

Directors' Report to the Shareholders

The Board of Directors are delighted to present the audited financial statements for the year ended 31st December 2020 in its 48th Annual Report of the Corporation.

Compliance with the Code of Corporate Governance for Insurers, 2016

In accordance with SRO 1045(1)/2016 dated 9th November 2016, issued by Securities & Exchange Commission of Pakistan (SECP) on Corporate Governance rules for Insurers, 2016, the Board of Directors are pleased to confirm the following:

1. The financial statements, prepared by the management of State Life Insurance Corporation of Pakistan (the Corporation), present the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Corporation have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, International Financial Reporting Standards or any other regulation or law (including but not limited to the Shariah guidelines/principles) as applicable in Pakistan, have been followed in preparation of financial statements and any deviation from them have been disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored.

There has been no material departure from the best practices of corporate governance;

2. Financial Performance and Operating Results:

In 2020, the Covid-19 pandemic adversely affected the whole economy of our country. Similarly, insurance business was also affected. However, each industry is struggling to regain pre Covid-19 levels in their operations.

Overall performance of the Corporation remained satisfactory. An overview of the performance of State Life for FY 2020 as compared to last year is summarized below:

Total Income of the Corporation including unrealized capital gain of Rs. 615 million (2019: Rs. 3,615 million) increased to Rs.224,633 million in 2020 as against Rs. 208,374 million in the preceding year, registering an increase of 7.8 percent.

Acquisition expenses for FY 2020 were Rs. 16,597 million as compared to Rs. 16,502 million in FY 2019 showing increase of 0.6 percent which is negligible; Marketing and Administrative expenses were Rs. 8,381 million in FY 2020 as compared to Rs. 10,551 million in the preceding year showing a decrease of 21 percent. Overall management expense ratio to total premium income for FY 2020 was 20.92% as against 24 percent to last year.

Insurance benefits paid to policyholders in the year 2020 were Rs. 64,688 million as against Rs.57,049 million last year, registering an increase of 13.4 percent.

3. Business Portfolio Wise Performance

3.1 INDIVIDUAL LIFE BUSINESS – PAKISTAN’S OPERATIONS:

First year gross premium under Individual Life policies during the year 2020 was Rs. 13,838 million as compared to Rs. 12,725 million in the year 2019, showing an increase of 8.7 percent. Gross renewal premium was Rs. 91,227 million in FY 2020, whereas it was Rs. 89,190 million in FY 2019, resulting an increase of 2.3 percent.

3.2 INDIVIDUAL LIFE BUSINESS – OVERSEAS OPERATIONS:

Our overseas business, first year gross premium under Individual Life policies, during the year 2020 was Rs.221 million as against Rs.182 million in the year 2019, showing an increase of 21.4 percent. Gross renewal premium in FY 2020 was Rs.2,016 million as compared to Rs.2,095 million in 2019, showing a decline of 3.8 percent.

3.3 GROUP LIFE BUSINESS:

Premium under Group Life policies during the year 2020 was Rs. 4,137 million excluding experience refund/ERF as compared to Rs. 3,778 million in the corresponding year, showing increase of 9.5 percent.

3.4 HEALTH INSURANCE BUSINESS:

Premium under Health and Accident Insurance business during the year 2020 was Rs. 7,975 million excluding experience refund/ERF as compared to Rs.4,805 million in 2019, showing a remarkable increase of 66 percent mainly due to health insurance policies undertaken for the Prime Minister’s National Health Insurance Program.

3.5 REAL ESTATE:

Rental income slightly declined due to Covid-19; some of the tenants were unable to clear their outstanding rents by the end of the year. Break up of rental income and expenses are:

		<u>Rs. in million</u>	
	<u>2020</u>	<u>2019</u>	<u>Inc/(Dec)</u>
Rental and other income	1,060	1,040	20
Expenses	501	472	(29)
Net Income	559	568	(9)

3.6 INVESTMENT:

Net investment income for FY 2020 was Rs. 105,598 million including capital gain of Rs. 615 million (FY 2019 3,615 million) higher by 10 percent over the previous year’s investment income of Rs. 95,802 million.

