



**SPECIAL STUDY REPORT
ON
CONVERSION OF
POSTAL LIFE INSURANCE
INTO
POSTAL LIFE INSURANCE
COMPANY LIMITED
MINISTRY OF COMMUNICATIONS
AUDIT YEAR 2022-23**

AUDITOR-GENERAL OF PAKISTAN

Preface

Articles 169 and 170 of the Constitution of Islamic Republic of Pakistan, 1973, read with Section 10 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, require the Auditor-General of Pakistan, in so far as the accounts enable him so, to give to the federal, provincial and the district governments, as the case may be, such information and to undertake such studies and analysis as they may, from time to time, require. The Special Study on Conversion of Postal Life Insurance into Postal Life Insurance Company Limited was carried out accordingly.

Directorate General Audit, Postal and Telecommunication Services, Lahore conducted the Special Study on Conversion of Postal Life Insurance into Postal Life Insurance Company Limited during the Audit Year 2022-23 with a view to report significant findings to the relevant stakeholders. Audit assessed the reasons behind conversion of PLI into PLICL, implementation plan and business strategy and its implications, besides compliance by the management with applicable laws, rules, regulations and instructions. The audit findings included in the report have been finalized in the light of discussion with the management and DAC meeting.

The audit findings indicate the need for adherence to corporate business principles, besides instituting and strengthening internal controls in terms of business development and non-recurrence of irregularities of similar nature.

The Special Study Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before the Majlis-e-Shoora (Parliament).

Islamabad
Dated:

(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

Table of Contents

		Page
Abbreviations and Acronyms		i
Executive Summary		ii
Sections		
1.	Introduction	1
2.	Define Study	2
3.	Study Design	4
4.	Special Study Results and Recommendations	6
4.1	Compliance with legal framework, rules and procedure	6
4.2	Issues related to change management	15
4.3	Issues related to business operations and connectivity	21
4.4	Issues of financial and assets management	27
5.	Conclusion	41
6.	Acknowledgement	43
7.	Annexure	44

Abbreviations & Acronyms

AML	:	Anti-Money Laundering
APG	:	Asia Pacific Group
BoD	:	Board of Directors
CEO	:	Chief Executive Officer
CFO	:	Chief Financial Officer
CFT	:	Combating the Financing of Terrorism
CIA	:	Chief Investment Officer
CGR	:	Corporate Governance Rules
DAC	:	Departmental Accounts Committee
DG	:	Director General
ECC	:	Economic Coordination Committee
FATF	:	Financial Action Task Force
GM	:	General Manager
HR	:	Human Resource
IT	:	Information Technology
JDs	:	Job Descriptions
JMT	:	Joint Management Team
PLI	:	Postal Life Insurance
PLICL	:	Postal Life Insurance Company Limited
PPOD	:	Pakistan Post Office Department
RD	:	Regional Director
SECP	:	Securities and Exchange Commission of Pakistan
SOP	:	Standard Operating Procedure
TOR	:	Terms of Reference

Executive Summary

Directorate General Audit, Postal and Telecommunication Services, Lahore conducted the Special Study on Conversion of Postal Life Insurance into Postal Life Insurance Company Limited w.e.f 15th to 19th May, 2023. The study was conducted in the light of Terms of References approved by the office of the Auditor-General of Pakistan.

PPOD carried out the agency functions of the Postal Life Insurance till Financial Year 2019-20. In pursuance with Financial Action Task Force Asia Pacific Group's guidelines on anti-money laundering and combating terror financing, the Government of Pakistan decided to place Postal Life Insurance under the regulatory framework of SECP. Accordingly, a public limited company, namely, Postal Life Insurance Company Limited was incorporated with the SECP under the Companies Act, 2017 on 10th March, 2020. Subsequently, the Company was registered as a life insurer under the Insurance Ordinance, 2000 on 26th August, 2020. SECP issued commencement of business certificate to PLICL on 20th January, 2021. The portfolio was transferred to the Company on 2nd April, 2021. PLICL, being a company, is managed by a Board of Directors and falls under the administrative control of Ministry of Communication. Hierarchically, the Company is headed by a Chief Executive Officer who is assisted by two General Managers based at Lahore & Karachi. Moreover, it has three Regional Directorates located at Multan, Peshawar & Quetta.

Audit considered the conversion of PLI into PLICL as a significant matter; therefore, a special study was planned in the Audit Plan 2022-23 to assess the process of the conversion and efficiency and effectiveness of the transfer process, with a focus on ensuring transparency, accountability and adherence to regulatory requirements. The conversion of PLI into PLICL involves substantial implications for the insurance sector. The findings of this audit will provide valuable insights and recommendations based on significant audit findings for the oversight of the respective stakeholders.

Key Audit Findings

Key audit findings are highlighted as under:

- i. The Company prepared and submitted a ten years' business plan to SECP with a commitment to introduce four (04) new products; however, the company did not introduce any new product.
- ii. The Company did not prepare regulatory reports i.e. internal audit & annual reports and did not submit returns to SECP.
- iii. The services of a Consultant were hired to register and make PLICL operational but the Consultant did not achieve the deliverables in a timely manner.
- iv. The Company hired the services of Appointed Actuary and In-house Actuary but they did not fulfill their corporate responsibilities.
- v. The Company did not devise a prudent business plan to penetrate in the general public; therefore, overall business of PLICL declined.
- vi. The Company began to initiate business with 711 borrowed postal employees on deputation without actual requirement.
- vii. The Company did not resolve the issues of identification and transfer of assets from PPOD in the name of the Company.
- viii. The Company did not settle insurance claims, notwithstanding, allocation of Rs. 8,000 million by the Finance Division for payments. Further, the Company failed to maintain a robust financial system to ensure transparency and paid insurance claims without proper scrutiny and pre-audit.
- ix. The Company did not recover an amount of Rs. 1,407.965 million on account of premium collected by PPOD on its behalf.

Recommendations

- i. The Company needs to review its business plan, introduce new products and take corrective measures to align future strategies with achievable goals to ensure long-term growth and sustainability of the business.

- ii. The Company must prepare annual and internal audit reports for the current period ensuring compliance with reporting frameworks so as to provide adequate disclosure to gain stakeholders' confidence.
- iii. The Company must assess the impact of the incomplete deliverables on the overall process and determine the risks associated with the outstanding tasks.
- iv. The Company needs to review the Appointed Actuary's performance and take appropriate actions, including potential termination or seeking a replacement, to ensure the fulfillment of statutory responsibilities.
- v. The Company must identify and analyze carefully factors contributing to decline in the business, reassess its sales and marketing strategies and explore new market opportunities.
- vi. The Company must carry out a comprehensive cost-benefit analysis to evaluate financial implications of the staff retained in non-productive roles and return the un-necessary staff to PPOD.
- vii. The Company should resolve the issue of identification and transfer of assets with PPOD at the earliest.
- viii. The Company should review its financial planning processes to ensure realistic budget projections and settle claims of the insurers timely.
- ix. The Company must take proactive measures to address the issue of outstanding premium by strengthening collection process and implementing effective communication and follow-up strategies with clients.

1. Introduction

PPOD was operating Postal Life Insurance on behalf of the Ministry of Finance in the past on no-profit no-loss basis. The purported rationale behind the conversion of PLI into PLICL was that FATF of Asian Pacific Union placed Pakistan in the grey list in June, 2018. More than 40 recommendations were made by FATF, out of which 14 were related to PPOD. As financial services of PPOD were being performed manually, in order to comply with the requirements of FATF, the Government of Pakistan decided to place PLI under the regulatory framework of SECP. Resultantly, a company was registered in SECP as a life insurer under the Insurance Ordinance, 2000 on 26th August, 2020. The company started its business on 2nd April, 2021 with limited scope of life insurance coverage only.

