PERFORMANCE AUDIT REPORT ON POSTAL LIFE INSURANCE PPO DEPARTMENT AUDIT YEAR 2016-17

31st July, 2018

AUDITOR-GENERAL OF PAKISTAN

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PREFACE

The Auditor-General conducts audits subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The performance audit of Postal Life Insurance, Ministry of Postal Services was carried out accordingly.

The Directorate General of Audit, Posts, Telegraphs and Telephones, Lahore conducted audit of the Postal Life Insurance during February – March, 2017 for the period 2011-12 to 2015-16 with a view to reporting significant findings to stakeholders. Audit examined the economy, efficiency and effectiveness aspects of the Postal Life Insurance. In addition, Audit also assessed, on test check basis whether the management complied with applicable laws, rules and regulations in managing the Postal Life Insurance. The Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the Postal Life Insurance. The observations included in this report have been finalized in the light of discussions in DAC meeting.

The Audit Report is submitted to the President of Pakistan in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before Parliament.

Dated: May, 2018

(Javaid Jehangir)
Auditor-General of Pakistan

ABBREVIATIONS AND ACRONYMS

AD (F)	:	Assistant Director (Field)
AEA	:	Anticipated Endowment Assurance
AS (F)	:	Assistant Superintendent (Field)
DAC	:	Departmental Accounts Committee
DRS	:	Disaster Recovery Site
FTP	:	Fixed Term Policy
GM	:	General Manager
GPO	:	General Post Office
HQ	:	Headquarter
PAO	:	Principal Accounting Officer
P&G	:	Posting & General
P&T	:	Post & Telecom
PLI	:	Postal Life Insurance
PMG	:	Postmaster General
POIF	:	Post Office Insurance Fund
PPOD	:	Pakistan Post Office Department
PPSC	:	Pakistan Postal Services Corporation
PSC	:	Postal Staff College
PTC	:	Postal Training Center
R&G	:	Record & General
RC	:	Renewal Commission
RD	:	Regional Director
SOP	:	Standard Operating Procedure
SVC	:	Surrender Value Claim

EXECUTIVE SUMMARY

The Directorate General of Audit, Posts, Telegraphs & Telephones Lahore conducted Performance Audit of Postal Life Insurance during February-March, 2017 covering the period from 2011-12 to 2015-16. The main objectives of performance audit were to evaluate: a) whether the insurance schemes achieved the growth targets for business and resulted in improved customer satisfaction, b) whether sufficient internal controls relating to Postal Life Insurance were put in place to prevent any misappropriation, fraud and loss, c) whether the objectives of the PLI software were achieved, and d) marketing strategies adopted for achievement of fresh business. The performance audit was conducted in accordance with the INTOSAI Auditing Standards.

Postal Life Insurance was established in 1884 and it is as an integral part of Pakistan Post Office Department. It is working as an agency on behalf of Ministry of Finance as a welfare scheme on no profit no loss basis. It is managed by the Director General, Pakistan Post Office Department through two General Managers-one based at Lahore and other one at Karachi. There are three Regional Directorate offices functioning at Peshawar, Multan, Quetta and 47 field offices. All the cash transactions are conducted through the Post Offices, and the money so generated is invested in Post Office Insurance Fund. Postal Life Insurance is primarily designed to cater to the needs of the middle and lower income groups that are more exposed to economic risks and therefore are in greater need of protection against such misfortunes. Its activities are, therefore, more manifest in smaller towns and rural areas, where the benefits of life insurance are scarce. The Post Office Insurance Fund had a balance of Rs43,260.621 million as on 30.06.2016.

With respect to efficiency, the audit observed that Pakistan Post Office Department failed to achieve the annual targets set for the procurement of business. There had been insignificant growth in business during last five years. Further, the Department also failed to accept the insurance proposals and settlement of maturity claims within stipulated timeframe.

With respect to economy, the audit observed loss due to premature surrender of policies, manipulated conversion of policies from higher value to lower value, wrong payment of bonus, non-recovery of difference of honorarium already paid to canvassers on conversion of policies and short realization of interest on loan, which affected the economy in Postal Life Insurance. Due to these factors, the cost of PLI was at higher side as compared to the benefit gained. Thus, the objective to provide life insurance coverage to the common man with maximum benefits at minimum cost could not be achieved.

With respect to effectiveness, the audit observed that the Department could not take measures to penetrate the market and accelerate the growth of insurance business, especially in new and non-performing schemes. Moreover, the Department could not effectively implement the rules and regulations. Thus, the objective to make postal life insurance more effective means of mobilizing national savings could not be achieved.