4. Key Operating and financial data

Summarized financial performance for the last six years is annexed -A

5. Others Disclosures

- There is no statutory payment outstanding as on Dec 31, 2020 on account of taxes, duties, levies, and charges except as disclosed in notes to the Financial Statements.
- The value of investment made by the employees' retirement funds, operated by the Corporation, as per their financial statements as of December 31, 2020, the audit of which are in progress, are as follows:

	Rs. in Million
Pension Fund	28,179
Gratuity Fund – Officers	121
Provident Fund	5,274

6. Number of Meetings of the Board

Four meetings of the Board were held during the year under review and attended by the following members:

S.NO.	Director's Name	Meetings Attended
1	Mr. S.M Tariq Huda	1
2	Mr. Riaz Ahmed Memon	2
3	Mr. Iftikhar ul Hasan Shah	4
4	Mr. M. Saeedullah Khan Niazi	3
5	Mr. Ghiasuddin Ahmed	4
6	Mr. Ali Mubashir Kazmi	4
7	Mr. Abdul Qadir Memon	4

6.1 Pattern of Shareholding

As at December 31, 2020

Categories of Shareholders	No. of Shares Held
Government of Pakistan through Ministry of Commerce	44.68 million
Benazir Employees Stock Option Scheme Trust (BESOS)	1.32 million
Total	46 million

7. Advertisement

The management of State Life is always supportive to Corporate Communications Department (CCD) when it comes to advertising by providing enough funds to implement its multi-media advertising campaigns. CCD has kept State Life's presence on social media i.e., Facebook and Twitter. In December 2020, CCD also launched short corporate press campaign on leading National newspapers in English and Urdu with an intention to highlight the robust business growth.

8. Human Resource Development

Human resource development remained the most valuable asset of the organization. Training plays a vital role in development of human resource; it is a continuous process that leads an organization to achieve its goals. State Life, holds trainings, workshop, seminars and courses through Human Resource Development Division (HRDD) for the skill development of their largest marketing network in Insurance Industry and for their employees to provide better services to their policyholders. Training and development of human resource is a continuous process and works on the concept "Return of training investment" strategy.

In FY 2020, following courses were conducted, physically as well as via internet:

Title of Course	2020		2019	
	Courses	Participants	Courses	Participants
Staff /Officers Training	151	6,194	125	4,925
Sales Force Training	323	6,008	554	12,510
Various Courses via Zoom	96	73,671	-	-
Total	570	85,873	679	17,435

In the year 2020, we provided job opportunities to 21,636 (2019: 25,228) new Sales Representative who were recruited. Our Field Force, the largest in the country stands 134,096 (Sales Representative and Sales Manager) as on 31-12-2020.

9. Credit Rating

State Life is the only player in the insurance industry that continuously maintaining 'AAA' rating by PACRA. A rating of "AAA" is the highest possible Financial Strength for an insurer to achieve. The rating considers State Life Insurance Corporation's sound market position in life insurance industry emanating from extensive and well-penetrated distribution network, experienced management team and robust financial profile.

The rating reflects State Life Insurance Corporation's robust risk absorption capacity on the back of Government of Pakistan's (GoP) guarantee for policyholders' liabilities. The sum insured including bonuses (if any) declared by State Life Insurance Corporation are guaranteed as to payment in cash by GoP under article 35 of the Life Insurance (Nationalization) Order, 1972.

State Life Insurance Corporation's ability to maintain its leadership in the life insurance sector is important. In this regard, successful execution of the envisaged business strategy including diversification and growth is essential by broadening its product offerings. - Health Insurance, Bancassurance, Window Takaful, and Micro Insurance.

10. Future Outlook

We continue to have a positive outlook on the long-term growth potential of the business; however, we do presage certain headwinds in the short-term owing to coronavirus crises in the form of rupee depreciation and higher inflation which might have an impact on the future results.

The management remains fully committed to managing these challenges and delivering sustainable profitable growth capitalizing on our strong brands, management capabilities and operational excellence. We intent to grow our business by developing innovative products, efficient delivery channels and state of the art contact centre.

Federal Sehat Sahulat Program

The Federal Government's Sehat Sahulat Program formerly known as the Prime Minister National Health Programme has been implemented in more than 68 districts across Pakistan and provides protection against catastrophic health expenditures to the poor segment of society.

Under this scheme, a total of 403,000+ patients have been provided the health care services up-to Rs. 60,000/- for secondary procedures and Rs. 300,000/- for tertiary procedures from 450+ empaneled hospitals across Pakistan.