PLICL is managed by the Board of Directors under the administrative control of Ministry of Communications and is headed by a Chief Executive Officer who is assisted by two General Managers based at Lahore & Karachi. It has also three Regional Directorates located at Multan, Peshawar & Quetta.

The main objectives of the Company as per clause 3(i)(a) of the Memorandum of Association are to:

- a. Carry out all kinds of insurance business relating to life insurance.
- b. Take over assets and liabilities including policy holders' liabilities determined as on the date of transfer in accordance with the insurance regulatory framework prescribed under the Insurance Ordinance, 2000, other relevant rules/regulations/directives/circulars/guidelines, contracts and undertakings of Postal Life Insurance under the vesting orders passed by the Federal Government.
- c. Carry on, in Pakistan and elsewhere, all kinds of family takaful businesses, whether existing now or hereafter to be devised, subject to such restrictions as imposed by the Insurance Ordinance, 2000.
- d. Transact the business of life insurance company including sale and purchase or re-purchase of annuities and reversionary interest, and life or other interests of uncertain duration or commencement, and

endowments for children, and sickness insurance, and all other business pertaining to or commonly transacted by life insurance companies.

Prior to conversion, the PLI operated without the oversight of any regulatory body. Following the conversion, the PLICL is subject to regulation by SECP and is engaged in the life insurance business in accordance with the Insurance Ordinance, 2000 and Insurance Rules, 2017 which encompass accounting procedures.

2. Define Study

2.1 Purpose of Study

Purpose of the study is to comprehensively evaluate the conversion process of the Pakistan Post Office Department's subsidiary, Postal Life Insurance (PLI), into a company named Postal Life Insurance Company Limited under the regulatory framework of the Securities and Exchange Commission of Pakistan (SECP), as mandated by the Financial Action Task Force (FATF) requirements. The study aims to assess the adequacy of planning, the anticipation of the company's needs for effective operation and the implementation strategy employed during the conversion. A particular focus has been placed on identifying issues related to leadership continuity and change management strategies, with attention to the human resources inherited from the old Pakistan Post Office Department. The study seeks to provide insights and recommendations for addressing shortcomings in the conversion process to ensure the seamless functioning of the newly formed Postal Life Insurance Company Limited. Broadly speaking, audit planned to conduct the special study to:

- i. Assess the background/rationale behind conversion.
- ii. See the legal framework, rules and procedures involved in the implementation process of the conversion.

- iii. Assess the change management process especially related to HR, organization, marketing and business continuity including transfer of assets and liabilities from PPOD.
- iv. Evaluate the development of SOPs for collection of premium and payment of claims, exploring new avenues of investment and management of assets and liabilities.
- v. Examine the commitments made by the Federal Government at the time of establishment of PLICL relating to transfer and proper utilization of funds allocated by Finance Division in accordance with rules and regulations:

2.2 Special Study Scope

The scope of the special study encompasses the transfer of the portfolio from Postal Life Insurance (PLI) to Postal Life Insurance Company Limited (PLICL), specifically focusing on the period from the date of PLICL's incorporation in the Securities and Exchange Commission of Pakistan (SECP) as a Limited Company, which is 10th March, 2020 to 30th June, 2022.

2.3 Beneficiary of Study

The special study report on the conversion of PLI into PLICL will offer significant benefits to various stakeholders. PLICL itself stands to gain valuable insights into the strengths and weaknesses of the conversion process, enabling the company to address any shortcomings and enhance its operational efficiency. Insurants, as direct beneficiaries, will benefit from a more seamless and well-managed insurance service. The Government of Pakistan will receive critical information to guide future policy decisions related to similar conversions and regulatory compliance. The general public will benefit from an improved and more stable insurance environment. Additionally, the study will provide essential insights for parliamentary oversight, facilitating informed discussions and decisions related to the regulatory and operational aspects of PLICL, contributing to a transparent and accountable governance framework in the insurance sector.

3. Study Design

3.1 Time Period

The special study was conducted in May, 2023, with the objective of obtaining sufficient and up-to-date results from data relevant to the transfer of the portfolio from Postal Life Insurance to Postal Life Insurance Company Limited.

3.2 Data Sampling

Data sampling involves selecting a subset of data from a larger dataset to represent the entire population, allowing for a more manageable and efficient analysis. In the given scenario, the study did not involve data sampling, therefore, the audit team opted to analyze the entire dataset related to the conversion, encompassing all relevant information from the period of PLICL's incorporation (10th March, 2020) to 30th June, 2022. Analyzing the complete dataset provides a comprehensive view of the conversion process without relying on a subset, allowing for a detailed examination of all relevant aspects of the transition from PLI to PLICL.

3.3 Methodology

The methodology for the special study on the conversion of Postal Life Insurance (PLI) into Postal Life Insurance Company Limited (PLICL) can be outlined as follows:

a. Data Collection:

- **Primary Data Source:** The audit team collected primary data directly from Postal Life Insurance Company Limited (PLICL) and the Postal Headquarters. This involved on-site visits to both locations for a firsthand understanding of operations and processes.
- **Document Review:** The team extensively reviewed a range of documents, including Minutes of Board of Directors meetings, SECP regulations, Insurance Ordinance 2002, departmental files, Standard Operating Procedures (SOPs), and rules & regulations. These documents

were crucial for understanding the legal and regulatory framework, decision-making processes, and operational guidelines.

b. Focus Areas for Document Consultation:

- **Transfer of Funds:** The study delved into the process of transferring funds amounting to Rs 48,000 million by the Finance Division, as documented in the promissory note.
- **Business Plan Preparation and Implementation:** The methodology included an examination of how the business plan was prepared and subsequently implemented by PLICL.
- **Conversion Process:** A comprehensive analysis was conducted on the process of converting PLI into PLICL, assessing the strategies and protocols employed during this transition.
- **Premium Collection and Claims Payment:** The study examined the procedures and effectiveness of the processes related to the collection of premiums and the payment of claims.
- **Policy Guidelines and HR Issues:** The implementation of policy guidelines issued by the Board of Directors (BoDs) and human resource (HR) issues were scrutinized to evaluate organizational adherence and effectiveness in managing human capital.
- **Regulatory Compliance:** The methodology focused on identifying and assessing regulatory compliance issues related to the conversion process.

c. Data Analysis:

The collected data were subjected to thorough analysis, evaluating the effectiveness, efficiency, and compliance of various processes and activities related to the conversion.

4. Special Study Results and Recommendations

4.1 Compliance with legal framework, rules and procedure

4.1.1 Non-discharging of responsibilities by the appointing actuary

As per Section 27 of the Insurance Ordinance, 2000, the Appointed Actuary had to perform an annual investigation into the financial condition of a life insurer, certifying that the terms and conditions of a type of policy issued by a life insurer are sound and workable; providing advice on the equitable apportionment of revenues and expenses; certifying premium rates at the time of introduction of a new product and change in these rates, and certifying annual mortality and other changes under investment contract.

Board of Directors in its 20th meeting held on 19.04.2021 approved the appointment of Mr. Hussain Feroz Ali as Appointed Actuary of the company on contract basis for one year with monthly remuneration of Rs 500,000 per month including group insurance scheme. An amount of Rs 9,411,761 was paid to him.

Audit observed that the Appointed Actuary did not perform its corporate responsibilities e.g. the annual investigation into the financial conditions of PLICL, advice on the equitable apportionment of revenues and expenses for the year 2022. Further, annual mortality, expenses and other changes under investment contract were not conducted. Moreover, neither pricing on group insurance business was carried out nor any new product was launched. This created uncertainties regarding the adequacy of reserves, premium rates, and equitable apportionment of revenues and expenses.

