two categories, one for the period when the season is on and one for the period when the season is off. In off season much space is available in the factories and maximum amount of stock of bales are available in the factories which needs to be addressed.

We further suggest that abrupt application / imposing of above warranties would create practical problems for the field staff in fetching insurance business and may finally loose the valued clients. However, need to get the already drafted warranties implemented at the time of loss by appointing professionally competent and honest surveyors should be realized. The undersigned has been the one fighting for application of warranties at site facing all the resistance by most of the other colleague.

So, the basic issues in order to minimize the risk of fire and amount of loss should be addressed rather than putting all the focus on new warranties. Selection of honest/loyal field staff and then focusing on the most important factor to select the suitable honest / competent / professionally compatible experienced Surveyor. These two factors are very important to control the claim ratio and much attention is required to be given in that area.

We finally suggest that a technical board should be formed by all the insurers working in Pakistan containing the members from Underwriters, Claim departments, Department of risk Management, Surveyors specially to be chosen from cotton zone and sufficient period should be given to them to study, compile opinions and then designing a set of new warranties for putting up to all the concerns for their approval and consensus as mentioned above. The final draft of warranties should also be translated and circulated in Urdu language to establish a better understanding level among the clients where the literacy rate is not that high.

Undersigned would feel pleased to contribute for the betterment to be brought in the insurance industry which is on its decline in all fields.

Thanking you

Yours sincerely,

QAYYUM PERVEZ MALIK

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DISCLAIMER:

The purpose of this report is not to defame anybody in particular. The only purpose is to study, point out, suggesting remedial measures to the policy makers for the betterment of insurance industry so this should be taken in the same spirit. We admit that yet there are number of honest people exist in the insurance industry because of them the industry is still surviving.

To be continued......!

Bilal Zafar
ACII (UK), Chartered Insurer
Director at GGH Ltd.
London, United Kindom

Why Parametric Insurance is the answer to closing the Protection Gap

Mr. Bilal Zafar is a seasoned (re)insurance professional based in London. He started his career at Swiss Re in Zurich, before moving on to perform underwriting and business development roles in London. More recently he was a Director at GGH, an emerging markets investment fund. He has also served as a Non-Executive Director of TPL Insurance, Pakistan.

Parametric insurance covers are gaining popularity as an effective tool for providing protection to communities, particularly in the developing world.

Parametric covers (also referred to as index based) are linked to the occurrence of a pre-defined event such as wind reaching a certain speed, or an earthquake above a certain level on the Richter scale. These independently verifiable events trigger pay-outs to the policyholders in affected areas.

Indemnity vs Parametric Insurance

Traditional insurance is based on the principle of indemnity. It indemnifies the policyholder for actual loss incurred as a result of an event covered under the policy, such as fire. This type of insurance typically requires an assessment of the loss and damage suffered, as well as the cause of this damage. The policyholder then receives a claims payment equivalent to the amount of loss, subject to limits, deductibles and other terms of the policy.

Whilst indemnity based insurance has many advantages, its weakness lies in a time-consuming and costly loss adjustment process, as all damage to property and loss incurred by the policyholders needs to be quantified and some cases physically inspected. It simply becomes too costly to administer in difficult to reach places, such as rural areas and disaster zones. As a result, claims payments take a long time to reach the policyholders, by which time the need for immediate support has generally receded, leaving the various government agencies scrambling to provide emergency assistance.

Parametric or indexed based insurance provides an effective solution. It is designed to pay-out a pre-agreed amount if a pre-defined event occurs, regardless of whether there was an actual loss or damage. The assumption made is that if the defined event occurs, most policyholders in the area are likely to suffer damage, and therefore the amount should be paid out without any inspection or further investigation.

What parameter or index should be used?

It is important for the selected parameter and payment trigger to be measurable, independently verifiable and directly linked to losses being suffered by the policyholders. Some examples of such parameters are earthquakes measured on the Richter scale, rainfall above a certain level likely to cause flooding or indeed rainfall below normal levels causing a drought.

The parameters need not be natural disaster related. Cover for losses due to project delays, disease outbreak and crop yield are all examples of parameters that can be used.

These parameters are determined by widely recognised and independent third parties such as national agencies monitoring earthquakes and floods.

The Importance of Data

In order to provide a robust insurance programme, the provider needs to gather and analyse historical data and model the risks accurately. It is therefore important to select a parameter that has been monitored historically and reliable data is available for modelling the risk.

Application of Parametric Insurance

The concept lends itself to weather related agriculture and livestock insurance, as well as other low-frequency but high-severity events. Increasingly being sold directly to local and national governments, parametric insurance has become the norm for protection covers for rural communities in developing countries. Some governments have even pooled together to create regional programmes, such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF) which was established by governments of several Caribbean countries. Reinsurers such as Swiss Re and Munich Re have developed expertise in modelling and designing these products and often work closely with governments during their development and roll-out.

Future Trends

Whilst parametric insurance is now widely used in many countries, including the US, China, India, Turkey etc., these are some of the key trends to watch out for:

1) Automatic payments, triggered by the covered event, directly reaching the bank accounts or debit cards of the policyholders. This will eliminate lead times in claims payments, as there is no claims form to complete and no evidence of loss to be provided.

2) Blockchain technology can greatly enhance the robustness, security and transparency of parametric programmes. It will also greatly reduce the possibility of fraud, and improve trust placed in these programmes.

3) Satellite imagery is increasingly being used to analyse the impact of various weather events on property, agriculture, livestock etc. Data generated through the technology is used to model various events as well as for loss assessment purposes.

Today in the developing world, more than 90% of economic costs of natural disasters are uninsured it is known as "Protection Gap" IDF (Insurance Developing Forum).

The insurance "Protection gap" or "underinsurance" is the difference between the amount of insurance coverage that is economically beneficial and what is actually purchased. The Protection gap is one of the most pressing issues facing societies.

The insurance protection gap in coming years it will be heard more it is getting bigger. The protection gap is the difference between insured losses and economic losses. The protection gap is a global problem and affects emerging and developed countries alike.

Source: Websites

Shoaib Zafar
Professional Investor
Chartered Alternative Investment Analyst
(CAIA) Charter Holder

Emerging Market Equities:

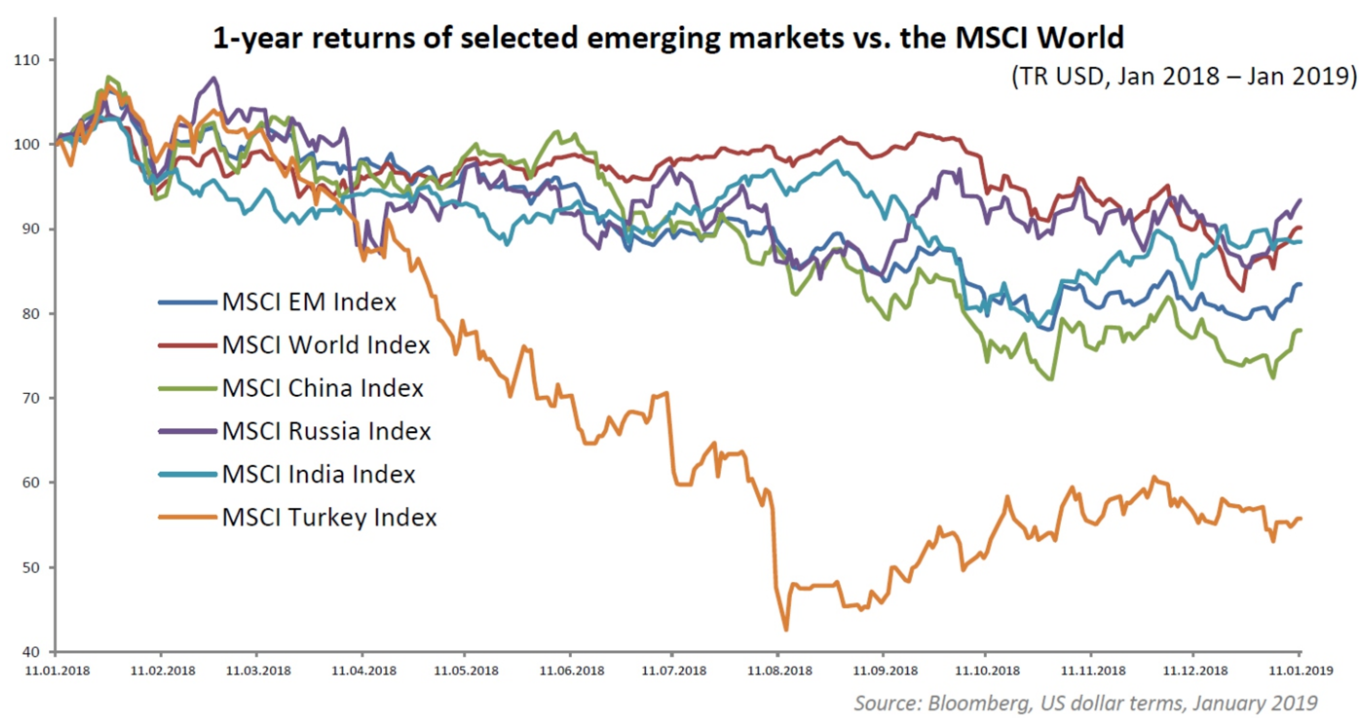
Opportunity Amid Challenges

Shoaib Zafar is a professional investor, specializing in Global Equities. Currently he is a Co-Portfolio Manager for various Global Equities strategies with around USD 350 million under management, at SYZ Asset Management in Geneva, Switzerland. Shoaib has over 11 years of investing experience, having previously worked in roles of fundamental and thematic equities analyst. He graduated from the University of Lugano in Switzerland with a Master in Financial Economics & Communications (Cum Laude), and is a Chartered Alternative Investments Analyst (CAIA) Charter holder.