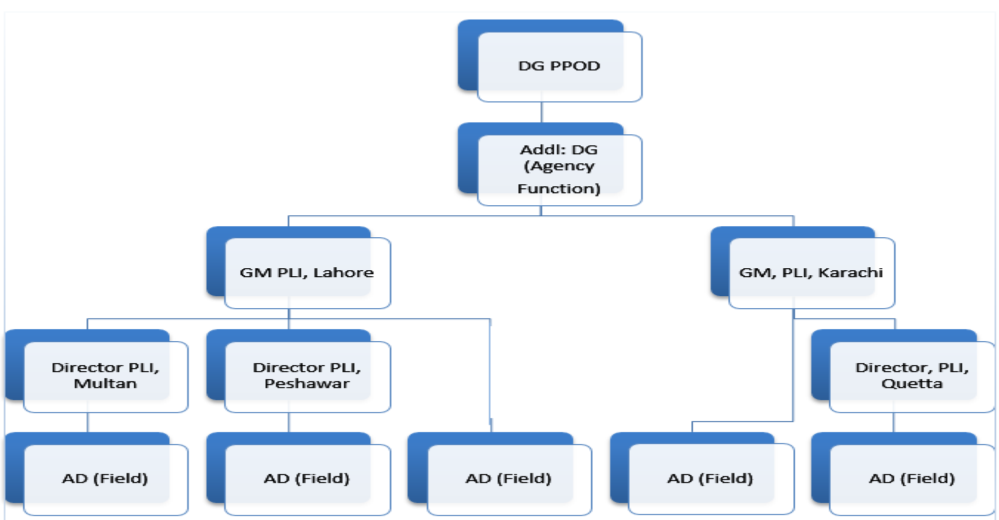
The audit mainly recommends that the Department needs to devise a system to improve the accuracy and completeness of accounts by ensuring correct charging of interest to the Fund, besides, adjustment of wrongly-charged interest to the Fund. It should strengthen the internal controls with respect to conversion of policies. Efforts may be made for sustainable business development. The management should take appropriate measures for better utilization of the actuarial services so that the insurance business could be expanded. Timeframe for acceptance of proposals and settlement of claims may be reviewed for providing more efficient customers service. Besides, the management should take appropriate measures to accelerate growth of insurance-business, especially in new and non-performing schemes by developing aggressive marketing strategies, ensuring adequate publicity, redesigning the schemes, if necessary, and providing quality services to the customers.

1. INTRODUCTION

The Directorate General of Audit, Posts, Telegraphs & Telephones Lahore conducted Performance Audit of Postal Life Insurance during February-March, 2017 covering the period from 2011-12 to 2015-16.

Postal Life Insurance is one of the most important function performed by Pakistan Post Office Department. Postal Life Insurance was established in 1884 and is working as an integral part of PPOD as an agency function on behalf of the Ministry of Finance as a welfare scheme on no profit no loss basis. It is managed by the Director General, PPOD through two General Managers-one based at Lahore and other at Karachi. There are three Regional Directorate offices functioning at Peshawar, Multan, Quetta and 47 field offices. All the cash transactions are conducted through the Post Offices. Postal Life Insurance is primarily designed to cater to the needs of the middle and lower income groups that are more exposed to economic risks and therefore are in greater need of protection against such misfortunes. Its activities are, therefore, more manifest in smaller towns and rural areas, where the benefits of life insurance are scarce.

1.1 The organogram of Postal Life Insurance Organization



1.2 The major objectives of Postal Life Insurance are:

a) To operate life insurance business on modern commercial lines
b) To provide life insurance coverage to the common man with maximum benefits at minimum cost
c) To make postal life insurance a more effective means of mobilizing national savings

All the money generated is invested in Post Office Insurance Fund controlled by the Ministry of Finance. There are two sources of contribution to the PLI Fund-one is premium receipt from PLI business and other one is interest charged to the Finance Division at prescribed rates. The insurance policies are guaranteed by the Government of Pakistan. The profit earned by PLI is distributed amongst the policy holders in the shape of bonus payable at the time of maturity of the policy together with the sum assured after keeping a portion of it as reserve under Post Office Insurance Fund (POIF). The Post Office Insurance Fund had a balance of Rs43,260.621 million as on 30.06.2016.

Services of Consulting Actuary are also utilized in dealing with technical insurance matters and policy matters.

1.3 Number of policies secured by PLI Circles Lahore and Karachi

Postal Life Insurance has presence in the rural areas due to extensive network of post offices. Every post office serves as its outlet. The following policies are offered by the PLI to its customers and volume of business secured during the period 2011-12 to 2015-16 is as under:

Name of Policy	No. of policies secured by PLI Circle, Lahore	No. of policies secured by PLI Circle, Karachi	Total
Anticipated Insurance	1,646	557	2,203
Fixed Term Policy	18,252	3,998	22,250
Whole Life Insurance	539	104	643
Anticipated Endowment Insurance	103,470	9,032	112,502
Child Protection Policy	2,880	921	3,801
Joint endowment Insurance	1,031	319	1,350
Marriage & Education Insurance	401	167	568

2. AUDIT OBJECTIVES

2.1 The main objectives of the performance audit were:

a) To evaluate whether the insurance schemes achieved the growth targets for business and resulted in improved customer satisfaction.