The matter was reported to the management and PAO during May, 2023. It was replied that the Appointed Actuary had performed its duties; however, the task related to annual regulatory returns was delayed due to late completion of annual financials and statutory audit by the company.

Audit did not agree to the reply as no documentary evidence was provided in support thereof. The reply was also deficient on the ground that the management did not speak about the non-performance of corporate responsibilities by the Appointed Actuary related to pricing of group insurance business, individual insurance business and launching of new product in the market was also not made by the actuary.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to get the job completed on urgent basis. Besides, performance from the appointment date of the Appointed Actuary be probed by the Company's CEO.

Audit recommends implementation of DAC directives.

(Item No. 14)

4.1.2 Non-reporting of disclaimer opinion to the Board

According to Rule 23(3) of Corporate Governance Rules, 2013, the external auditors shall independently report to the shareholders in accordance with statutory and professional requirements. They shall also report to the Board and Audit Committee the matters of audit interest as laid down in the International Standards on Auditing. The external auditors shall discuss any major findings in relation to the reports with the Audit Committee, which shall report matters of significance to the Board. Rule 7, *ibid*, further stipulates that the Board shall establish appropriate arrangements to ensure it has access to all relevant information, advice and resources necessary to enable to carry out its role effectively. Significant issues shall be placed before the Board for its information and consideration in order to formalize and strengthen the corporate decision making process.

PLICL in its 23rd Board of Directors' meeting held on 24th June, 2021 appointed M/s Ilyas Saeed & Co as statutory external auditor of the Company for the year ending on December 31, 2021. The external auditors audited the accounts of the Company for the given year and submitted the draft report by giving disclaimer opinion due to some significant reasons.

Audit observed that the management of PLICL did not present the disclaimer opinion given in the draft report before the BoDs for discussion and decision. Later on, M/s. Ilyas Saeed & Co submitted resignation without finalization of the accounts of the Company. The same was accepted by the Board in its 33rd meeting held on 20th October, 2022 without enquiring the matter or hearing the statutory auditor. The Board directed to take action against him but no action was taken by the management till date and cleared all his dues including audit fee amounting to Rs 2.140 million.

The matter was reported to the management and PAO during May, 2023. It was replied that disclaimer report of previous auditor was shared with new auditors, who went through all the observations, and based on satisfactory responses of the management, issued a clean audit report, which was approved by the Board on recommendations of the Audit Committee.

The reply was not tenable as some serious concerns were raised by M/s Illyas Saeed & Co about data completeness and accuracy, and the period of actuary valuation report which did not portray a true and fair picture of financial statement due to material misstatement. Further, receivables and liabilities were entered without actuary valuation, besides taking no action against M/s. Illyas Saeed as directed by the Board of Directors.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the CEO of the Company to inquire into the matter and share outcome with audit.

Audit recommends implementation of DAC directives.

(Item No. 21)

4.1.3 Inadequate formulation of HR Manual

According to Rule 5(7)(q) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall also formulate significant policies of the Public Sector Company, which include human resource policy including succession planning.

The PLICL Board of Directors in its 29th meeting held on 11th October, 2021 approved the HR Manual for the Company.

Audit examined the HR Manual and it revealed that the approved HR Manual was quite deficient and did not contain recruitment criteria of key positions, heads of departments, senior/deputy/assistant managers, sales department, minimum and maximum age limit of employment, promotion, acting & current charge policy, rules regarding gratuity fund, payment of leave encashment whether it was admissible on basis salary or gross salary and organization chart.

The matter was reported to the management and PAO during May, 2023. It was replied that the observation raised by audit would be addressed in HR Committee of the PLICL and recommendations of the Committee would also be placed before the BoDs for consideration and approval.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to place the recommendations of HR Committee before the Board of Directors for approval within two weeks under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 3)

4.1.4 Non-preparation of Business Operational Manual

According to Section 12(a) of the Insurance Ordinance, 2000, business of the insurer is carried on with integrity, due care and the professional skills appropriate to the nature and scale of its activities.

PLICL, being a corporate body, was under obligations to formulate Business Operation Manual (Operational manual, claim manual, underwriting manual, agency manual etc) to perform its business activities accordingly.

Audit observed that PLICL did not formulate Business Operation Manual in violation of the Insurance Ordinance, 2000. Further, SECP vide its

letter dated 28th March, 2022 allowed relaxation in this clause till 30th June, 2022, even then the Company failed to formulate the Manual and the timeline expired. The absence of Business Operation Manual indicates lack of due diligence in fulfilling regulatory requirements.

The matter was reported to the management and PAO during May, 2023. It was replied that PPOD had appointed M/s Sidat Hyder Murshad Associates as Consultant for registration, operation of PLICL and preparation of policies/business manuals. PPOD stopped making payment to the Consultant due to which he discontinued rendering any kind of services to PLICL as mentioned in the agreement.

The reply was not tenable. After conversion, it was the responsibility of the Company to complete the regulatory requirement.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to resolve the issue of payment of Consultant, prepare Business Operation Manual and get it approved from Board of Directors under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 31)

4.1.5 Non-completion of deliverables by Consultant

According to Rule 4 (3) of Corporate Governance Rules 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

PPOD had appointed M/s. Sidat Hayder Murshid Associates as a Consultant for registration and operation of PLICL on 12th May, 2020.

Audit observed that PLICL failed to enforce the contract clauses as the Consultant did not complete the deliverables of developing I.T strategy and implementation plan, digitization of old policyholders files, trainings need assessment and formulation of SOPs for functional departments etc till finalization of this report.

The matter was reported to the management and PAO during May, 2023. It was replied that PPOD stopped making payment to the Consultant on the plea that PLICL would make payment as he was hired for the purpose of registration and operation of PLICL. Since the agreement was made by the Pakistan Post Office, therefore, PLICL could not make payment to the Consultant on legal grounds due to which he did not provide any kind of services.

The reply was not tenable as no penalty clause was added in the agreement which could ensure completion of the task. Besides, after conversion it was the responsibility of PLICL to enforce the contract.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to transfer the agreement made by PPOD with the Consultant to PLICL. It further directed the Board Audit Committee to resolve the issue of payment to the Consultant at the earliest and share its outcome with audit.

Audit recommends the compliance of the DAC directives. Audit also suggests that PLICL may assess the impact of the incomplete deliverables on the overall process, determine the risks associated with the outstanding tasks, consider the potential consequences and address these issues promptly.

(Item No. 01)

4.1.6 Non-preparation of Internal Audit Report

According to Rule 22(1&3) of Corporate Governance Rules, 2013, there shall be an internal audit function in every Public Sector Company. The Chief Internal Auditor, who is head of the internal audit function in the Public Sector Company, shall be accountable to the Audit Committee and have unrestricted access to the audit committee. Further, every Public Sector

Company shall ensure that internal audit reports are provided for the review of external auditors. The external auditors shall discuss any major findings in relation to the reports with the Audit Committee, which shall report matters of significance to the Board.

PLICL, being a corporate entity, was required under the Corporate Rules to conduct internal audit and prepare Internal Audit Report for submission to the BOD through Audit Committee.

Audit noticed that PLICL did not conduct internal audit and did not prepare Internal Audit Report since its conversion despite the fact that SECP imposed fine of Rs 30,000 on the Company, which reflects weakness of the internal controls and non-adherence to regulatory requirements.

The matter was reported to the management and PAO during May, 2023. It was replied that during the year 2021, the company had appointed the head of internal audit without supporting staff who was mainly involved in transitional issues related to transfer of legacy portfolio, review of different policies, interim procedures, review of quarterly management accounts and pre-audit of certain transactions. Further, in January 2023, the head of internal audit left the company and the internal audit department became ineffective. The company advertised the position of head of internal audit, managerial & support staff and short-listing of the candidates was under process.