HIGHLIGHTS

- 2018 has been a challenging year for emerging market equities, but that could be about to change in 2019
- A permanent resolution to the US-China trade-dispute, a more dovish Federal Reserve and a weak oil price could all act as positive catalysts for the asset class
- I see interesting opportunities at attractive discounts across the emerging equity universe, and especially in China, Brazil and Russia

2018 an overly tough year for emerging market equities?



Source: Bloomberg, US dollar terms, January 2019

Few other asset classes suffered as much as emerging equities and currencies last year. The MSCI Emerging Markets Index finished the year down by around 18% in US dollar terms, compared to the MSCI World Index that was down by around 10% for the year.

What began as a seemingly healthy correction in high-flying emerging-market stocks during 2018 spring became much more serious as the year progressed, with firms involved in the smartphone supply chain (Hong Kong, South Korea, Taiwan), the autos sector (China, India, South Korea), and domestic consumption plays (China, India), all suffering badly throughout the year. A combination of factors played into that. A stronger dollar, rising interest rates in the US, worries on global debt service costs, trade-disputes, a political stand-off between the US its ally Turkey, and then fears of a slowdown in China.

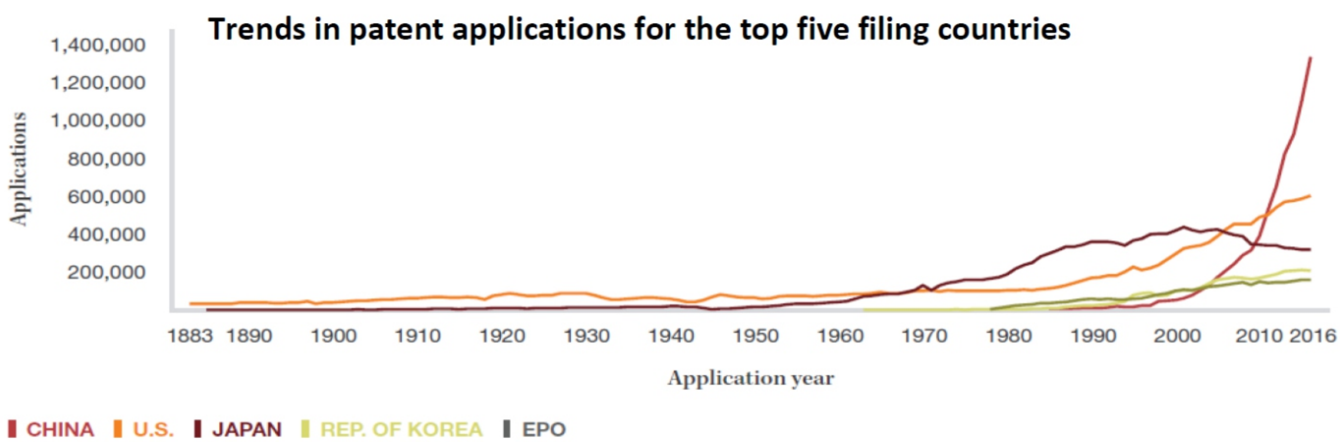
Unless there is a global recession any time soon, in my view emerging equities look attractive at their current oversold levels as there are some positive catalysts in sight: most importantly, a trade settlement between the US and China and the Fed slowing its rate hikes. The sharp recent fall in crude oil also helps energy importers such as China and India. With emerging equities trading at a discount of around 30% to global markets, current valuations are perhaps pricing in the challenges facing emerging markets, but not their possible solutions.

What's more, since their last full-fledged financial crisis in early 2000s most emerging economies have learnt some important lessons. Most are much better diversified now than two decades ago and many have accumulated sizeable reserves. Their central banks are more credible, and states like China have learnt how to tame inflation by steering fiscal policy.

Let's consider some of the issues that emerging markets are currently facing.

Trade was are a negative-sum game

China exports to the US goods and services in value about four times the reverse trade amount, and that too represents only c.4% of China's GDP. The export-driven economy has been able to maintain a positive trade-balance (though shrinking lately) with most trade partners. Savings generated have been fueling local growth, industrial subsidies, a fast development of Intellectual Property (making China the top patent filer globally, chart below), a shift towards a consumer-oriented economy and notably China's growing geo-political weight.



Note: EPO is the European Patent Office. The top five offices were selected based on their 2016 totals.

Source: WIPO, September 2017

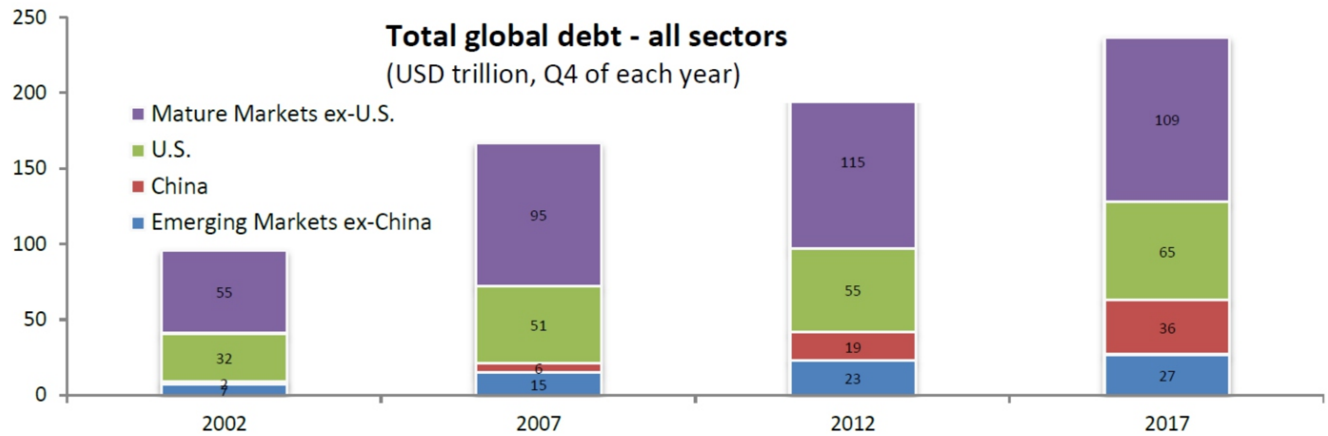
On the other hand, it exposes China to criticism from its trade partners especially the US. From criticizing China over its trade, currency management and Intellectual Property (IP) rights practices, President Trump's administration shifted last summer to material punishments in the shape of trade tariffs. So far, USD 250 billion of Chinese goods have been included on a list of trade tariffs, and President Trump continues to threaten China with further tariffs. The situation could go either way from here, with tariffs either being slapped on all Chinese exports to the US (USD 500 billion of goods) or being reduced significantly. But I feel that the likelihood of a sustainable settlement to the dispute is high.

That is in part because the Chinese seem to realize that they are the biggest potential losers in a negative-sum trade war with the US, and so their response has been relatively contained and targeted carefully. For instance, they have imposed tariffs on soybeans, which are a key output of some of the states that voted for President Trump. What's more, they're under pressure from other trade partners to make sizeable concessions. Meanwhile, the last-minute NAFTA deal in September last year showed that President Trump's economic advisors are mindful of the dangers involved in prolonging the trade disputes.

Following the latest temporary truce reached at the G20 meeting in November, I believe that sooner rather than later the two countries should be able to iron out their difficulties on a permanent basis. Such an outcome would be welcomed by the financial markets.

How US rate hikes will affect indebted emerging markets?

The IMF's Institute of International Finance (IIF) reports that total debt (not just sovereign bonds) outstanding in emerging markets rose by around 40% over the past decade. And yet emerging markets still only account for around a quarter of the USD 240 trillion of debt outstanding around the world.