b) To evaluate whether the accounts of Postal Life Insurance (PLI) Fund were being maintained properly and the interest was being charged to PLI fund according to prescribed rules.

c) To evaluate whether sufficient internal controls relating to Postal Life Insurance were put in place to prevent any misappropriation, fraud and loss.

d) To evaluate whether the objectives of the PLI software were achieved.

e) To evaluate that in case of conversion of policy from higher value to lower value, the difference of honorarium / renewal commission paid to canvassing agent was recovered and that such conversion was in the benefit of the Department.

f) To evaluate whether canvassing agencies for PLI business were issued to those persons mentioned in PLI Rules / Manual and that honorarium / renewal commission was paid to them according to prescribed rules.

g) To evaluate whether the amendments in rules were made in consultation with Finance Division.

h) To evaluate the human resource training imparted to PLI staff.

i) To evaluate marketing strategies adopted for achievement of fresh business.

3. AUDIT SCOPE AND METHODOLOGY

3.1 The Audit Scope was to scrutinize:

3.1.1 The record for the period from 2011-12 to 2015-16 with respect to the audit objectives.

3.1.2 The record of office of the Director General, PPOD, Islamabad.

3.1.3 The record of two (2) PLI circles at Karachi & Lahore and one PLI region at Multan.

3.1.4 However, maturity register, details of liability payable to insurants, reserves in hand, data of active / inactive policies were not maintained / provided to audit.

3.2 The Audit Methodology was:

3.2.1 The audit team visited office of the Director General, PPOD Islamabad for data collection.

3.2.2 The performance audit team reviewed regulatory audit reports.

3.2.3 Internal audit reports, Postal Life Insurance Manual, Post Office Insurance Fund Rules, Director General's Circulars were reviewed.

3.2.4 The audit team evaluated results of the audit through discussions with the management.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 Non-appointment of field staff

A canvassing agent is a person appointment by the General Manager or by an officer of the field office to procure life insurance business on such terms and conditions as maybe prescribed by him in this behalf.

The record revealed that there was shortage of staff in PLI circles / regions and field offices in different cadres due to which the working of PLI was suffering. The detail of sanctioned and working strength is as under:

S. No.	Offices	Sanctioned	Working	Vacant
1	GM PLI Karachi	379	283	96
2	GM PLI Lahore	404	341	63
3	R.D PLI Multan	137	99	38
Total		**920**	**723**	**197**

The above table shows that 723 employees were working against sanctioned strength of 920 leaving behind vacancy of 197. The vacant posts involved Assistant Superintendent (B-14), Upper Division Clerk (B-11) and Lower Division Clerk (B-9) which were canvassing agents and involved in achievement of annual targets.

Audit pointed this out to the management during March, 2017. GM PLI Lahore replied that matter had been taken up with Directorate General, Pakistan Post Islamabad to fill the vacant posts. The reply was not acceptable as due to shortage of field staff PPOD could not achieve its annual targets and growth in business. It is worth mentioning that last recruitment was made in 2012.

DAC in its meeting held on 30th April 2018, directed the management to fill the vacant posts under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to take effective measures for early recruitment of human resources.

(Item No.40)

4.1.2 In-adequate training sessions on professional line

Workforce training is an indispensable way to keep organization competitive. A training program allows strengthening those skills that each employee needs to improve. The main benefit of the training is that the employees know the rules and regulations which will be helpful in achieving the business objectives.

The record revealed that PPOD did not take effective measures to conduct training sessions for capacity building of the officers / officials and small chunk from the staff was trained during the period 2011-12 to 2014-15 as per following details:

Sr No	Year	No of Postal employees trained in PTCs	No of PLI employees trained in PTCs	% age	No of Postal Officers trained in PSC	No of PLI officers trained in PSC	% age
1	2011-12	1,256	42	3.34	289	0	0
2	2012-13	961	0	0	247	0	0
3	2013-14	1,025	0	0	321	16	6.48
4	2014-15	1,019	15	1.47	462	0	0
Total		**4,261**	**57**	**1.34**	**1,319**	**16**	**1.21**

The above table showed that 4261 postal employees were trained in postal training centers out of which only 57 employees of PLI were trained which was 1.34% of the total employees trained during the period 2011-12 to 2014-15. Similarly, 1319 officers were trained in Postal Staff College out of which only 16 officers of PLI were trained which was 1.21% of total officers trained for the same period which reflected the attitude of management towards enhancing skills of PLI employees.

Audit pointed this out to the management during March, 2017. It was replied that the issue was discussed in the PMG Conference and decision had been made that Postal Staff College, Islamabad and Postal Training Centers would impart job specific trainings. The reply was not acceptable as management did not provide any proof in this regard.

DAC in its meeting held on 30th April 2018, directed the management to chalk out the training schedules of officers / officials on professional lines under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to take adequate measures for capacity buildings of PLI employees through intensive trainings programmes so that professional skills and understanding of rules and regulations could be enhanced.