State Life has incurred more than Rs. 9 billion of claims in lieu of the provided services.

As per recent 3rd party satisfactory survey more than 97 percent of families have shown satisfaction upon the services provided under the program.

The program is perceived to be expanded in all districts of Pakistan. The Corporation is targeting more than 50 million individuals who would be provided the insurance coverage against catastrophic health care expenditure. Universal Health Coverage in FATA, Tharparkar and AJK have been implemented.

Further, the coverage has been extended to cover all the disabled persons and registered transgender community of Pakistan. Plans are underway to expand the scheme to cover 100 percent population of Gilgit-Baltistan and Islamabad.

Sehat Sahulat Program-KP

The Social Health Protection Initiative (SHPI) which started in four districts of Khyber Pakhtunkhwa has been extended to all the districts of KP Province. The target population of beneficiaries which was 2.1 million families has been further expanded in 2020.

The Program has entered into new phase where the hospitalization coverage under this program has been increased to Rs. 40,000 per person for secondary procedures and Rs.400,000 for tertiary care treatments. The program also provides maternity & tertiary transport and funeral expense.

State Life has won the competitive bidding for extension of coverage to 100 percent population of KP, where more than 7 million families would be covered. This scheme has a worth of around 100 billion in the next five years. However, Universal Health Insurance would be implemented zone wise (each zone consisting of 4 to 6 district and thus 100 percent population would be covered by 1st Feb, next year.

So far, more than 276,000 admissions have taken place under the scheme in more than 140+ hospitals of KP. Under the new phase, inter-district portability has been extended all across Pakistan which will enable the patients of KP to seek health care coverage across State Life's network of more than 450+ hospitals.

Family Takaful

The Corporation on receipt of license to start Window Takaful Operations established a statutory fund namely "Family Takaful Fund" to offer Family Takaful Contracts. Family Takaful Contract is an arrangement to which rests on key Shariah principles of mutual cooperation, solidarity and well-being of a community, and based on the principles of Wakala Waqaf Model. Under a Takaful arrangement, individual comes together and contribute towards the common objectives of protecting each other against financial losses by sharing the risk on the basis of mutual assistance.

The obligation of Waqf for Waqf participant's liabilities is limited to the amount available in the Waqf Fund. In case there is a deficit in the Waqf Fund, the Window Takaful Operator shall grant an interest free loan (Qard-e-Hasna) to make good the deficit. The loan shall be repayable from the future surplus generated in the Waqf Fund, without any excess of the actual amount given to it. Repayment of Qard-e-Hasna shall receive priority over surplus distribution to participants from the Waqf Fund.

State life has launched Takaful Operations under Family Takaful Fund and efforts are being made for takaful business, as disclosed in Note 1.3 to these Financial Statements.

Bancassurance

Bancassurance is an alternate distribution channel to sell life insurance products through banks. This line of insurance business ensures wide range coverage at lesser cost. Currently the

following banks have signed agreements, Habib Bank (HBL), United Bank Limited (UBL), National Bank of Pakistan (NBP), Bank Al Falah Limited, SAMBA, Silk Bank Limited and First Women Bank Limited. The Division is vigorously perusing its expansion plans for optimal market penetration. In this regard negotiations with more banks are underway.

Strengthened, with State Life's reputation in the market, its Bancassurance channel is steadily showing sustainable growth and will undoubtedly contribute significant all-round improvement in the financial performance of State Life in coming years while providing a new avenue for business growth.

Information Technology

The motive and vision of IT Division State Life is to play an integral role in the Corporation to improve business processes, achieve cost efficiencies, drive revenue growth and maintain a competitive advantage in the insurance market. In addition to the routine IT operations, the Division is extensively involved in the implementation of Pre-package Software solution which will ensure efficient and effective performance of core business functions and enterprise services.

The benefits of implementation of Information and Communication Technology (ICT) are business process improvements and better stakeholders service integration which include better services to our valued Policyholders and field staff; prompt reporting to senior management and regulatory bodies. This will promote an enterprise approach that fosters decision-making through the use of information technology in a proactive manner.

11. Actuarial Valuation

Actuarial valuation as at 31st December 2020, the actuarial surplus arising during the inter-valuation period on participating policies was Rs. 85,521 million (2019: Rs.75,127 million). The details of bonuses declared are stated as an appendix.