As rates cycle turns and liquidity becomes scarcer, debt servicing costs will rise for both indebted emerging and developed markets – albeit by varying amounts. This is why the Fed's hawkish comments in October led to an upward readjustment of developed markets' risk premium and volatility to spike in US equities. But will the Fed remain hawkish as US growth moderates and pressure increases on wages and margins? Especially after its latest December hike? If it does, it might risk causing a recession. I believe the Fed will become much more dovish into 2019, and that's good news for emerging markets.

Lower oil prices beneficial for the emerging market bellwethers

Before the latest 15% recovery since Christmas, oil prices fell sharply by around 45% during the 4th quarter of 2018. Oil price in the current range is highly beneficial for major emerging markets that have to import oil such as China and India as it's likely to result in improved current account balances, more stable currencies and lower inflationary pressure. This eliminates the need for their states to intervene with fiscal or other measures to prevent economic growth from derailing.

Finding opportunities throughout the emerging world

Let's consider some of the investment opportunities within the emerging world at present.

Russian equities, for instance, are currently trading at fairly cheap valuations: their 5x forward P/E represents a hefty discount to their own historic average and to the current emerging market average of 12x. An oil exporter, Russia has some of the lowest breakeven oil production costs in the world and major oil companies like Rosneft, Lukoil and Tatneft are well placed to maintain and grow oil output at a price below USD 30 per barrel. So even though oil price remains low, this is unlikely to result in higher volatility in earnings for the sector, which accounts for slightly over 30% of Russian's GDP and 70% of its exports.

In Chinese equities, a trade settlement with the US could spur an immediate rebound in sectors including financials and consumer discretionary. As I am cautious about the country's debt situation I will seek out unlevered companies, which can be found in many sectors. I prefer a diversified exposure, investing selectively in firms with strong fundamentals and prudently managed balance sheets. Growth names in consumer discretionary such as Haier Electronics and Anta Sports and more defensive firms such as Guangdong Investment in utilities tick all the right boxes.

The Indian economy has been protected from trade wars and 2018 was a recovery year after two difficult years (demonetization in 2016 and General Sales tax in 2017). However, Indian equities trading at 17x forward earnings represent an unusually high premium over their emerging market peers' average and their own historic levels. This makes me believe we can find better value elsewhere in the emerging universe.

On Brazil, the current focus has been on the market-friendly outcomes of the recent elections. While there remains a delivery risk given high expectations from the new President – especially fiscal and pension reforms agenda – financial markets seem prepared to generously reward any positive outcomes. The country's banks should be big beneficiaries of increased economic activity and lending, and a fall in provision expenses over the past couple of years has supported their bottom-line growth. Today, the three largest banks – Banco do Brasil, Banco Bradesco and Itau Unibanco – are sitting on CET1 reserves comfortably in excess of the requirements for 2019.

Turkish equities have been recovering since the easing of the sanctions imposed by the US.. Further improvement in political stability and economic visibility could support both the lira and Turkish equities, which are trading at a 40% discount to their emerging market peers. Recovery plays are to be found in financial services (Turkiye Garanti Bankasi) and chemicals (Petkim Petrokimya Holding).

Finally, Pakistan has been making progress, both in terms of political and economic stability. The new government elected last year seems willing to take unpopular measures, such as increasing gas tariffs, to improve the economy. With the IMF's help, and if the promised fiscal reforms go ahead, the macroeconomic backdrop could quickly improve, leading to a possible rerating of the country's equities, which are trading at a 6x forward P/E and 50% discount to the MSCI Emerging Market Index. Firms involved in infrastructure development and financial services could become interesting opportunities as confidence improves.

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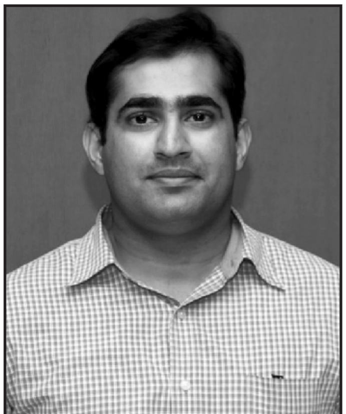


Irfan Ahmad Chatha
Research Manager
Zalmi Foundation
Islamabad

Crop Insurance

The Only Way Forward for Saving Agriculture in Pakistan

Irfan is working as Research Manager in Zalmi Foundation. He has expertise in research and policy analysis in the field of sustainable development with special focus on agriculture risk management and agriculture-water nexus.

The year 2018 was a loss year for Agriculture sector of Pakistan. Major Kharif crops, cotton, sugarcane and paddy failed to achieve their production due to delayed release or acute shortage of irrigation, lesser than average precipitation, market failures like dereliction in determination of sugarcane prices and increase in cost of imported inputs (seeds, pesticides, diesel) because of over 30% devaluation in Pakistani Rupee.

Out for Wheat production in Rabi 2018-19 is also not much optimistic because of shortage in water availability and delayed sowing driven by late crushing of cane in Sindh and Punjab.

Brunt of these poor growing seasons has to be ultimately faced by the farmers, in particular small farmers who face a perennial matrix of climatic and non-climatic risks. To manage the risks, crop insurance can be a vital tool but unfortunately the crop insurance schemes introduced in Pakistan so far, have not gone beyond the pilot phases history. Crop insurance scheme was first time launched in 2004 but couldn't make any progress. Then Pakistan Microfinance Investment Company (PMIC) started a pilot crop insurance scheme in Talagang in 2014. Food and Agriculture Organization ran a pilot in Badin last year in collaboration with local Agriculture Department. The PML-N govt also launched a scheme in 2018 but it had a flawed as could be accessed only by those farmers who had secured bank loans. Thus, in essence it was more like Crop Loan Insurance Scheme (CLIS) which is already in practice with its own set of technical flaws.

CLIS was made mandatory in 2008 vide order SRO No. 1(13)-Inv. II/2008 by Ministry of Finance, Govt. of Pakistan. Initially it was compulsory only for loans extended to farm holders with less than 12.5 acres of land. Last year its scope was extended to land holders having up to 25 acres of land. Banks pay the insurance premium at 1.3% for farmers having less than 25 acres of land and get the reimbursement from Govt. of Pakistan. Maximum loan limit insured under this scheme is Rs. 500,000. In the Federal Budget 2017-18, Rs. 700 million had allocated for Crop Loan Insurance Scheme.

First issue with CLIS is that it is limited only to the outstanding amount of loan. The amount of loan is

definitely less than the value of crop. In case of crop loss, the claim is paid only up to the amount of loan, not according to the actual loss incurred. Second, the amount of premium defined is universal irrespective of crops and irrespective of risk probability.

Third, the claim is not triggered unless calamity is declared by the local Revenue Department. Although this mechanism is somewhat similar to the Indian model. But in Pakistan, this mechanism faces the efficiency issues. Normally calamity is declared only if a wide scale loss in a Tehsil of District is incurred because of a disaster. If a small area (2 to 3 villages) suffers then the relevant authority is reluctant in declaring the calamity. Fourth, in some cases the premium is charged at a rate higher than the ceiling of 3% prescribed by the Government of Pakistan.

Coming back to crop insurance, it is still a new concept for majority of the farmers as previous schemes were launched at limited scale. Nevertheless, small scale studies conducted on this subject have found that farmers do consider crop insurance to be beneficial as it offers a payback guarantee if crop yield faces losses in any form. But the willingness to avail crop insurance option is not matched by a similar ability to pay the premium. 64 percent of farms are less than 5 acres and it has been estimated that only one fifth of them are willing to pay a lump sum premium of Rs. 3500 or above per crop growing season. This is the minimum average premium calculated at 3% for farm between 0-5 acres.

However, in India the crop insurance coverage is increasing with every passing year. It introduced crop insurance in 1985 with announcement of Comprehensive Crop Insurance Scheme. Since then it has taken different shapes and modes and since 2016 there are only two crop insurance schemes in India i.e.

Pradhan Mantri Fasal Bima Yojana (PMFBY) and Restructured Weather Based Crop Insurance Scheme (RWBCIS). Since 1985, the insurance schemes of India have insured 369 million farmers and 513 million hectare area. Total premium collected during that period was INR 313,008 million and claims of INR 587,114 million were paid out. Total 135 million farmers benefitted from different crop insurance schemes of India. The schemes are operational in 21 States/Union Territories of India. They are compulsory for loaned farmers and optional for non-loaned farmers. Sum insured is decided on the basis of Scale of Finance (cost of cultivation plus some profit).

Loss assessment for PMFBY is made on the basis of average yields calculated from Crop Cutting Experiments (CCEs). In those areas where both PMFBY and WBCIS are being implemented the data of CCE is used by insurance providers to develop correlation between yield and weather parameters to help design better weather insurance products, standardization and benchmarking of products. Loss assessment for RWBCIS is made on the basis of weather data of notified Reference Weather Stations (RWS), Back up Weather Station (BWS) and Automatic Rain Gauge (ARG).