(Item No.39)

4.2 Financial Management

4.2.1 Incorrect charging of interest to PLI Fund - Rs3,444.758 million

According to Article 49 of Postal Life Insurance Account Code for the purpose of calculation of monthly interest bearing balance, the total receipt of a month as realized should be added to the opening balance of the month and the total charges incurred should be excluded from that month. On this remaining amount which represents the interest bearing balance for the month, interest is calculated. Further, Note 2 of Article ibid prescribes that for the purpose of working out the monthly interest bearing balance, fixed sum i.e. an approximate monthly average of all the charges enumerated in Article 298 and 299 of the P&T Account Code (Establishment charges, pension contribution, commission on policies, postage charges and rent of residential / office buildings) should be calculated and deducted monthly from the balances of the each month.

Pakistan Post Office Department charged the yearly interest once the financial year is closed i.e. on 30th June each year. It is a general practice that Finance Division Govt. of Pakistan announces interest rate each year at the end of October. In order to close the accounts of PLI Fund, PPOD provisionally charged the current year interest on the basis of previous years interest rate. The difference of interest is adjusted in the next year accordingly.

It was observed that while adjusting the corresponding interest rate each year, PPOD adjusted the interest amount from the closing balance instead of opening balance of that year. Due to incorrect adjustment of interest from closing balance, the interest was further charged and also accumulated in next years. Further, review of progressive statement of Postal Life Insurance Revenue and Expenditure and management cost of PLI revealed that establishment charges and other contingencies were excluded from the monthly interest bearing balances of PLI Fund, whereas pension contribution, commission on policies, postage charges and rent of residential / office buildings was not excluded from the monthly interest bearing balances and interest on this amount was also charged to PLI Fund for the period 2005-06 to 2015-16 as per following details:

(Rs in million)

Sr No	Description	Amount
1	Wrongly charged interest to PLI Fund	542.648
2	Wrongly charged interest to PLI Fund due to non-exclusion of certain charges from monthly interest bearing balance	2,902.110
Total		**3,444.758**

Thus PPOD maintained unreliable accounting record and this affected the accounts adversely. Moreover, PPOD maintain manual accounts for calculation of yearly interest charged to PLI Fund instead of calculation through computerization.

Audit pointed this out to the management during February, 2017. It was replied that against Sl. No. 1 of above table an amount of Rs1,642,907,179 had been adjusted on 31.07.2017 leaving a balance of Rs143,361,904 which will be adjusted in the next financial year. As regards Sl. No. 2 of the table an amount of Rs2,039,665,707 had already been adjusted by making transfer entries of the relevant years. The remaining amount of Rs862,444,233 will be adjusted in the next financial year.

During verification dated 27.06.2018, an amount of Rs1,243,621,396 was verified leaving a balance of unadjusted amount of Rs542,647,687 against Sr No 1 of the above table. The amount of para was reduced to that extent. Whereas record against Sr No 2 amounting to Rs2,902,109,929 was not provided for verification.

DAC in its meeting held on 30th April 2018, directed the management that already adjusted amount may be got verified from audit and the remaining amount be adjusted at the earliest. However, no progress was made till finalization of this report.

Audit recommends that wrongly-charged interest to the Fund be adjusted. The quality of maintenance of PLI account should be improved in terms of accuracy and completeness by ensuring correct charging of interest to PLI Fund through computerization to avoid incorrect charging of interest.

(Item No.8)

4.2.2 Unlawful conversion of insurance policies by reducing maturity period- Rs3,295.398 million

According to Rule 23(1) of Post Office Insurance Fund Rules, 2001, a policy holder at any time apply for reduction of his monthly premium and sum assured without altering the class (maturity period) of his policy or after payment of premium for not less than two years if he may apply to have his policy made paid-up for a reduced sum assured from further payment of premium (Emphasis added).

A policy holder can get his policy converted from higher sum assured to reduced sum assured without altering the class of policy after payment of 24 months premium from the date of issuance of policy. In PLI Circle Karachi, audit noticed that total 2,385 policies were converted by reducing sum assured from Rs3,295.398 million to Rs574.188 million. As the class of policies were also reduced from 20 years to 5 years, therefore, the conversion of policies was held unlawful.

It was revealed during audit that PLI Karachi circle had not devised a mechanism to assess the financial stability of the insurant rather high value policies were insured so that maximum benefit would be derived in shape of honorarium/renewal commission. Moreover, after 24 months of policy, the insurant submitted a simple request to convert his policy without giving the concrete reason for conversion. As soon as the approval was granted a new high value policy was procured by the insurant which clearly depicted connivance between insurant and canvassers.