Audit did not agree to the reply. Due to lack of due diligence and weak internal controls, the Company failed to conduct internal audit, upon which the Company was fined of Rs 30,000 by SECP.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to complete the hiring of staff in all departments, besides preparation of internal audit report immediately in compliance with SECP requirements.

Audit recommends implementation of DAC directives.

(Item No. 4)

4.1.7 Non-preparation of Annual Report

According to Rule 17 (1) of Corporate Governance Rules, 2013, the Board shall submit an annual report to the shareholders.

PLICL, being a corporate entity, was required under the Corporate Rules to prepare Annual Report for submission to the BOD and information of the stakeholders.

Audit observed that PLICL did not prepare its annual report for the FY 2021-22 and deprived the Board of Directors to make informed decision and the stakeholders to know about the true picture of the Company. Moreover, non-availability of annual report raises doubt about the transparency, accuracy and completeness of the accounts and financial health of the Company.

The matter was reported to the management and PAO during May, 2023. It was replied that annual financial statements and annual report of PLICL were same and contained identical information which was highlighted by the auditors in their study report. PLICL had already prepared the annual financial statements including the statement of compliance with the code of corporate governance and the directors' report to shareholders.

The reply was not valid as annual financial statements could not be a substitute of annual report of the Company. The annual report of the Company contains information upon which performance of the Company can be evaluated with reference to the set key performance indicators, whereas annual accounts provides information about financial position of the company along with auditors' opinion on the accounts. Besides, future prospects of Company are also laid down in the annual report.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to provide copy of the annual report to audit for verification.

Audit recommends implementation of DAC directives.

(Item No. 7)

4.1.8 Non-compliance of regulatory requirements

According to Section 12(C) of the Insurance Ordinance, 2000, the insurer should maintain adequate system of control of its business and record.

PLICL, being a corporate entity, was also required under the Insurance Ordinance, 2000 to maintain adequate system of control of its business and record, which included signed financial statements along-with auditor's report and Director's report, signed statement of compliance with the Code of Corporate Governance for Insurers, 2016 and Corporate Governance Rules, 2013 along-with auditor's report, signed financial condition report and statement of Appointed Actuary under section 52(2) (A&B) etc.

Audit observed that the Company did not submit regulatory returns to SECP as on 31st December, 2022. The Company also failed to implement compliance programme in violation of regulation 27 AML/CFT Regulations, 2020. Though Compliance Department was established but compliance reports were not available in the record of the Company.

The matter was reported to the management and PAO during May, 2023. It was replied that interim review for the six months period ended on 30th June, 2022 had been completed by the external auditors. The annual audit of the regulatory returns for the year, 2022 would be submitted to SECP shortly. Besides, the Compliance Department had established compliance program of AML/CFT framework in the light of SECP regulations within the company.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to complete the process upto August, 2023 and get it verified to audit.

Audit recommends implementation of DAC directives.

(Item No. 30)

4.2 Issues related to change management

4.2.1 Un-necessary borrowing of PPOD employees on deputation

According to Rule 2A(c) of Corporate Governance Rules, 2013, a public sector company is managed by a sufficient number of persons who are fit to hold the positions which they hold.

PLICL under the Ministry of Communications, Islamabad hired the services of 711 postal employees (BPS 01 to 16) on deputation basis with effect from 1st July, 2021. Details given in the annexure A.

Audit observed that services of these employees were obtained without assessing the actual requirement of the organization. The record transpired that they were not engaged in selling insurance policies. It was also evident from BoD meeting held on 29th June, 2021 wherein it was decided that services of 108 postal employees were not required in PLICL on deputation.

Audit contends that the Company incurred expenditure of Rs 941.266 million on their pay and other perks but they did not add value or contribute to the efficient functioning of the organization.

The matter was reported to the management and PAO during May, 2023. It was replied that the strategic alliance agreement was signed between PPOD and PLICL in July, 2021. As per agreement, PPOD was under obligation to support and facilitate PLICL during transition phase for efficient operation of the Company which included deputation of employees. Therefore, more than 700 postal staff was taken on deputation.

Audit did not agree to the reply. The deputationist did not contribute to the Company; rather proved a financial burden for the Company. Besides, PLICL failed to deliver the prime objective of hiring and training the staff for capacity building.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to review its actual requirement of staff hired on deputation from PPOD and retain the required staff only under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 16 & 29)

4.2.2 Irregular appointment of Chief Executive Officer

According to the eligibility criteria given in the advertisement floated in the print media, (i) The candidate must have minimum twenty (20) years experience, out of which ten (10) years must be a senior management level in the technical department of insurance or re-insurance company. (ii) The candidate must have spent 5 years as a key officer in a leadership role in the insurance industry as defined in Insurance Companies and Prudent Management Regulation, 2012.

PLICL under the Ministry of Communications appointed Mr. Muhammad Naeem Akhtar as CEO of the PLICL on 15th December, 2020. An expenditure of Rs. 24.110 million (Rs 1,095,910*22 months) was incurred on his pay & allowance during the tenure of twenty two (22) months.

Audit examined the appointment documents and observed that:

- i. The incumbent never worked at senior management level of technical department of any insurance or re-insurance company. He only served in the sales department of the regional offices of Zurich and Aviv without any involvement in the insurance operations.
- ii. He ran two insurance brokerage businesses in the UAE as CEO for eight (8) years before his appointment as CEO of PLICL. The insurance brokerage business is completely different from the insurance company management and operations.

The matter was reported to the management and PAO during May, 2023. It was replied that the Chief Executive was appointed by PPOD; therefore, comments might be sought there from.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed PPOD and PLICL to provide detailed reply in the light of the audit observations.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility.

(Item No. 26)

4.2.3 Illegal appointment of Manager Actuarial and payment

According to Rule 5(5)(C)(ii) of the Corporate Governance Rules 2013, the Board shall ensure equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of services.

PLICL under the Ministry of Communications advertised the post of Manager Actuarial with salary bracket of Rs 150,000 to Rs 200,000. The Manager Actuarial was required to develop new products, prepare group life for group life business, implement International Financial Reporting Standards-17 and perform actuarial valuation of the Company.

PLICL appointed Mr. Ajaz Hussain as Senior Manager Actuarial on 24th October, 2021 at a monthly salary of Rs 330,000. An expenditure of Rs 5,940,000 (Rs 330,000 per month *18 months) was incurred on his pay and allowances during eighteen (18) months since his appointment. The incumbent failed to achieve the assigned milestones as per his job description.

Audit contends that PLICL made an illegal appointment of the Senior Manager Actuarial due to weak organizational management and internal controls which has significant implications for the Company's financial health, regulatory compliance and actuarial functions.

The matter was reported to the management and PAO during May, 2023. It was replied that the Company was looking for an actuarial resource who could better supervise the actuarial related matters of the Company. After going through the selection process and conducting interviews, the Company's management found him to be the best suitable candidate. During negotiations of the pay, he demanded higher salary; therefore, the case was referred to the Board for consideration and approval. The Board advised to re-designate the position as Senior Manager Actuarial. Further, he performed actuarial responsibilities in addition to other tasks as assigned by the management from time to time. He developed new products, prepared group life for group life business, implement IFRS and conducted actuarial valuation of the company.