Owing to the probability of moral hazard, parametric or index based insurance is gaining much prominence. Another advantage of such insurance products is that the payment after hazard is very quick. Area yield index and Weather Index Insurance are the two most famous parametric insurance products. As climate risks are increasing, WII is being considered as the most effective risk assessment tool. A World Bank/IFC study of 2015 explains the nature of WII as follows: “From a behavioral perspective, index-based insurance is akin to a lottery or gambling on the weather. To sell traditional insurance, a potential customer must be convinced that there is a reasonable probability of a loss that must be covered. On the other hand, the customer only needs to believe that the weather is variable and unpredictable in order to find index-based insurance attractive. From an economic perspective, index-based insurance provides a buffer to protect the farmer against shocks that is similar to having savings. However, savings would be less convenient for weather protection if the farmer has not accumulated sufficient amount to cover their losses in the event of a drought”.

In the context of Pakistan both Yield Based Index Insurance (YBII) and

Weather Index Insurance (WII) are feasible in certain conditions. For YBII, some local level institution is needed as management partner or for loss assessment. Threshold yield needs to be decided in consultation with the community. It is more suitable for less frequency and high severity losses. What needs to be kept in mind is that YBII has relatively higher probability of moral hazard and insurance companies try to agree on a low threshold yield so that they pay lesser claims. The reason for community's validation of yield data is that the data available at provincial or district level is averaged out. It also includes the higher average yields of large holders or progressive farmers. But small farmers usually have lesser yields. When the sum insured (threshold yield) is communicated to farmer, they always insist to agree on lower possible yield. Resultantly, insurance companies try to fix the threshold yield even lower than the level insisted by farmers. Lowest the threshold yield, least number of claims it will have to pay. Due to such manoeuvrings, sometimes crop insurance has no utility for the farmer. For WII, At least 30 years data of weather and yield data is needed. Once an index has been built, it still needs to be cross verified with the community of beneficiaries. It is more suitable for medium frequency and medium severity losses. Automatic Weather Stations (AWS) with village level precision have to be placed. Or satellite imagery will be needed at such precise level from state institutions like Pakistan Space and Upper Atmosphere Research Commission (SUPARCO).

Reliability of data is very important because PMIC abandoned its pilot of WII because of lack of reliable data. Insurance companies always try to get re-insurance. But the reinsurers in international markets opt to provide reinsurance to only those insurance companies which are using reliable data, more preferably satellite imagery based data.

Looking forward, crop insurance has the potential of bringing the farmers out of 'traditional crops trap' and 'debt trap'. Farmers don't take the risk of cultivating new and lucrative cash crops out of fear. If they have surety of getting compensation against losses, they will become risk takers instead of risk averse clients. Debt trap refers to the situation whereby farmers purchase the inputs on credit and in case of lower yields they have to borrow again for paying off existing liabilities and also purchasing the inputs for next growing season. Once they get into this trap it's very hard to escape. However, quick insurance payouts can save them from getting into this trap or disposing off their assets or compromising essential household expenses.

Whatever insurance product is offered to farmers, it has to be coupled with associated awareness and capacity building component in order to reduce the risks. For this, integrated approach will have to be followed. Merely providing insurance coverage won't serve the purpose unless the farmers are trained and motivated for adopting smart agriculture practices. For instance, an insured farmer should be equipped with high efficiency irrigation system so that the risks associated with low water availability get reduced.

BLOCKCHAIN

A blockchain is a database that is shared across a network of computers. The records that the network accepted are added to a block. Each block contains a unique code called a hash.

Insurance giants and startups alike are attempting to use blockchain technology to prevent insurance fraud, digitally track medical records and more.

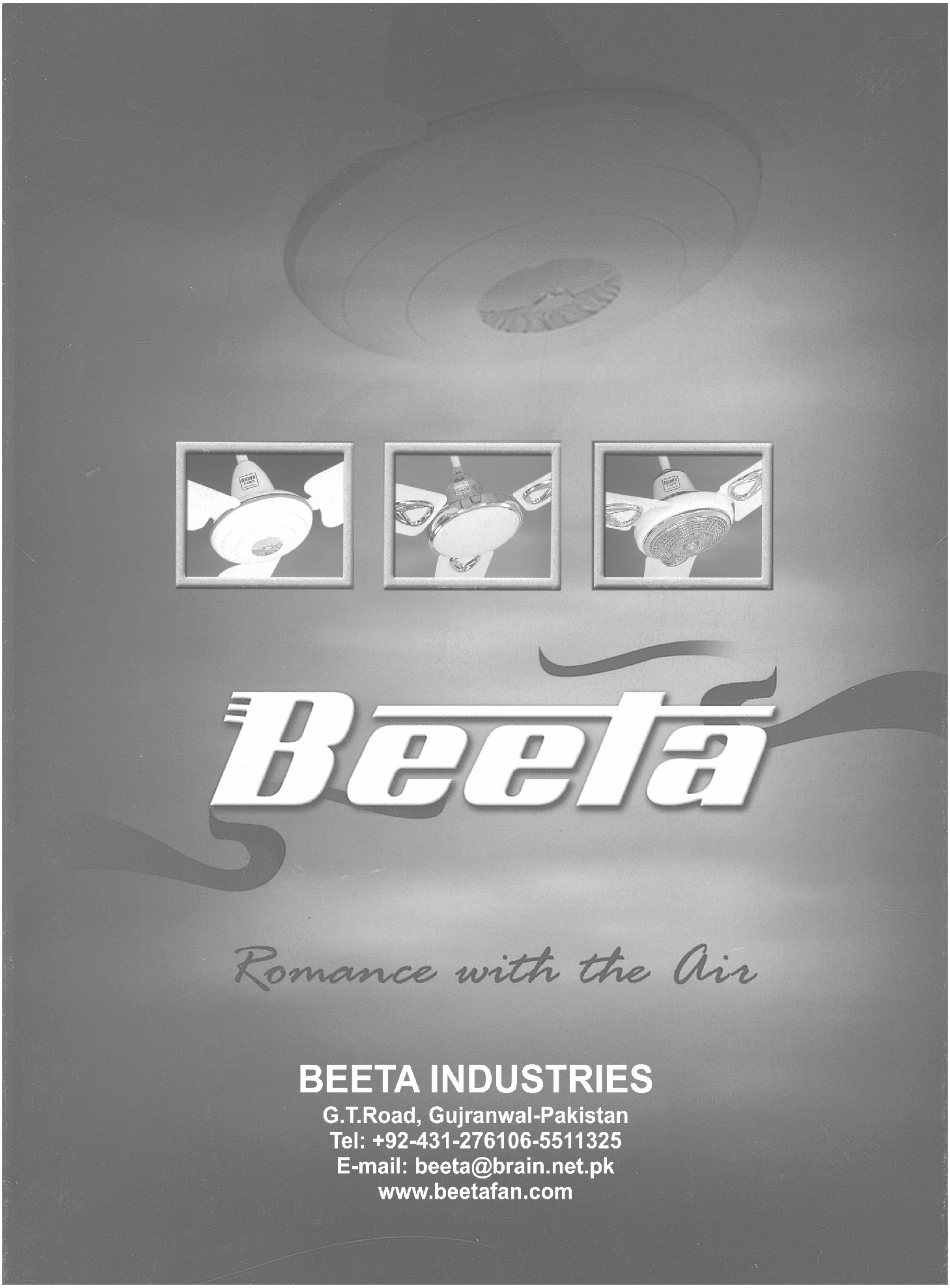
INSURTECH

Insurtech is transforming the insurance industry with new technology to improve customer experience, simplify policy management and increase competition.

SANDBOX

A sandbox is an isolated testing environment that enables users to run programs or execute files without affecting the applications system or platform on which they run.

Sandbox Regulation is defined as a framework set up by a financial/insurance sector regular to allow small scale, live testing of innovations by private firms in a controlled environment (operating under a special exemption, allowance, or other limited, time-bound exception) under the regulator's supervision. The sandbox approach has its benefits and risks. One of the advantages is the standardized and publicized framework for innovations which allows for open communication and transparency. The sandbox approach permits a safe space where live experiments can be conducted in a controlled manner and with safeguards in place. Furthermore, it is clear signal to the market and the regulator's staff that innovation is on its agenda.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International Commercial Terms (INCOTERMS)

Incoterms falls in following four categories:

E – Terms: where the seller makes the goods available to the buyer at the seller's own premises.

F – Terms: where the seller is called upon to deliver the goods to a carrier appointed by the buyer.

C – Terms: where the seller has to contract for carriage, but without assuming the risk of loss or damage to the goods or additional costs due to events occurring after shipment and dispatch.