Further, out of total 2,385 converted policies, 5 polices were checked for illustrative purpose with regard to income to PLI Fund through interest and payment from PLI Fund against these policies. Furthermore, the below table shows that in conversion cases, contribution to PLI Fund through interest was far less than payments made from the PLI Fund. Hence, the objectives to make postal life insurance a more effective means of mobilizing national savings and extend maximum benefits to common man at minimum cost were defeated. Despite having technical skill of Actuary the management remained unable to effectively utilize his services for the benefit of the department. The detail is as under:

Name of Policy Holder	Policy No	Sum Assured / Revised Sum Assured (Rs)	Contribution to PLI Fund though Interest during 5 years (Rs)	Payments from PLI Fund during 5 years (Rs)	Difference (Rs)	%age
Mirza Aslam Baig	FTP-990-KHI	1,600,000 257,000	71,559	297,864	226,306	416
Mrs. Razia Hussain	CL-202360	5,000,000 578,000	181,482	690,236	508,754	380
Mr. Shahnawaz	FTP-698-KHI	2,000,000 400,000	98,787	373,520	274,733	378
Mr. Amar Siddique	FTP-662-KHI	3,000,000 290,000	73,837	355,045	281,208	481
Mr.Shama Pervaiz	FTP-620-KHI	2500,000 400,000	120,598	470,832	350,234	390

Audit pointed this out to the management during March, 2017. It was replied by PPOD that an inquiry was conducted and checks had been imposed on conversion. The reply was not acceptable as rules and regulations were not observed while making conversion, resultantly, PLI fund had to sustain heavy loss due to deliberate wrong calculation of interest.

DAC in its meeting held on 30th April 2018, directed the management to provide copy of the inquiry report to Audit, revisit the role of Actuary, discourage the practice of conversion of policies and hire the services of independent Actuary for GM PLI, Karachi under report to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to take effective measures to strengthen the internal controls with respect to conversion of policies for ensuring compliance to rules & regulations. Moreover, all such policies be revisited and corrected accordingly. Efforts may also be made for sustainable business development of PLI in order to derive the maximum benefits. The services of separate Actuary may also be hired for Karachi circle for efficient business growth.

(Item No.9)

4.2.3 Loss due to massive premature surrender of policies – Rs2,221.183 million

According to Para 23 of GFR, Vol-I, every Government officer should realize fully and clearly that he is personally responsible for any loss sustained by Government through negligence on his part and that he will also be held personally responsible for any loss arising from negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Review of record relating to maturity and surrender value cases revealed that 15,902 maturity cases and 29,533 surrender value cases were finalized from 2011-12 to 2015-16. Similarly an amount of Rs5,377.423 million was paid as maturity value whereas Rs2,221.183 million was paid as surrender value for the same period as given in below table:

(Rs in million)

Sr No	Year	Maturity		Surrender Value		%age No of Cases	%age Amount Paid
		No of Cases	Amount Paid	No of Cases	Amount Paid		
1	2011-12	3,488	624.315	5,353	345.515	153.47	55.34
2	2012-13	2,175	716.502	5,714	500.929	**262.71**	**69.91**
3	2013-14	2,833	915.152	6,090	420.314	214.97	45.93
4	2014-15	3,339	1,560.727	6,415	464.105	192.12	**29.74**
5	2015-16	4,067	1,560.727	5,981	490.320	**147.06**	31.42
Total		**15,902**	**5,377.423**	**29,553**	**2,221.183**		

Audit noticed sizeable surrender of policies. The amount of surrender is shown in the above table. The percentage surrender of policies ranged from 147.06% to 262.71% against maturity cases. Similarly percentage of amount paid on account of surrender value ranged from 29.74% to 69.91%.

Audit pointed this out to the management during February, 2017. It was replied that insurants were entitled to surrender the policy after a period of two years. All the cases had been settled under the approved formula. The reply was not convincing as reasons for massive surrender of policies were not given. Further, a policy which was surrendered within five years caused loss to PLI since it did not even cover the expenses.

DAC in its meeting held on 30th April 2018, directed the management to take corrective measures and amend the rule so that the trend of surrendering could be minimized under report to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to devise a comprehensive policy to reduce risk of surrender of policies by maintaining close liaison with the insurants. Notices need to be issued to defaulters instantly. The rate of interest charged on loan be reduced to avoid surrender of policies. The canvassers should be held personally accountable for void/lapse of policies resulting in surrender of policies. Besides, honorarium/renewal commission earlier paid should also be recovered.

(Item No.7)

4.2.4 Non-recovery of difference of honorarium from canvassers due to conversion of policies-Rs76.592 million

According to departmental instructions, difference of honorarium is recoverable from the canvassing agent if the policy is converted from a higher sum assured to lower sum assured and also reduction in terms of policy. The Honorarium payable to the canvasser is calculated according to the following formula.

$$\frac{\text{Premium realized x rate of honorarium x Duration of policy}}{\text{20 years}}$$

Twenty year is a benchmark on which 100% honorarium is given to the canvassing agents. If the duration of policy is less than 20 years then honorarium is proportionally decreased. In case of advance payment of premium, the rates are further enhanced.