The reply is not acceptable. The position of Senior Manager was neither advertised nor was available as sanctioned post. Besides, many tasks like pricing of group and individual insurance businesses and launching of new product in the market were not performed by the incumbent.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the PLICL to fix responsibility against those held responsible for making illegal appointment of the Senior Manager Actuarial instead of Manager Actuarial. It further directed the management to explain the work performed by the in-house actuary along with data and expedite the process for launching of new products in the market under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 34 & 36)

4.2.4 Irregular payment of leave encashment –Rs 3.539 million

According to Para 20.2(b) of the HR Manual, any outstanding annual leave balance will be en-cashed at the end of the year.

PLICL under the Ministry of Communications paid an amount of Rs 2.651 million as leave encashment to postal employees working on deputation in PLICL on their retirement during FY 2021-22.

Audit observed that PLICL paid irregular leave encashment without the approval of BOD and provision for leave encashment in the HR Manual. The Company also paid an amount of Rs 0.888 million as leave encashment to the employees posted at headquarters on gross salary instead of basic salary without having any provision in the HR manual.

Audit contends that an irregular payment of Rs 3.539 million (Rs 2.651 million + Rs 0.888 million) was made on account of leave encashment due to weak financial discipline and internal controls.

The matter was reported to the management and PAO during May, 2023. It was replied that S. No. 8.9, Chapter 3 of the ESTACODE allows PLICL, being a borrowing organization, to pay encashment in lieu of leave preparatory to retirement to the staff working on deputation. Further, HR Manual did not contain provision that the leave encashment would be paid on basic salary; therefore, the issue would be placed before the HR Committee for necessary amendments.

The reply is not tenable as there was no provision in the HR Manual of the Company to pay leave encashment on retirement to deputationist and Company's employees on gross pay.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed PLICL to approve policy of payment of leave encashment to deputationists from the Board of Directors. The DAC further directed to recover the overpaid amount as pointed out by audit and get it verified from audit.

Audit recommends implementation of DAC directives.

(Item No. 27 & 35)

4.2.5 Irregular gratuity payments - Rs 1.725 million

According to Rule 5(7)(q) of the Corporate Governance Rules, 2013, the Board shall formulate significant policies of the Public Sector Company which includes human resource policy including succession planning.

PLICL under the Ministry of Communications paid an amount of Rs 1.725 million to its employees on account of gratuity.

Audit observed that gratuity payments were made without establishment of trust for gratuity fund. Audit also noticed that no rules for gratuity fund were formulated despite lapse of considerable period.

Audit contends that payment of gratuity without gratuity funds reflects weakness of the financial discipline.

The matter was reported to the management and PAO during May, 2023. It was replied that the matter would be presented before the BoD for establishment of trust for Gratuity Fund.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to take up the case with Board of Directors for establishment of a trust for Gratuity Fund.

Audit recommends implementation of DAC directives.

(Item No. 28)

4.2.6 Non-hiring of staff against key positions

According to Rule 5 (7) (q) of the Corporate Governance Rules, 2013, the Board shall formulate significant policies of the Public Sector Company which includes human resource policy including succession planning.

The Board of Directors, in its meetings held on different dates during 2021 approved seventy (70) positions for employment at PLICL's headquarters, Islamabad.

Audit observed that PLICL filled in only twenty three (23) positions; thereby leaving forty seven (47) seats vacant including the key seats of the CEO, Head of Internal Audit, Chief Investment Officer, Head of HR, and various positions in the Internal Audit Wing, Finance, IT, Sales and Marketing Departments.

Audit contends that due to weak organizational management key positions were left unfilled which have significant impacts on the operational and business activities of the Company.

The matter was reported to the management and PAO during May, 2023. It was replied that the Company had already advertised vacant positions in the national newspapers. The positions of key officers such as CEO, Head of Internal Audit, Chief Investment Officer, Head of HR, Head of Operations, and various other key positions were shortlisted and would be finalized shortly.

The management accepted the audit contention; however, PLICL failed to fill in the key positions despite lapse of more than two years. All the operations of the Company were being run on ad-hoc basis.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to submit revised reply with reasons for non-hiring of the staff. It further directed to complete the process within 15 days under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 22)

4.3. Issues related to business operations and connectivity

4.3.1 Declining trend in business

According to Rule 4(3) of Public Sector Corporate Governance Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Before transfer of the portfolio and incorporation of PLI as public limited company, PLI sold 14,216 fresh policies and received a total fresh premium of Rs 536.219 million, demonstrating a healthy financial performance during FY 2019-20.

Audit observed that, in the ensuing years, after transfer of portfolio to PLICL, there was a substantial decline in business, with only 844 and 807 fresh policies were sold in FY 2020-21 and FY 2021-22 respectively. The premiums received was also decreased significantly as PLICL had received premiums of Rs 32.565 million and Rs 34.515 million during FY 2020-21 and FY 2021-22 respectively.

Audit contends that the business of the Company considerably declined both in the forms of fresh policies sold and the premiums received after its conversion due to weak financial discipline, weak internal controls and lack of leadership to make prudent decisions and put the Company on the right track.

The matter was reported to the management and PAO during May, 2023. It was replied that the Company was facing shortage of staff in its field offices. Out of total forty two (42) seats of Assistant Directors, twenty six (26) positions were vacant. Further, out of eighty four (84) seats of Assistant Superintendents, thirty six (36) were vacant. Non-settlement of honorarium / renewal commission cases also contributed towards decline in business.

The management accepted the audit contention; however, it is imperative to mention here that the business of the company declined due to failure of the management to establish high level distribution channel as stated in the business plan, coupled with non-filling of the key positions and lack of motivation among the employees. The Company had hired the services of more than 700 employees from PPOD on deputation basis but it could not issue NOC to these employees to carry out business, due to which the business went down by 96% after transfer of the portfolio. Further, services of two Regional Sales Managers at North and South were hired but they failed to make the marketing department operational.

The matter was Audit recommends implementation of DAC directives. discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to share the steps taken for improvement of the business with audit. The DAC further directed to resolve the issue of payment of honorarium / renewal commission at the earliest under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 11)

4.3.2 Non-launching of new products

As per Section 5.6 of the Business Plan, the PLICL management committed to introduce four new products, viz, Term Assurance Plan, Individual Health Plan, Group Credit Life, and Group Health for Group Life, including their riders.

PLICL under the Ministry of Communications prepared a ten year business plan and submitted to SECP for approval. The SECP approved the business plan accordingly on 26th August, 2020.

Audit observed that the Company failed to introduce/launch new products as approved in the Business Plan. Audit contends that non-launching of the proposed products outlined in the business plan had significant implications for PLICL's business operations and financial performance which limited its revenue growth potential.

The matter was reported to the management and PAO during May, 2023. It was replied that the Company's prime focus was to streamline its internal process, enhance IT capacity and fill the vacant positions which were necessary for launching of new products.

The reply is not tenable as the portfolio was transferred in April, 2021, but after lapse of more than two years the Company failed to fill in the vacant positions, develop PLICL specific software for authenticity/accuracy of data,

design and develop new products despite hiring the services of Appointed Actuary and In-house Actuary.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to share the latest progress in launching new products with audit.

Audit recommends implementation of DAC directives.

(Item No. 15)

4.3.3 Decline in Group Insurance Business

According to Rule 4(3) of Public Sector Corporate Governance Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Before the portfolio transfer, PLI demonstrated a consistent growth trajectory in group insurance business premium. In 2017-18, the premium income stood at Rs 1,736 million, followed by Rs 1,759 million in 2018-19, and further increased to Rs 1,934 million in 2019-20. This indicated a positive performance, reflecting the organization's ability to attract and retain group insurance clients.

Audit observed that following the portfolio transfer to PLICL, there was a significant decline in the group insurance business premium. In 2020-21, the premium income dropped to Rs 615 million, indicating a substantial decrease compared to the previous year. This decline continued in subsequent years, with premium incomes of Rs 178 million and Rs 54 million in FY 2021-22 and FY 2022-23 respectively.