D – Terms: where the seller has to bear all the costs and risks needed to bring the goods to the country of destination.

Rules for sea and inland waterway transportation:

FOB - Free On Board

This term can only be used for vessel shipments.

The seller agrees to deliver the goods on board the overseas vessel at the named port of shipment, including during lighter age and during loading onto the vessel.

Responsibility for loss or damage

The seller is responsible for loss or damage until the goods "pass the ship's rail". The buyer being responsible from that point on.

Ocean cargo insurance

Because the buyer is responsible for loss or damage during the "main carriage" FOB shipments would be insured under his ocean cargo policy. Insurance, under INCOTERMS definition, would attach once the goods "pass the ship's rail". In practice most insurance companies use the date on which the On Board bill of lading is issued.

C & F - Cost and Freight

This term can only be used for vessel shipments.

Although the seller agrees to pay all costs and freight to the named port of destination, his responsibility for delivery ends when the goods "pass the ship's rail" at the port of shipment.

Responsibility for loss or damage

The seller is responsible for loss or damage until the goods "pass the ship's rail" at the port of shipment. The buyer being responsible from that point on.

Ocean cargo insurance

Because the buyer is responsible for loss or damage during the "main carriage" CFR shipments would be insured under his ocean cargo policy. Similar to FOB shipments, insurance, under INCOTERMS definition would attach once the goods "pass the ship's rail". In practice most insurance companies use the date on

which the On Board Bill of Lading is issued.

CIF - Cost, Insurance and Freight

This term can be used for vessel shipments only.

Although the seller agrees to pay all costs and freight to the port of destination, his responsibility for delivery ends when the goods have been delivered on board the overseas vessel at the port of shipment.

Responsibility for loss or damage

The same as for FOB and CFR terms. The seller is responsible for loss or damage until the goods are delivered on board the overseas vessel at the port of shipment.

Ocean cargo insurance

Although the buyer is responsible for loss or damage during the "main carriage", under CIF terms the seller agrees to provide insurance for the buyer's account. Therefore, CIF shipments are insured under the seller's ocean cargo policy. (This is one of only two INCOTERMS which contains an obligation to provide insurance.

FAS - Free Alongside

This term can only be used for vessel shipments.

The seller agrees to deliver the goods alongside the vessel at the port of shipment ready for loading onto the overseas vessel; or until loaded onto lighters if customary to the port.

Responsibility for loss or damage

The seller is responsible for loss or damage until the goods are delivered to the port as agreed. The buyer being responsible from that point on.

Ocean cargo insurance

Because the buyer is responsible for

loss or damage during the "main carriage" FAS shipments would be covered under his ocean cargo policy. Insurance would attach either at the time the goods are place alongside the vessel, or after being loaded onto lighters if customary to the port. Quite often insurance companies use the date of issuance of a Dock Receipt or a Received For Shipment Bill of Lading, or similar document issued by the carrier, to determine when risk of loss passes from the seller to the buyer.

DEQ - Delivered Ex Quay

This term can only be used on vessel shipments.

The seller agrees to deliver the goods to a named point on the quay (wharf or dock) at the named port of destination. The contract of sale must clearly show the point or place conveyance is to be made to.

Responsibility for loss or damage

The seller is responsible for loss or damage until the goods are delivered to the named place, including during unloading from the overseas vessel and during lighterage if required. The buyer being responsible from then on.

Ocean cargo insurance

Because the seller is responsible for loss or damage during the "main carriage", DEQ shipments would be covered under his ocean cargo policy. Insurance usually attaches when the goods leave the place of origin and ceases when the seller's responsibility ceases upon conveyance of the goods to the named place.

In practice, the named place at destination used with DEQ terms is a Customs Warehouse. Duty, taxes and other import charges may, or may not, be paid by the seller. Depending upon who pay these charges, the actual wording used for this term in sale contracts and on invoices may be shown as: DEQ (Duty Unpaid) Customs Warehouse, named port.

Rules for any mode of transportation

EX WORKS, named place (EXW)

This term can be used with any mode of transportation.

The seller makes the goods available to the buyer at his premises on a specified date or within a specified time period.

Responsibility for loss or damage

The buyer becomes responsible for loss or damage to the goods on the agreed upon date, or when the goods are picked up within the specified time period, or on expiration of the specified time period. Unless specifically agreed to, the seller is not responsible for loading the goods onto the conveyance at his premises.

Ocean cargo insurance

Because the buyer is responsible for loss or damage during the "main carriage" EXW shipments would be insured under the buyer's ocean cargo policy.

Since most ocean cargo policies attach on individual shipments when they leave the warehouse of origin (i.e. The Warehouse To Warehouse provisions of the Open Policy), the buyer may not have insurance for the period of time the goods may be on the premises of the seller, or during loading onto the conveyance, or after loading while awaiting transit even though he is responsible for loss or damage. Therefore, when purchasing goods EXW the buyer should seek an insurer that will provide coverage during these situations.

Free Carrier, named place (FCA)

This term can be used with any mode of transportation.

The seller agrees to deliver the goods into the custody of the carrier selected by the buyer at a named point or place, or to a party acting on the carrier's behalf (a freight forwarder or freight terminal, for example). The actual point of delivery can be anywhere in the country of origin, including at the seller's premises. The contract of sale must clearly state to where and to whom the goods are to be delivered.

Responsibility for loss or damage

The seller is responsible for loss or damage until the goods are delivered to the carrier at the named point or place. The buyer becoming responsible thereafter.

Ocean cargo insurance

Because the buyer is responsible for loss or damage during the "main carriage" FCA shipments would be insured under his ocean cargo policy. Insurance would attach at the time the goods are delivered to the carrier as agreed.

When buying goods FCA it is important for the buyer to understand that in allowing delivery at a place other than the port or airport of shipment he is extending his exposure to loss or damage to additional hazards of transportation which may be unique to the country of origin, such as: additional storage, additional handling exposures, exposure to the elements and exposure to theft, hijack or pilferage. Depending upon the country the goods are being shipped from these additional hazards can be severe and loss or damage can adversely affect the placement and costs of insurance. Before agreeing to FCA terms it may be in a buyer's interest to review the country exposures with their insurer. One advantage to a buyer in using FCA terms is when he uses FCA Seller's Warehouse versus EXW. As commented on in EXW, the buyer is responsible for loss or damage during loading of the goods onto the conveyance at the place of origin, an exposure not usually covered by ocean cargo policies. By selecting FCA Seller's Warehouse the responsibility for loading is placed on the seller.

Carriage Paid To, named place of destination (CPT)

This term can be used with any mode of transportation.

Although the seller agrees to pay freight costs to the destination, his responsibility for delivery ends when he has delivered the goods into the custody of the carrier, or party acting on the carrier's behalf, at a named point in the country of shipment. The actual place of delivery could be anywhere in the country of shipment, including the premises of the seller, or at the port of shipment, or anywhere in between.

Delivered At Frontier, named place (DAF)

This term is usually used for overland shipments, but can be used with any mode of transportation.

The seller agrees to deliver the goods at a named point or place, cleared for export, at a frontier or border. This place could be at the country of origin, destination or somewhere in between. The actual place of delivery should be precisely named in the sales contract.

Responsibility for loss or damage

The seller is responsible for loss or damage until delivered to the named place. The buyer being responsible from that point on.

Ocean cargo insurance

Many ocean cargo policies do not provide automatic coverage for overland shipments, or when the assured is responsible for loss or damage solely within the country or origin, or solely within the country of destination. However, extensions can usually be added to provide the necessary coverage. If selling or buying on DAF terms you should review your specific insurance needs with your insurer.

In general terms, the seller will want to arrange coverage which will cover his interest until he has delivered the goods to the place named in the sale contract. The buyer will want to arrange coverage from that point forward, including during any storage awaiting pickup by the carrier. Depending upon the actual extent of exposure, insurance on DAF shipments may be added to domestic transit or property insurance policies.

Carriage and Insurance Paid To, named place of destination (CIP)

This term can be used with any mode

of transportation.

Essentially the same as CIF except that the seller pays all costs and freight to deliver the goods to a named place in the country of destination (vs. port of destination under CIF terms), and the seller agrees to deliver the goods to the carrier, or party acting on his behalf, at a named point or place in the country of shipment (vs. on board the overseas vessel at the port of shipment under CIF).

Responsibility for loss or damage

The same as under FCA and CPT terms.

Ocean cargo insurance:

CIP terms obligate the seller to provide insurance on behalf of the buyer and therefore CIP shipments would be insured under the seller's ocean cargo policy.

Delivered EX Ship, named port of destination (DES)

This term can only be used for vessel shipments.

The seller agrees to deliver the goods on board the overseas vessel at the port of destination.