Audit observed that total number of 2,385 policies were converted in GM PLI Karachi from higher sum assured to lower sum assured and class of policies from 20 years to 5 years during 2011-12 to 2015-16 but difference of honorarium Rs76,592,000 already paid was not recovered from canvassing agents. The year wise detail of sum assured, honorarium paid, revised sum assured due to conversion and honorarium recoverable is as under:

(Rs in million)

Sr No	Year	Sum assured	Honorarium Paid	Revised Sum Assured	Honorarium due on revised sum assured	Difference of Honorarium recoverable
1	2011-12	410.001	10.754	76.518	0.768	9.987
2	2012-13	399.607	10.003	73.737	0.747	9.257
3	2013-14	638.570	16.227	112.281	1.065	15.162
4	2014-15	800.481	19.462	132.244	1.071	18.391
5	2015-16	1,022.214	25.055	157.695	1.260	23.795
Total		**3,270.873**	**81.501**	**552.475**	**4.911**	**76.592**

Audit pointed this out to the management during March, 2017. It was replied that the matter was already clarified by the consulting Actuary by giving advice on the subject stating that at the time of conversion/reduction in sum assured the policy holder was not being paid back or being allowed credit in any form on the excess amount of premium instalment paid before the date of alteration. Therefore, there was no justification for recovery. Thus the method being adopted by this office was technically sound. The reply was not acceptable as according to the formula for calculation of honorarium the maximum benefit would be admissible on maximum term of policy i.e. 20 years. On conversion of policy from higher value to lower value as well as in reduction of term of policy the amount of honorarium should also been reduced proportionately and the overpaid amount should have been recovered from the canvassers. Moreover, the role of Actuary was to deal with technical matters and not the interpret of rules and regulations.

DAC in its meeting held on 30th April 2018, directed the management to observe the rules / instructions by the DG PPO and recover the amount of difference of honorarium under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to recover the amount of difference of honorarium from canvassing agents and take adequate measures for effective implementation of the departmental instructions.

(Item No.11)

4.2.5 Sale of insurance policies by misusing PLI Regulation - Rs68.030 million

According to Para 5 of chapter 3 of PLI Manual, posts of the Assistant Superintendent (Field) PLI are sanctioned at place where there is concentration of population and requirements of business call for the presence of a well-trained and whole time efficient canvasser. The AS (F) is not only to canvass for fresh business but he is expected to maintain close liaison with the policy holders in the area and to render them advice, whenever necessary, in connection with their PLI problems. The AS (F) PLI will be required to give their prescribed quota of fresh business which will be fixed by the GM, PLI from time to time.

In GM, PLI, Karachi, test check of record revealed that Mirza Arshad Baig was working as Assistant Superintendent (F) having agency No.KW-II-273/D. Further his three brothers, wife and nephews had also been registered as non-departmental canvassing agents. Total 37 high value policies worth Rs68,030,000 were secured by the family members. Each family member had secured 3 to 8 high value policies securing each other. After payment of 24 months premia, they used to convert their policies from higher value to lower value as well as class of policy. Through conversion, the family gained two kinds of benefits; firstly achievement of quota and secondly availing rebate and honorarium/ renewal commission on higher value policies. After availing these benefits, the Baig family got converted their policies from higher value to lower value against the spirit/norms of business.

Audit pointed this out to the management during February & March, 2017. It was replied that in accordance with Rule-3 of POIF Rule-2001, all citizen of Pakistan who had attained the age of 18 and not attained the age of 60 years and who had got assured means of regular income for the payment of premium were eligible for issuance of postal life insurance policy inclusive of PLI staff as a part of general public. The focus of few PLI persons does not mean to castigate efforts of the entire field staff. However, necessary instructions to all AS (F) had been issued to extend the benefits of PLI insurance to general public. The reply was evasive, therefore, not acceptable because all Baig family members were having PLI agencies in their names so securing business amongst the agency holders was against the norms of business. Moreover, Baig family maneuvered the PLI rules & regulation in order to extend benefit to family members.

DAC in its meeting held on 30th April 2018, directed the management to take corrective measures to stop such practice, conduct inquiry against the delinquents and calculate / recover the undue benefits under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to take appropriate measures to stop such practice forthwith. The annual quota be fixed by considering amount & number of policies. The SOP may be devised for allotment of canvassing agencies at Circle/Region level so that root cause of such practice be eliminated.

(Item No.13)

4.2.6 Wrong payment of bonus and less realization of premium - Rs62.804 million

According to note below Article 37 of PLI Account Code, in case of conversion of policy, a clear discharge on the original policy and also on the bonus certificate in all cases in which the accumulated bonus is surrendered or altered, must be furnished by the party concerned. Such discharge should also be effected on the supplementary contract, if any, provided that the value of the policy is affected by the conversion.