Audit contends that this downward trend in securing group insurance business highlighted a notable underperformance and raised concerns about PLICL's ability to sustain and grow this segment.

The matter was reported to the management and PAO during May, 2023. It was replied that after the portfolio transfer, payment of all sorts of claims were discontinued from April, 2021 to January, 2022 by the Finance Division, which proved fatal for the group insurance business as most of their valuable clients got dissatisfied with the slow pace of payments and refused to renew their contracts with PLICL.

The reply is not satisfactory. The Finance Division did not discontinue the payment of claims, rather imposed ban to draw and deposit the amount in Account No. 1 (Non-food). Further, Finance Division allocated significant amount of Rs 8000 million for payment of insurance claims for the year 2021-22 but PLICL failed to utilize those funds effectively and an amount of Rs 4900 million was surrendered to the Finance Division.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to improve the group insurance business. It further directed to take up the case with the Finance Division for allocation of funds committed in the promissory note for clearance of pending liabilities, besides enhancing the capacity of dealing with claims.

Audit recommends implementation of DAC directives.

(Item No. 6)

4.3.4 Non-achievement of business targets

According to Rule 4(3) of Public Sector Corporate Governance Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure

that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

PLICL under the Ministry of Communications, Islamabad prepared a ten-year business plan and submitted to SECP for approval. SECP approved the plan accordingly. As per Section 11.4.5 of the business plan, the management projected to procure 45,000 fresh policies during 2021 & 2022 as detailed in table-A. Further, as per Section 6.1 of the business plan, PLICL was required to implement a high level distribution channel and an effective sales structure. PLICL management fixed targets for the regional offices of Multan, Karachi and Lahore for 2021 & 2021 as shown in table-B.

Table-A

Year	Target	Achieved	Shortfall	Percentage of shortfall
2021	21000	844	20156	95.98%
2022	24000	807	23193	96.63%
Total	45000	1651	43349	96.33%

Table-B

Circle/ Region	(Rs in Million)			
	Target fixed	Target achieved	Shortfall	Percentage of shortfall
RD PLICL Multan	149.501	3.541	145.96	97.63%
GM PLICL Karachi	85.256	9.808	75.45	88.50%
GM PLICL Lahore	244.800	33.467	211.33	86.33%

Audit observed that neither the Company accomplished the targets of procuring fresh policies nor the regional offices achieved the sales targets. The Company also hired the services of two (2) Sales Managers at Lahore and Karachi and also enrolled field agents to carry out the business but failed to achieve the annual targets.

Audit contends that the Company failed to achieve the annual targets of sales and fresh policies due to ineffective sales structure and marketing which have notable implications for the Company's financial performance, market competitiveness and strategic planning.

The matter was reported to the management and PAO during May, 2023. It was replied that all the staffs working in PLICL on deputation were government employees who did not procure new business without prior approval/NOC from their parent department. Besides, non-payment of honorarium and renewal commission to agents resulted in resentment of the public and staff of PLICL which greatly affected the performance of the Company. Moreover, shortage of field staff and increase in number of claims due to delay in settlement of claims also undermined the business performance of the Company.

The reply is not plausible. The Company failed to adopt a well thought business and marketing strategy along with efficient sales structure to achieve the business targets. Besides, the Company did not enrol the employees as field agents due to non-obtaining of NOC from PPOD.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to improve sales structure and marketing strategy and share the steps taken for improvement of business with audit.

Audit recommends implementation of DAC directives.

(Items No. 13&19)

4.4 Issues of financial and assets management

4.4.1 Unsettled Insurance Claims 7,990 million

According to Section 118(1)(2) of Insurance Ordinance, 2000, all claims are required to be sanctioned and paid to the insurant within ninety (90) days. Further, the insurer shall, if he fails to make the payment within a period of ninety days from the date on which the payment becomes due or the date on which the claimant complies with the requirements, whichever is later, pay as liquidated damages a sum shall be calculated at monthly rests at the rate five per cent higher than the prevailing base rate.

After the portfolio transfer to PLICL the quantum of insurance claims of the insurers went up substantially from 14,373 in FY 2019-20 to 47,357 in FY 2020-21.

Audit observed that the Company settled only 9,658 claims in FY 2020-21; leaving a significant number of 37,548 claims worth Rs 7,989.888 million unsettled.

Audit contends that non-settlement of insurance claims within reasonable time frame caused inconvenience and dissatisfaction among the policy holders.

The matter was reported to the management and PAO during May, 2023. It was replied that, in June 2021, cheques of the insurance claims were prepared for issuance which could not be issued due to implementation of revised procedure under FATF regulations approved by SECP. Accordingly, the Finance Division stopped payment of insurance claims with effect from 01.01.2021 to 25.11.2021. However, more than thirty thousand (30,000) claims settled by PLICL since its inception.

The reply is invalid. The AML/CFT Regulations, 2020 required only proof of income of the policyholders rather than imposition of bar on payment of insurance claims. Besides, the Finance Division did not stop payment of insurance claims but imposed ban on withdrawal of amount from Account No. 1 (Non-food). Non-settlement of the insurance claims surged due to lack of claims management and centralization of payments at PLICL's headquarters.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to conduct a comprehensive review of its claims settlement process and reconcile the figures of unsettled claims with Circles/Regions. It further directed to settle the claims immediately under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 8)

4.4.2 Irregular investment of funds – Rs 7,884 million

According to Para 6 of the Finance Division OM No F.4(1)/2002-BR-11 dated 02.07.2003, before making any investment under this policy, it would be necessary for public sector entities to set up in-house professional treasury management functions. Specifically, they would need to have an Investment Committee (IC) with defined investment approval authority. Transactions above the approval authority of the IC will be subject to approval of the Board of Directors or an equivalent forum. The IC should be assisted by an Investment Management Unit employing qualified staff with at least 3-5 years of experience of managing investment in debt/equity instruments. However, it will be necessary for public sector enterprises to use the services of professional Fund Managers approved by SECP. Further, according to Para 3.10 (Treasury Operations) of the Accounting Policies and Procurement Manual, the investment of surplus funds will be made with the approval of BoD.

PLICL under the Ministry of Communications, Islamabad made short term investments in the shape of three month's treasury bills worth Rs 7,883,541,152 during 9th February to 4th May 2023.

Audit revealed that the investment was made without the approval of the Board of Directors and professional Fund Manager approved by SECP as the Chief Investment Officer had left the organization on 10th December, 2022.

The matter was reported to the management and PAO during May, 2023. It was replied that the investment in treasury bills was made with the approval of the Board of Directors and the Chief Finance Officer who was holding the charge of the post of Chief Investment Officer.

The reply is not valid. The investments were made with the approval of the Management Investment Committee instead of the Board Investment Committee and in the absence of the Fund Manager approved by the SECP.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to provide the copy of investment policy approved by the Board of Directors to audit for scrutiny.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility besides regularization of the investment from the competent forum.

(Item No. 24)

4.4.3 Non-utilization of funds released for insurance claims - Rs 4,900 million

According to Rule 4(3) of Public Sector Corporate Governance, Rules 2013, the Chief Executive Officer is responsible for the implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

The Finance Division allocated and released a substantial amount of Rs 8000 million to PLICL during FY 2021-22 for payment of insurance claims.

Audit observed that PLICL disbursed only Rs 3,100 million to the insurance claimants and surrendered an amount of Rs 4,900 million to the Finance Division.

Audit contends that non-settlement of the insurance claims despite availability of huge funds reflects weakness of the financial discipline and claims management which can erode the trust and confidence of the policy holders and can potentially affect the business of the PLICL.