Responsibility for loss or damage

The seller is responsible for loss or damage until the overseas vessel arrives at the point of unloading at the port of destination. The buyer is responsible from that point on, including during unloading from the vessel and during any lighter age if required.

Ocean cargo insurance

Because the seller is responsible for loss or damage during the "main carriage" DES shipments would be covered under his ocean cargo policy. Insurance usually attaches when the goods leave the place of origin and ceases when the overseas vessel arrives at the point of unloading at the port of destination.

Delivered Duty Unpaid, named destination (DDU)

This term can be used with any mode of transportation.

The seller agrees to deliver the goods point agreed upon in the country of destination. In most cases this will be the buyer's premises, but it could be any other place in the country of destination.

Responsibility for loss or damage

The seller is responsible for loss or damage until the goods are deliver to the agreed place. The buyer being responsible from that point on.

Ocean cargo insurance

Because the seller is responsible for loss or damage during the "main carriage" DDU shipments would be insured under his ocean cargo policy. Insurance usually attaches when the goods leave the place of origin and ceases when the seller's responsibility ceases upon conveyance at the agreed place.

Delivered Duty Paid, named place (DDP)

This term can be used for any mode of transportation.

Essentially the same as DDU except that the seller agrees to pay duty and taxes.

Responsibility for loss or damage

See comments under DDU which apply to DDP shipments also.

Ocean cargo insurance

See comments under DDU which apply to DDP shipments also.

Muhammad Aamir Jamil
Dip CII (UK), Deputy Manager (Underwriting)
Property Division / Ancillary Operations
Security General Insurance Co. Ltd

Insurance and Insurable Interest

Insurance is an arrangement by which an insurance company commences to provide a guarantee of compensation for specified losses, it works as a risk transfer mechanism which provides peace of mind and protection from financial losses to the insured. We can say that it is a contract between two parties which involves offer, acceptance and consideration. Consideration is decided amount of money which the insured must have to pay to insurance company in exchange of its promise of protection and help. It can be monthly, quarterly, semi-annually, or annually.

"Before SECP Rule 58, companies issued policies without acceptance of premium but after the Rule-58 insurance policy not to be issued without the receipt of premium."

To secure an insurance policy one must have insurable interest which refers to the "current, legal and financial relationship" between the insured and subject matter of insurance a mare hope of having interest in future is not enough to be considered as insurable interest. Insurable interest is the necessary element to create a valid insurance contract.

If there is no legal relationship exist then there is not insurable interest. It means that, insured must suffer financial or other kind of loss at the time of damage to the subject matter insured e.g. we can insure our own house but we cannot insure our neighbor's house.

In USA, Australia and Canada, an economic or financial interest in the subject matter is required but legal interest is not required (Source-English Law).

Why law require insurable interest?

To discourage wagering
To reduce moral hazards

There are different rules apply to different classes of insurance about existence of insurable interest.

Life assurance contracts (at inception)
Marine Insurance contracts (at the time of loss)
General Insurance contracts (at inception and at the time of loss)

Hence, insurable interest is vital element to have insurance policy in all regimes.

Muhammad Aamir Jamil successfully completed Diploma in Insurance (Dip CII) with distinction from The Chartered Insurance Institute, London (United Kingdom).

Riaz Hussain Khan Jadoon
Member Chartered Institute of Loss Adjusters (UK),
LLMIT (Lloyds & London Market),
Authorized Surveying Officer (The SECP),
MBA (UK), M.Com (Insurance)
Executive Director - Pakistan Inspection Company Pvt. Ltd.

Technology:
The Only Way Forward for The Future

The purpose of employing technology in any business and industry is essentially about responding efficiently to the needs of the customer. The change technology has brought and will bring in the future, especially in Services Industry, can be scary due to disruption in routine service standards and exciting due to challenges and opportunities it brings with it.

As we have seen in the developed world, and the same can happen here, the automation of processes requiring simple work would allow businesses in countries like ours to engage skilled staff to solve difficult problems. This would enable them to implement effective strategies to improve customer service and increase business volume. However, technology alone does not supply the solution but only enables to work smarter and improve services and outcomes.

Over the last couple of years, the Insurance Industry of Pakistan is slowly but surely moving towards technological transformation of its processes. Some major players have recently introduced, implemented, integrated and indigenously developed solutions to help them identify, mitigate and resolve discrepancies in their Underwriting and Claim settlement processes. It feels good to see that they have been successful in their endeavor to a certain extent and reaping benefits of their hard work. It is an exciting time for our industry but I believe that we are just scratching the surface on delivering even greater customer service.

One of the biggest hindrance to achieve such level is the inability of Surveyors / Loss Adjusters to keep pace with modern times. Being integral part of the claim settlement process, the Insurers must understand that apart from their own internal process improvements, they have to bring Surveyors on the same level as they envision for themselves. It must be noted that not only technical expertise but also technological expertise is required to minimize claim cycle times and improve customer satisfaction.

A Surveyor who is equipped with the right tools can be a major differentiator. In my opinion, the right way to surmount the demand for timely estimating and loss adjusting, especially in high frequency low severity losses, is to choose Surveyors who have implemented technology to speed up the claims process and ease bottlenecks.

With the current shortage of talent in the Insurance and Surveying Industry, the need to employ best technology is

the only foreseeable solution that I can see. An easy app based system would enable even a small team of Insurers / Surveyors to handle multiple claims simultaneously and respond according to the expectation levels of millennials. The Insurers as well as Surveyors know very well and understand the importance to respond quickly to claims in the field for accurate reserving and payments. Therefore, it is vital to employ such a system that would fulfil the need for speed. A simple digital App with following features and benefits is the possible solution:

- Convenient 24/7 access anytime anywhere from your phone, tablet and laptop

- No phone calls for most inquiries, resulting in reduction of telephonic costs

- Reviewing your Claim details resulting in quick feedback to your Clients

- Visual representation of damages through Photographs and Videos

- Review of Claims History Details of Clients in Seconds

- Paperless environment resulting in reduction in printing costs (Go Green)

- Safe keeping of Case Files in Cloud Systems

- QR Codes on Reports to access Photographs and Documents in Printed form

- Login access to Corporate Clients to self-manage their multiple Claims (Ideal for Banks, Leasing Firms, Multinationals etc.

An easy-access app can even be shared with Policyholders to help them to take photos of the damage using a smartphone and upload documents and share it with the Surveyor who might be located far away.

The Technology employed by the Surveyors when connected with Insurer's Core Application or as people say in our industry say “Integrated with the MIS” can do wonders with claims data. The meaningful analysis of the obtained data could be used not only in terms of improving customer service but would also provide claims insights which is essential to success. Unfortunately, only few in our industry understands importance of these tools and many Insurers and Surveyors are still slow to adopt. This is not an acceptable mindset.

As the Insurance Surveying Industry is going through hard times due to various challenges, many Surveyors think that this might be the end of their Industry. However, I personally believe that Surveyors will play a role more important than ever in the coming years. There will undoubtedly be new and diverse opportunities and innovative technological approaches will continue to enhance the efficiency and reputation of Insurance Surveyors. All they need to do is to continue to adapt to the needs of Insurers and Policyholders, embrace new technologies and invest in the skills of their people.

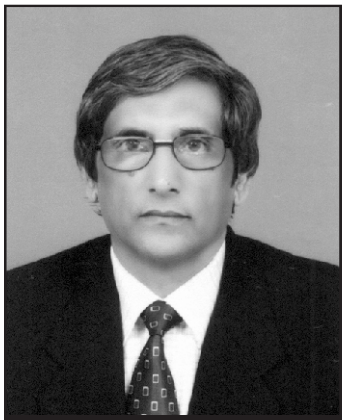
What is Crop Insurance?

Crop insurance in America can trace it roots all the way back to 1880, when private insurance companies first sold policies to protect farmers against the effects of hail storms. These Crop-Hail policies are still sold today by crop insurance companies and are regulated by individual state insurance departments. In 2017, farmers spent $956 million on Crop-Hail insurance to protect $36 billion worth of crops.

In addition, farmers may also purchase Federal Crop Insurance, also known as multi-peril crop insurance, a risk management tool that protects against the loss of their crops due to natural disasters such as drought, freezes, floods, fire, insects, disease and wildlife, or the loss of revenue due to a decline in price. This form of crop insurance is federally supported and regulated and is sold and serviced by private-sector crop insurance companies and agents.

Participation in multi-peril crop insurance has grown rapidly since the private sector began delivering it in 1981. Back then, only 45 million acres and $6 billion worth of crops were insured. By 2017, 1.1 million policies were sold protecting more than 130 different crops covering 311 million acres, with an insured value of $106 billion.

The Federal program provides timely assistance to farmers when they need it most, while reducing taxpayer risk exposure. Today, crop insurance is the cornerstone of U.S. farm policy.