In PLI circle Karachi, audit observed that total 2,385 policies were converted by reducing sum assured from Rs3,295.362 million to 574.188 million and class of policies from 20 years to 5 years during 2011-12 to 2015-16. Out of these 280 polices were checked which revealed that bonus earned for two years prior to conversion was included in the cumulative value of the policy. Resultantly, an amount of Rs43,515,265 was included in the cumulative value of the policy as bonus causing overpayment to that extent. After maturity the bonus was again paid for 5 years. Hence, total 7 bonuses were paid against the 5 years class of policy.

Audit further checked 331 policies out of total converted policies which revealed that premium amount was less realized against the sum assured at the end of the class of policy but insurants were paid according to the sum assured. As a result, an overpayment of Rs19,289,299 was made for an amount which was not actually realized.

Audit pointed this out to the management during February & March, 2017. It was replied that contention of Audit regarding accrual of bonus was wrong. Bonus as per term of policy was paid at the final maturity. Presumptive bonus was calculated to find cumulative value of the policy at the time of conversion, but the same was not paid at any stage to the policy holder. As regard realization of premium amount against sum assured, the matter had been taken up with actuary for clarification. However, the instructions had been issued regarding provision of certificate by the insurant and accepting therein to forgo bonus accrued at the initial sum assured. The reply was incorrect, therefore, not acceptable as bonus for two years was calculated by applying surrender value formula prior to conversion and included in the cumulative value of the policy whereas value of the policy was required to be effected only by the conversion. Further, while calculating the revised premium the amount was less calculated / realized according to revised sum assured.

DAC in its meeting held on 30th April 2018, directed the management to take corrective measures to avoid further loss, revisit previously converted policies to recover the amount of loss and issue fresh guidelines / instructions to the GM PLI, Karachi for strict observance of the rules under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to recover the overpaid amount from insurants and those policies which had not matured should be revised by using correct formula to avoid further loss. Moreover, PPOD should take effective measures to strengthen the internal controls and ensure proper implementation of rules and regulations by using correct and unified formula for conversion of policies.

(Item No.10)

4.2.7 Misappropriation of money through loan payment-Rs 23.720 million

According to Para 11(3) of the Post Office Manual Vol-VIII, the head of the circle should personally conduct investigation at his level in all cases of dacoity, looting of cash and stamps, misappropriation of money, defalcation of Govt. fund etc. involving amount of rupees two million or more. Moreover, Para 238(5) further prescribes that the inspecting officer will not be relieved of his responsibility for contributing to the commission of any fraud or defalcation of government money which has remained undetected during inspection by him.

In GM PLI, Lahore an amount of Rs23,719,500 was misappropriated through loan payment in the office of Assistant Director (Field) Cantt: Lahore. The accused official Mr. Iftikhar Ahmad UDC got the policy papers from insurants intending to surrender their policies. He paid the insurants estimated surrender value out of his own pocket and retained the original policy for processing loans against these policies on fake applications for loan and got payment sanction orders and encashed it with the connivance of staff. In some cases the official got hold of the original documents when the insurants applied for term maturities or sanctioning of loans and misused the same for processing further loan against the same documents. Moreover, the accused also used to prepare fake schedules of loan repayments on the basis of which he was able to get the original policy documents released from the GM office and was able to draw multiple loans against the same policy papers. The matter was inquired through an inquiry committee headed by a B-19 officer. In this regard audit had the following observations:

1. As the amount of fraud was more than two million, therefore, inquiry was required to be conducted at the level of GM PLI instead of Director PLI.
2. In the fact finding inquiry, the role of inspecting officers was not determined.
3. The prescribed procedure for sanction and recovery of loan and preparation of schedules had not been followed as laid down in codes/manual.

The main reason behind occurrence of this fraud was that the AD (Field) Lahore Cantt as well as GM PLI, Lahore compromised on internal controls and prescribed procedure. Had the prescribed procedure adopted the misappropriation could have been detected within a day.

Audit pointed this out to the management during March, 2017. It was replied that the case of misappropriation of money had already been investigated by fact finding committee. On receipt of fact finding report the department had initiated action against accused and case had also been registered in NAB. After completion of departmental action and recovery of misappropriated amount Audit would be informed accordingly. The reply was not acceptable as neither the misappropriated amount was recovered nor disciplinary action was finalized despite lapse of 2 years.

DAC in its meeting held on 30th April 2018, directed the management to pursue the case and inform the audit of the latest position in this regard. However, no progress was made till finalization of this report.

Audit recommends that PPOD to recover the misappropriated amount and finalized the disciplinary action against the defaulters besides taking effective measure for implementation of prescribed rules/ procedures to avoid such recurrence in future.