The matter was reported to the management and PAO during May, 2023. It was replied that the Company focused for payment of insurance claims during the FY 2021-22 and paid about 8000 claims amounting to Rs 2,416 million, whereas an amount of Rs 4,900 million was timely surrendered to the Finance Division. The management has accepted the audit contention.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to streamline the system of claims payment and review its financial planning process to ensure that budgetary allocations for claims settlements are properly utilized under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 5)

4.4.4 Unauthentic payment of insurance claims - Rs 4,715.318 million

Section 12 of Insurance Ordinance, 2000 prescribes that, the business of insurer is carried on with integrity, due care, professional skills appropriate to the nature and scale of its activities. The insurer maintains adequate accounting, other records of its business and system of controls of its business.

PLICL under the Ministry of Communications, Islamabad paid 24,290 insurance claims amounting to Rs 4,715.318 million for the period starting from January to December, 2022.

Audit examined the record of the insurance claims and observed that:

- i. The insurance payments were made without pre-audit by the Internal Audit Wing at PLICL's HQ which was evident from the double cheques issued to many insurants.
- ii. Approval of the approving authority and audit clearance certificates were not available in some cases.
- iii. The counterfoils of the cheque books were blank and it could not be authenticated as to whom the cheques were issued.

Audit contends that the company did not devise a robust and transparent system of insurance claims which may lead to the payment of inaccurate or fraudulent claims.

The matter was reported to the management and PAO during May, 2023. It was replied that PLICL approved claims payment procedure which included efficient controls. All claims were paid as per approved standard operating procedures.

Audit did not agree with the reply. The Company paid the insurance claims without exercise of the pre-audit functions by the Internal Audit of the Company.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to share the detail of authority that approved the payment procedures with audit. The DAC further directed to submit revised reply showing the details payments.

Audit recommends implementation of DAC directives/strengthening the pre-audit functions.

(Item No. 25)

4.4.5 Non-receipt of premium from PPOD –Rs 973.562 million

PLICL and PPOD under the Ministry of Communications, Islamabad entered into a service agreement on 8th October, 2021 for collection of premium from policy holders. It was agreed that the collected amount of premium would be transferred in the PLICL account on next Monday.

PPOD collected an amount of Rs 1944.835 million in December, 2022 out of which an amount of Rs 971.273 million was transferred to PLICL.

Audit observed that PPOD did not transfer the amount of premium of Rs 973.562 million to PLICL till finalization of the audit report.

Audit contends that PLICL failed to realize the premium from PPOD due to weak receivable management as no penalty clause was incorporated in the agreement for delay or non-transfer of premium amount into PLICL account.

The matter was reported to the management and PAO during May, 2023. It was replied that PPOD had intimated that an amount of Rs 862 million was due which would be transferred to PLICL on receipt of funds from Finance Division.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to reconcile the figures with PPOD, recover the amount and get it verified from audit.

Audit recommends implementation of DAC directives.

(Item No. 23)

4.4.6 Non-transfer of assets from PPOD

Clause 2.4 of the agreement signed between PPOD and PLICL requires that both the parties will set up a Joint Management Team (JMT) with equal representation of each party. JMT shall resolve any issues / problems arising out of actual execution. It will serve as an instrument/ forum to resolve conflicts through consensus and to deliberate and finalize new product services and other matters.

PLICL and PPOD signed a strategic alliance agreement for the use of physical assets, manpower resources and any other facilities as may be required by the Company during the transition phase. The erstwhile Postal Life Insurance possessed huge physical, human and financial resources which were required to be transferred to the newly incorporated Company.

Audit observed that PLICL did not transfer assets from PPOD despite lapse of considerable period and holding of frequent meetings by the Joint Management Team.

Audit contends that due to laxity on the part of the Company's management, the assets of PLICL are not transferred from PPOD which have considerable impacts on the physical health and financial performance of the Company.

The matter was reported to the management and PAO during May, 2023. It was replied that the matter was under discussion by Joint Management Team and efforts were underway to resolve the issue at the earliest.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to resolve the issue of transfer of assets from PPOD within two months under intimation to audit.

Audit recommends implementation of DAC directives.

(Item No. 32)

4.4.7 Non-realization of group insurance premium –Rs 437.404 million

According to para 4.7 (d) of agreement executed between PLICL and Pakistan Railways (PR), premium shall be payable by PR to PLI on two months /quarterly/annually basis in advance. However, if premium by PR to PLI is not paid within the period mentioned above, then insurance cover will be lapsed and PLI shall not be liable for the same.

PLICL under the Ministry of Communications, Islamabad had a liability of Rs 437.404 million on account of group insurance premium against seven (7) clients as on 30th June, 2022.

Audit observed that the Company did not realize the group insurance premium from the clients despite lapse of considerable time.

Audit contends that due to weak receivable management PLICL could not realize the group insurance premium which has notable implications for the financial position of the Company to settle the claims and maintain adequate reserves for the sustainability of the Insurance Company.

The matter was reported to the management and PAO during May, 2023. It was replied that some amount had been recovered and efforts were underway to recover the remaining amount of premium from the clients. The management accepted the audit contention.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to verify the recovered amount from audit and make efforts to recover the remaining amount at the earliest.

Audit recommends implementation of DAC directives.

(Item No. 17)

4.4.8 Non-transparent procurement of IT equipment –Rs 28.547 million

According to Rule 5(5)(C)(iii) of the Corporate Governance Rules, 2013, the Board shall ensure compliance with the law and the public sector company's internal rules and procedures relating to public procurement, tender regulation, purchasing and technical standards when dealing with suppliers of goods and services. The Board shall ensure that quality and standards are followed with due diligence and that suppliers comply with the standards specified and are paid for supplies or services within the time agreed. Further, according to Para 3.5 (procurement of goods & services) of delegation of powers and authorities Chief Executive Officer was competent to accept quotation for local purchase of stores and equipment upto Rs 0.5 million. Beyond the limit of Rs 0.5 million approval of the Board is necessary.

PLICL under the Ministry of Communications, Islamabad procured ninety eight (98) desktops, twenty (20) laptops, printers and antivirus at a cost of Rs 28,546,550 from M/s. Mega Plus during 2021-22.

Audit observed that the procurement was made without the prior approval of the Procurement Committee of the Board of Directors. The technical evaluation of laptops, printers and antivirus system was made on 16th March, 2022 instead of 11th March, 2022. Further, the laptops were procured from M/s Mega Plus, the 2nd lowest bidder who had offered the rate of Rs 179,550 per laptop instead of M/s Carborn8 (Pvt.) Limited, the 1st lowest bidder with the cost of Rs 151,000; thereby causing a loss of Rs 560,000 to the Company. Moreover, the vendor did not supply the printers but due to non-inclusion of penalty clause in the agreement, no action could be taken against the vendor.

Audit contends that the Company made non-transparent procurement of the IT equipment in total disregard to Corporate Governance Rules. The Company also failed to safeguard the Company's interest due to weak contract

management and sustained loss in the transaction.

The matter was reported to the management and PAO during May, 2023. It was replied that the procurement was made in compliance with PPR Rules, 2004. The internal procurement committee had reviewed and approved the said procurement. As per RFP, the bidding process was based on a single stage two envelopes. Accordingly, the technical proposals were opened on 11.03.2022 and signed on 16.03.2022 by the technical evaluation committee.

The reply is not tenable. The procurement was approved by the Internal Procurement Committee instead of Board Procurement Committee. Evidence in support of opening the technical proposal on 11.03.2022 could not be provided. The laptops were purchased from the 2nd lowest bidder, besides non-delivery of the printers by the supplier.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to conduct detailed inquiry and share the outcome with audit.

Audit recommends implementation of DAC directives.