12. Dividend

Profit after tax (PAT) attributable to Shareholders for FY 2020 and FY 2019 was Rs. 4,206.34 million and Rs. 1,984.30 million respectively in which an amount of Rs. 2,386.15 million (FY 2019: 399 million) has been transferred to Ledger Account "D" Solvency reserve on the advice of Appointed Actuary; profit available to shareholders is Rs. 1,820 million (2019: 1,585 million). Profit retained amounting to Rs. 100 million for increase in Paid up share capital to comply regulatory requirement of UAE Authority and 15% of PAT which is Rs. 259 million is retained in General Reserve. Rest of the profit of Rs. 1,460.496 million (2019: Rs.1,046.88 million) is payable Share of Dividend to Government of Pakistan.

13. Statutory Auditors

The accounts for the year ended 31st December, 2020 were jointly audited by a panel of auditors comprising of (i) M/s. BDO Ebrahim & Company, Chartered Accountants, Karachi

and (ii) M/s. Grant Thornton Anjum Rahman, Chartered Accountants, Karachi. The accounts of Gulf Countries were audited by M/s. Nabeel Al-Saie, Public Accountants DMCC, Dubai, UAE.

The Auditors Report for the financial year 2020 does not contain any qualification, reservation or adverse remark. The Auditors' Report is enclosed with the financial statements in this Annual Report.

14. Consolidated Accounts

The Consolidated Accounts of the Corporation are annexed in this Annual Report.

15. Subsidiary Companies:

The Corporation has three subsidiaries as on 31-12-2020:

- i. State Life (Lackie Road) Properties (Private) Limited
- ii. State Life (Abdullah Haroon Road) Properties (Private) Limited
- iii. Alpha Insurance Company Limited

16. Acknowledgement

We wish to thank our valued policyholders for continuing trust and confidence in our products and services. We are grateful to the Securities and Exchange Commission of Pakistan (SECP) for their continued guidance and assistance. We extend our gratitude to our reinsurers, business partners and the State Bank of Pakistan for their support.

Finally, we wish to thank our employees and sales force whose dedication and commitment has been a source of strength for the organization.

The Directors regret the loss of life due to Covid-19 pandemic and are deeply grateful and have immense respect for every person who risked their life and safety to fight this pandemic.

We are pleased to place on record the deep appreciation on behalf of the Board of Directors for the efforts made by all the tiers of the field force and devotion to duty of the staff and officers for the overall performance of the Corporation.

On behalf of the Board of Directors



Chairman / Director

Shoaib Javed Hussain

Karachi,
Dated: 30th April 2021

Appendix-A

Key Operating and financial data:

	<u>Rs. in Million</u>					
	2020	2019	2018	2017	2016	2015
				<i>(restated)</i>	<i>(restated)</i>	
<i>FIRST YEAR PREMIUM Net)</i>	14,019	12,876	18,918	17,688	17,036	16,271
<i>RENEWAL PREMIUM (Net)</i>	93,037	91,087	85,998	74,462	66,708	57,729
<i>GROUP PREMIUM INCLUDING HEALTH (Net)</i>	12,112	8,584	10,100	8,610	6,078	5,941
<i>INVESTMENT INCOME (Net)</i>	105,598	95,802	70,277	51,015	64,526	60,316
<i>POLICY BENEFITS</i>	64,688	57,049	50,249	44,955	37,939	35,961
<i>SURPLUS APPROPRIATED TO SHAREHOLDERS' FUND</i>	2,138	1,878	1,738	1,580	1,519	1,269
<i>PROFIT BEFORE TAX</i>	5,926	2,797	2,675	2,256	1,831	1,589
<i>TAXATION</i>	1,720	813	883	709	618	541
<i>PROFIT AFTER TAX</i>	4,206	1,984	1,792	1,546	1,212	1,048
<i>EARNINGS PER SHARE (RS) Rs. 100 each</i>	97.78	51.61	56.60	51.55	40.41	34.93
<i>BONUS TO POLICY HOLDERS</i>	77,371	69,753	62,046	57,231	55,433	47,991
<i>TOTAL ASSETS</i>	1,203,383	1,058,836	930,231	829,462	74,9001	571,827