Salim Iqbal
Former Senior Joint Secretary /
Controller of Insurance
Ministry of Commerce

Cyber Risk Insurance

It is good to know that SECP, in keeping with the modern times, has issued directives to the insurance sector for protection against cyber attacks. The SECP has explained that cyber risk means "any risks that emanate from the use of electronic data and its transmission, including technology tools, such as the internet and telecommunications networks". This risk also includes physical damage that can be caused by cyber security incidents, fraud committed by misuse of data, any liability arising from data storage and the availability, integrity and confidence of electronic information be it related to individuals, companies or governments.

Another good news is that the insurance companies have been directed to appoint a Senior Executive as Chief Information Security Officer (CISO) for implementation of overall cyber security framework within the organization. Furthermore, the SECP has directed the insurers to submit cyber security framework assessment reports by 30 April of every year to SECP.

In accordance with SRO 31 (1)/2019 all life and non life insurers including family and general takaful operators are required to obtain cyber risk insurance. In order to implement these directives effectively and to monitor the implementation process SECP should have a separate cyber risk insurance wing under the direct supervision of an Executive Director dealing with cyber crimes matters relating to the insurance sector. Apart from annual reports the insurers should be required to submit monthly / quarterly implementation status reports for proper and better monitoring. Moreover, all major cyber crimes should be reported to FIA for taking necessary action.

In accordance with SRO 31 (1)/2019, all life and non-life insurers including family and general takaful operators are required to obtain cyber risk insurance.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Rana Naveed ur Rehman
MBA (HRM), Cert CII (UK)
Assistant Vice President (Health)
East West Insurance Co. Ltd

Household Emergencies (Part-5)

In my previous article, I have covered the gas leak related household emergencies. In this part, I will cover the air-conditioning and central-heating system problems related household emergencies.

Air-Conditioning Problems:

There are two main types of air conditioning i.e. central systems and single-room units. Both circulate clean air that is cool in the summer and warm in the winter. Problems with central air conditioners are generally best dealt with by an air-conditioning specialist but you can usually perform basic maintenance of room units yourself, such as checking thermostat settings, cleaning the filter, repositioning the sensor, and cleaning the condenser.

Inefficient Air Conditioner

1. Reset Thermostat

If the air conditioner is switched on but the fan is not blowing, check the temperature setting on the thermostat. If the thermostat is set too high for the current conditions, the air conditioner will not be stimulated to operate. Reset the thermostat to a lower temperature. The fan should start to work right away.

2. Remove Filter

If the fan is working efficiently but the room or house is still too warm, the filter may need either cleaning or replacing (depending on the type of air conditioner).

For a central system, ask an air-conditioning specialist to clean or replace the filter, as appropriate. Whereas, for a room unit, unplug the unit at the wall. Remove or lift up the front panel, depending on the design, and remove the filter.

3. Clean Filter

Clean the filter with some warm water containing a mild detergent, then rinse it in clean water and dry it thoroughly. Replace the filter and turn the unit back on.

4. Install New Filter

If your unit has a disposable filter, check its condition. If it has turned black, is warped or has holes in it, then it needs replacing. Remove

the old filter and replace it, following the manufacturer's instructions. Then replace the front panel, and turn the unit back on.

Air-Conditioner Cuts-out

1. Reposition Sensor

For a room unit, unplug the unit at the wall. Remove the front panel and filter. Check the thermostatic sensor; it should be near, but not touching, the evaporator coils. Move it away from the coils if necessary. Replace the filter and front panel and plug in the unit. For a central system, get an air-conditioning specialist to reposition the sensor for you.

2. Clean Condenser

For a wall-mounted room unit, remove the condenser (the part of the unit outside the room) first. The condenser in a window-mounted room unit can be cleaned in place. Use a vacuum cleaner to remove the dust and lint that has collected on the condenser. For a central system, get an air-conditioning specialist to clean the condenser for you.

Central-Heating Problems

A hot-water heating system which is composed of a boiler and circulator, radiators or baseboard, and an expansion tank can stop working if the circulator jams or if a radiator develops a leak or has air trapped in it. Dealing with these problems is usually straightforward. Alternatively, call a plumber or heating specialist.

Radiator Not Working

1. Check Valve

Check that the valve at the bottom of the radiator is fully open.

2. Check Thermostats

Look at the main central heating thermostat and the radiator's own thermostat (if present) to check that both are set correctly.

3. Bleed Radiator

Install an air bleed key on the air bleed valve at one end of the top of the radiator. Then, hold a cloth underneath the valve and turn the key counterclockwise until you hear air hissing out. Turn the key clockwise as soon as water, which may be hot, starts dripping out.

Radiator Leaking

1. Find Leak

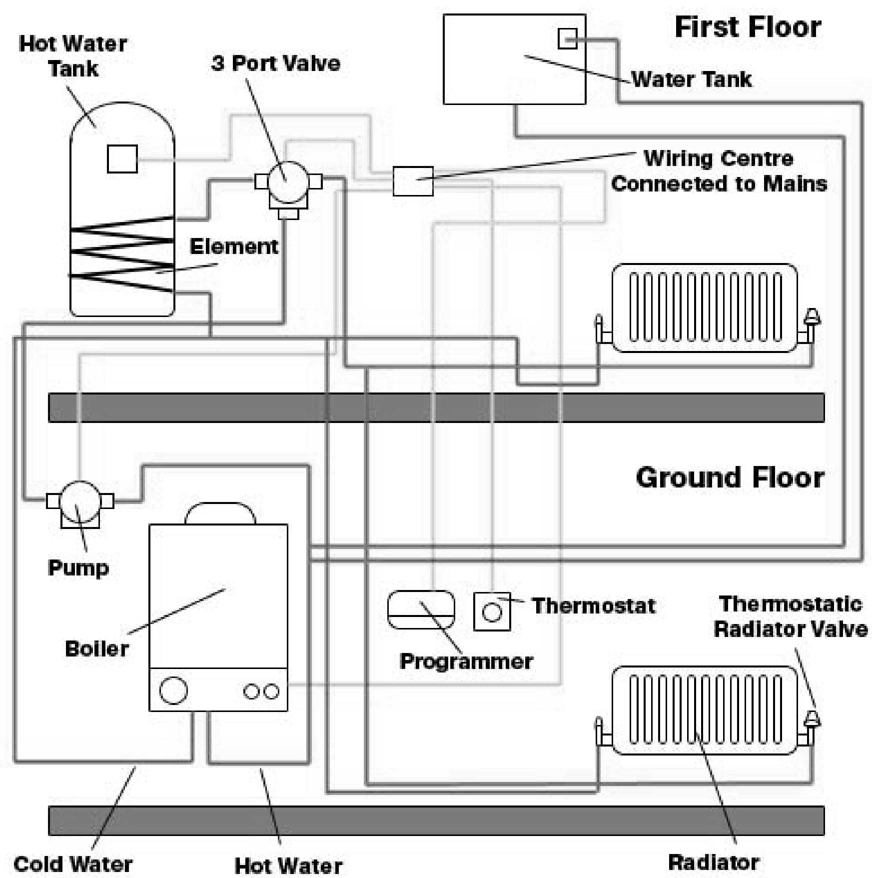
Pinpoint the source of the leak. Water can escape through a loose joint between the pipe and radiator; or through tiny holes in the radiator, caused by corrosion.

2. Repair Joint

Tighten the nut with a pipe wrench. If water still leaks, turn off the heating and call a plumber.

3. Seal small hole(s)

Run a hose from the central heating drain valve (usually under the boiler or on the last radiator in the system) to a drain or sink, then drain the system. The sealant flows through and seals the leak. The sealant is only a temporary repair,



so replace the radiator soon.

Circulator Jammed

1. Find Valve

Turn off the circulator (this will be near the boiler) and find the bleed valve. Place a screwdriver in the bleed valve and have a cloth ready to catch the water that will be released when the air lock is released.

2. Release Air Lock

Expel any air from the circulator as if you were bleeding a radiator. If the circulator is still jammed, call a plumber or central heating specialist.

Action in an Emergency

When an emergency arise, try to remain calm and controlled so that you can act effectively. Before assessing the victim's condition and carrying out the appropriate first aid, make sure that you are not putting yourself in danger. You will not be able to help anyone else if you become a victim yourself. If possible, call immediately ***Rescue 1122*** *while you deal with the situation.*

Farrukh Sabzwari assumes charge of SECP Chairman

Farrukh Sabzwari has taken charge as the SECP chairman after the federal government issued a notification, appointing him as the Chairman. Mr. Sabzwari was appointed Commissioner at SECP on November 15, and on December 27, 2018, the federal cabinet had approved his appointment as the SECP Chairman.

Sabzwari is an MBA in finance with more than 25 years of professional experience in the capital markets in Pakistan and abroad. Before joining the SECP as a Commissioner, he was the CEO of BMA Capital Management, one of Pakistan's largest firms dealing in financial services.