(Item No. 9)

4.4.9 Irregular award of service contract-Rs 20.334 million and over payment of –Rs 0.352 million

According to Para 3.5 (Procurement of Goods & Services) of delegation of powers and authorities General Manager was competent to accept quotation for local purchase of stores and equipment upto Rs 0.1 million. Beyond the limit of Rs 0.5 million approval of the Board is necessary. Further, as per clause 10 of the agreement, the increase will be applicable upto 10% per year.

PLICL under the Ministry of Communications, Islamabad executed a service contract with M/s Carbon8 Pvt. Limited with a cost of Rs 20.334 million for maintenance, up-gradation, modification and support for postal life insurance system on 2nd August, 2021.

Audit observed that the service contract was made without the prior approval of the Board of Directors of the Company. Audit also revealed that the service provider was allowed increase @ of 15% instead of the permissible limit of 10% with effect from 2nd April, 2022 to 30th November, 2022 which resulted into a loss of Rs. 0.352 million.

The matter was reported to the management and PAO during May, 2023. It was replied that the procurement was made in compliance with PPRA Rules, 2004. The Internal Procurement Committee had reviewed and approved the said procurement. Further, increase at the rate of 15% was allowed with effect from 1st June, 2022 instead of 2nd April, 2022.

The reply is not tenable. The contract was awarded by GM PLICL, Lahore without the prior approval of BoDs. Further, the record transpired that the contractor was allowed increase in rates during the period mentioned by audit above.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed that approval of BoD, if any, may be provided to audit. The DAC further directed to recover the overpayment and get it verified from audit.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility.

(Item No. 18)

4.4.10 Increasing trend in complaints due to non-finalization of claims

According to Section 118(1)(2) of Insurance Ordinance, 2000, all claims are required to be sanctioned and paid to the insurant within ninety (90) days.

PLICL under the Ministry of Communications received 6,722 multifarious complaints after the portfolio transfer as compared to 1,680 complaints received to PLI before portfolio transfer.

Audit observed that not only the quantum of complaints increased but the Company also failed to address the complaints due to non-payments of claims. PLI had resolved 1,193 complaints out of 1,680 complaints which accounted for 71% of the total received complaints. PLICL addressed 3,159 complaints out of total 6,722 complaints which represented 47% of the total received complaints. Audit also noticed that there were only 14 & 55 court cases against PLI during FYs 2018-19 & 2019-20 respectively, whereas after portfolio transfers the quantum of court cases increased to 498 & 1,231 during FYs 2020-21 & 2021-22 against PLICL respectively.

Audit contends that the increase in complaints and court cases and decrease in percentage of settled complaints after the portfolio transfer raises concerns about the efficiency of complaint resolution processes in PLICL and affects its overall business.

The matter was reported to the management and PAO during May, 2023. It was replied that PLIC had streamlined its complaint management with time and worked diligently to satisfy the clients with its customer care. PLIC had a designated customer care cell which deals complaints received through Wafaqi Mohtasib, SECP, Walk-in or telephone and PM Portal. About the court cases, it was replied that due to shortage of staff the claims of the insurant could not be finalized timely which caused increase in court cases.

The reply is not tenable as the management did not highlight the reasons for increase in the complaints after portfolio transfer. Further, PLICL had a fleet of borrowed employees who could be deployed to finalize the claims of the insurants. In fact, PLICL did not frame SOPs and set timelines for settlement of claims.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed to provide revised reply with detailed justification. The DAC further directed the management that record related to settlement of complaints and latest position i.e. number of court cases finalized and outstanding be shared with audit for scrutiny.

Audit recommends implementation of DAC directives.

(Item No. 12, 16 of AIR 16-2022)

4.4.11 Increase in operational expenses and decrease in premium receipts

According to Rule 4(3) of Public Sector Corporate Governance Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

PLICL under the Ministry of Communications, Islamabad failed to manage its decline in premium receipts and overcome its rising operational expenses after portfolio transfer if compared its premium and expenditure with PLI during the corresponding years.

Audit observed, while comparing PLICL with PLI, that PLI witnessed an increase in fresh premium receipts from Rs 502.300 million during FY 2018-19 to Rs 536.219 million during FY 2019-20 and reduced its expenditure from Rs 928.200 million during FY 2018-19 to Rs 858.992 million during 2019-20; thereby indicating a positive growth trend and prudent cost control measures. Contrarily, PLICL fresh premium receipts declined significantly to Rs 32.565 million and 34.515 and incurred expenditure of Rs 601.386 million and Rs 1,296.765 million during the years 2021 and 2022 respectively which reflected that PLICL faced a decline in premium receipts and experienced an increase in operational cost.

The decline in premium receipts and rise in operational cost reflected the weakness of the Company's financial, operational and marketing strategies.

The matter was reported to the management and PAO during May, 2023. It was replied that the expenditure incurred by PLI was on cash basis, whereas spending of the PLICL was on accrual basis. Further, increase in inflation of 47% had also contributed towards increase in the expenses. Major

increase was due to payment of salaries of staff hired on deputation from PPOD which could not be overcome by the Company.

The reply is not convincing. If accrual model of accounting led to rise in expense, it should have also attributed to rise in premium receipts.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to analyse the reasons for increase in expenditure and decrease in business and share the outcome along with justification and head-wise details corroborating their stance on the matter with audit.

Audit recommends implementation of DAC directives.

(Item No. 10)

5. Conclusion:

In conclusion, the findings from the study indicate a series of significant shortcomings in the management and operational practices of PLICL. The most glaring issues pertain to the inadequate implementation of policies and procedures, a failure to establish a proper system of internal controls, and a lack of adherence to timely claims settlement. These deficiencies have led to the surrender of substantial funds to the Finance Division and the accumulation of liabilities, negatively impacting the overall business of the company. Furthermore, the absence of a structured internal audit wing, risk management, and key personnel in critical positions has raised concerns about the accuracy, reliability, and integrity of data within the company. The reliance on consultant-provided software rather than a dedicated system, along with the failure to fill key positions, has hindered effective decision-making and operations. The engagement of postal employees on deputation without assessing actual requirements has contributed to increased operational expenses.

Additionally, the company's inability to implement an effective sales structure and introduce new products in line with the approved business plan has resulted in a substantial decline in business, with a mere 4% remaining after the transfer of the portfolio. The management's failure to address issues related to the transfer of assets from PPOD, despite multiple Joint Management Committee meetings, adds to the list of unresolved challenges.

Crucially, the company's exemption from SECP regarding the development of Manuals in key areas, coupled with the lack of internal audits, including in vital areas such as AML/CFT, raises questions about compliance and risk management. The underwhelming performance of the actuary, evidenced by the absence of new product introductions and suboptimal pricing of group insurance schemes, further underscores the managerial shortcomings.

In light of these findings, it is imperative for PLICL's management to undertake comprehensive reforms, including the establishment of robust internal controls, recruitment of key personnel, implementation of effective

sales strategies, and a renewed focus on compliance and risk management. Addressing these issues is crucial for the sustainable growth and success of the company in the insurance industry.

6. Acknowledgement

Audit acknowledges the cooperation extended by the management of PLICL, which facilitated the flow of information throughout the field audit activity.

Annexure A

Sl.No.	Designation	BPS	No of Employees
01	Assistant Director	16	68
02	Steno typists	15	12
03	Senior Accounts Clerks	12	16
04	Sub Engineers	12	03
05	Assistant Superintends	14	145
06	Data Entry Operators	11	59
07	Head Clerks/ Clerks	11	38
08	UDCs	11	208
09	LDCs	09	52
10	Daftary	04	08
11	Naib Qasids/ Security Guards	01	102
Total			711