His previous senior management roles include a 7-year stint with Credit Suisse Securities in Singapore as Director APAC Equities Sales from 2010 to 2017. Prior to that, he was CEO at KASB Securities, a Merrill Lynch JV partner in Pakistan, a position he held from 2005 to 2009. He also spent more than 8 years at CLSA, a Citic-owned boutique investment firm, as Country Manager and Head of Sales for Pakistan from 1995 to 2001, and subsequently as VP subcontinent sales in New York in 2001-2003. He completed his Singapore Broker License and Indonesian Capital Market Exams in 2010 and his Series 7 and 63 in New York in 2001.

2018 S C M R 52

[Supreme Court of Pakistan]

Present: Mian Saqib Nisar, C.J., Umar Ata Bandial and Faisal Arab, JJ

POSTAL LIFE INSURANCE (PLI), LAHORE---Petitioner

Versus

MUHAMMAD ANWAR and others---Respondents

Civil Petitioner No. 1287-L of 2017, decided on 18th October, 2017.

(On appeal against the judgment dated 16-02-2017 of the Lahore High Court, Lahore passed in Insurance Appeal No. 13 of 2017)

Insurance Ordinance (XXXIX of 2000)---

---S. 171---Pakistan Postal Services Management Board Ordinance (CXXVI of 2002), Ss. 3(2) & 11(2)(e)---Insurance claim against Postal Life Insurance---Insurance Tribunal, jurisdiction of---Scope---Management Board of Postal Life Insurance ("the Board") was a body corporate, therefore, on the basis of its powers to manage, maintain, control and operate the postal insurance business, the case would fall within the purview of S. 171(2) of the Insurance Ordinance, 2000 and thus, the Insurance Tribunal shall have the jurisdiction to hear and decide the matter.

Sohail Mehmood, DAG along with abdul Ghafar, Dir, PLI Multan and Dr. Akram Nawaz, Dir. PLI Lahore for Petitioner.

Liaqat Ali Butt, Advocate Supreme Court for Respondent No. 1

Date of hearing: 18th October, 2017.

Order

MIAN SAQIB NISAR, C.J.---Respondent No. 1 (the respondent No.1) earlier filed his insurance claim against the petitioner before the learned Civil Court through Civil Suit, which was resisted and the objection taken was that the jurisdiction for determination of such claims only vests with the Insurance Tribunal. Thus, the plaint was returned under Order VII, Rule 10 of the Code of Civil Procedure, 1908 for presentation before the relevant forum. Subsequently, the Insurance Tribunal constituted under section 121 of the Insurance Ordinance, 2000 (the Ordinance of 2000), after conducting trial, granted the insurance claim to the respondent. The petitioner challenged the order of the Tribunal before the learned High Court by means of an appeal which was dismissed through the impugned judgment.

2. Heard, The only objection raised is that as per the provisions of section 171(1) of Ordinance of 2000, by virtue of the fact that the postal insurance business/petitioner is being carried on by the Federal Government and not by a body corporate, the case does not fall within the purview of section 171(2) of the Ordinance, 2000. Suffice it to say that for the purposes of considering as to what is the status of the Management Board of the Postal Life Insurance/petitioner (the Board), reference has been made to section 3 of the Pakistan Postal Services Management Board Ordinance, 2002 (the Ordinance of 2002) and it is clearly mentioned in subsection (2) thereof that the Board shall be a body corporate having perpetual succession and a common seal, with power, subject to the provisions of this Ordinance, to acquire, hold and dispose of its property both movable and immovable, and shall by its name sue and be sued. The Provisions of section 11 of the Ordinance of 2002, prescribes powers and functions of the Board and as provided in subsection (2)(e) thereof, such powers include "to manage, maintain and operate the Postal Life Insurance throughout Pakistan". Obviously, the Board is a body corporate, thereof, on the basis of its powers to manage, maintain, control and operate the postal insurance business, the case would fall within the purview of section 171(2) of the Ordinance of 2000 and thus, the Insurance Tribunal shall have the jurisdiction to hear and decide the matter.

2. No other point has been agitated. Thus, no case for interference is made out. Dismissed accordingly.

MWA/P-7/SC

Petition dismissed.

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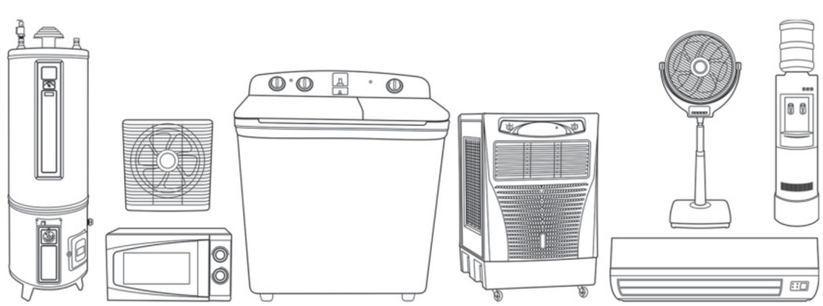

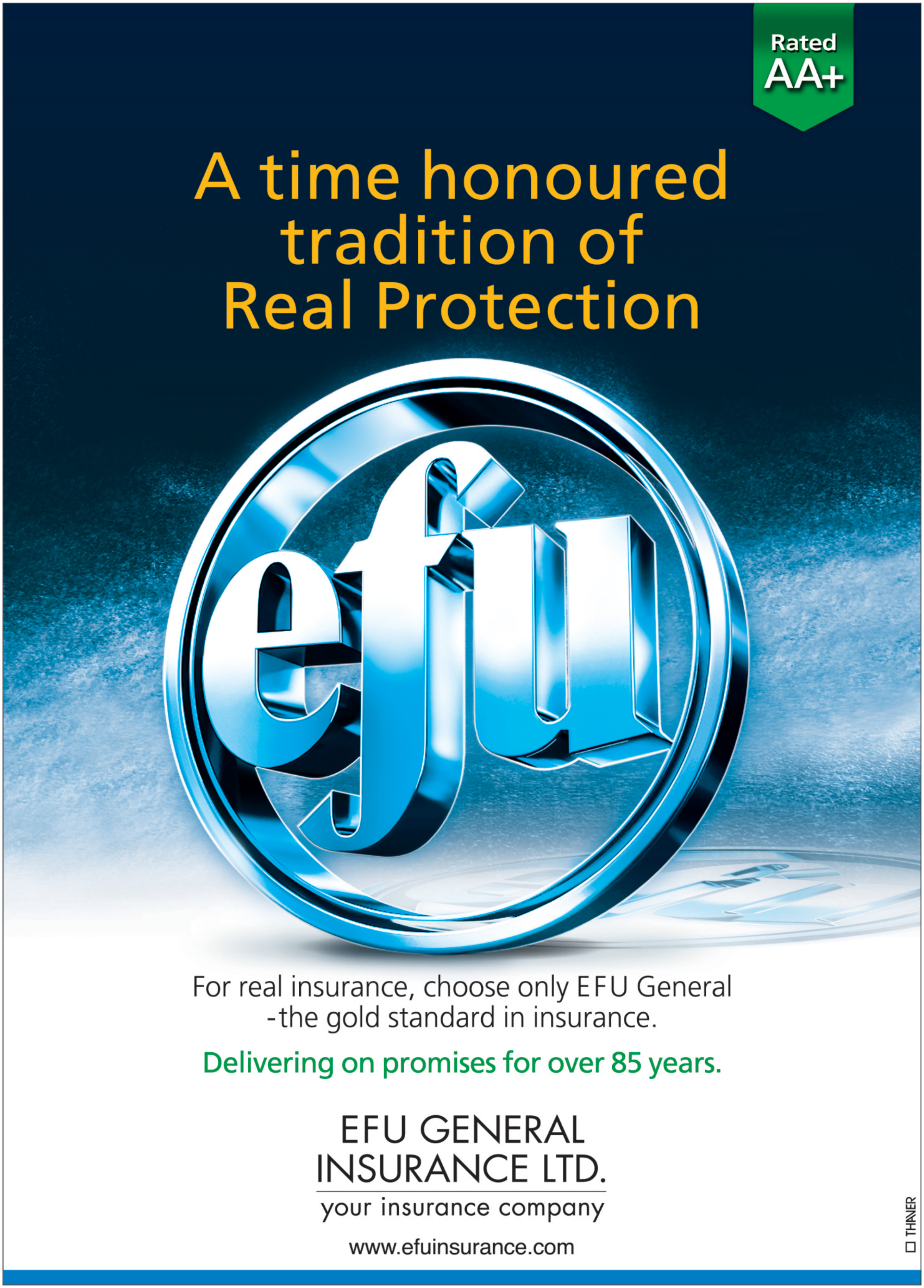
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