(Item No.26)

4.2.8 Non-adjustment /recovery of rebate due to conversion of policies-Rs19.533 million

According to Rule 10 (7) of Post Office Insurance Fund Rules, 2001, if the advance payments of premia are made as a standing arrangement, with the prior sanction of the General Manager a rebate per thousand sum assured will be allowed at the rates during the currency of arrangement as per following details:

Term of Policy	Not less than 12 months (Rs)	Not less than 06 months (Rs)	Not less than 03 months (Rs)
Upto 15 Years	4.00	1.00	0.24
Upto 30 years	3.00	0.75	0.18
More than 30 years	2.00	0.50	0.12

At the time of approval of insurance policy, a contract is signed between the insurants and PLI management. Both the parties are bound to act as per agreed terms and conditions. At GM PLI Karachi, audit noticed that 2,385 insurants applied for reduction in sum assured and class of policy after payment of 24 months premium during 2011-12 to 2015-16. The policies of insurants were revised by making reduction in sum assured and class of policies and supplementary contract were issued. As the insurants did not act as per agreed terms and conditions of contract, therefore, they were not entitled to gain benefits in shape of rebate already allowed. An amount of Rs19,533,416 on account of rebate was not recovered/ adjusted from insurants.

Audit pointed this out to the management during March, 2017. It was replied that the matter was already clarified by the consulting Actuary by given advice on the subject stating that at the time of conversion/reduction in sum assured, the policy holder was not being paid back or being allowed credit in any form on the excess amount of premium instalment paid before the date of alteration. Therefore, there was no justification for recovery of rebate on excess amount of premium/instalment paid by the policy holder. Thus the method being adopted by this office was technically sound. The reply was irrelevant; therefore, not acceptable as the insurants did not act according to agreed terms and conditions of contract and supplementary contract were signed. Further, the role of Actuary was dealing with technical matters and not the interpretation of rules and regulations.

DAC in its meeting held on 30th April 2018, directed the management to observe the rules / instructions of DG PPO and recover the amount of rebate under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to recover the amount of rebate already allowed on conversion of policies due to breach of agreement. The internal controls be strengthened for effective implementation of rules & regulations in future.

(Item No.12)

4.2.9 Doubtful payment of claims through Departmental Canvassing Agents-Rs11.234 million

According to Rule 22 (II) of the Post Office Insurance Fund Rule, 2001, the General Manager will issue an order for the sum assured under the policy plus the bonus accrued thereon. The order for payment will be sent to the postmaster concerned, a copy of the order will also be endorsed to the claimant. The Postmaster will pay the amount to the claimant on his signing a stamped receipt on the back of the order.

In PLI Circle Karachi, test check of record revealed that payments of claims amounting to Rs11,233,675 were made through the canvassing agents instead of direct payment to the insurants. Moreover, payments were made in cash instead of through cheques.

Audit pointed this out to the management during March, 2017. It was replied that all the payment sanctions were issued with the direction to pay the amount through cheques. The reply was not acceptable as out of 31 cases the management responded only against 13 cases in which cheque payments were made but no documentary evidence was provided. No reply was given against remaining 18 cases. Hence, chances of fraud /misappropriation cannot be ruled out.

DAC in its meeting held on 30th April 2018, directed the management to produce the record of 13 cases to audit for verification and conduct an inquiry of cash payments in remaining 18 cases under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends the PPOD to implement the DAC directives in letter and spirit. Moreover, acknowledgment receipts of all cases may be provided to audit. Further appropriate measures be adopted to ensure the implementation of rules for making payments of claims directly to claimants through cheques to avoid occurrence of fraud and misappropriation in the organization.

(Item No.20)

4.2.10 Doubtful payment of claims without premium receipt book-Rs5.604 million

According to para-8 of the chapter-ix (claims part-I) of the PLI manual, premium receipt book is necessary for payment of claims to the insurants.

In PLI circle Lahore an amount of Rs5,604,829 was paid to insurants without having premium receipt book which were essential documents for finalization of claims. These claims were finalized on the basis of credit verifications received from computer cell instead of cross matching with schedules received from GPOs, therefore, genuineness of the receipt of premium by GPO could not be ascertained and chances of occurrence of fraud and misappropriation cannot be ruled out.

Audit pointed this out to the management during March, 2017. It was replied that all claims were settled according to the Rule 8 of the Chapter-IX (Claims Part-I) of PLI Manual, complete record of premium had been kept in four different places. In case premium book of policy holder got misplaced, the claim would be settled with the help of office record according to the rule. The reply was incorrect, therefore, not acceptable as the payment was made without premium receipt books and cross matching of schedules.

DAC in its meeting held on 30th April 2018, directed the management to get the record verified from audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to stop payment of claims without premium receipt book and take effective measures to ensure the implementation of rules for elimination of any fraud and misappropriation in the organization.

(Item No.44)

4.2.11 Short realization of interest on loan against insurance policies-Rs2.177 million

According to Rule 21 (vii) (a & c) of the Post Office Insurance Fund Rules, the interest will be charged at such rate as may be laid down from time to time on monthly balance of the loan outstanding on the first of the month. The same will be calculated upto 30th June, each year and be payable on the 1st of July each year irrespective of the date of drawl of loan. In case of final payment, interest shall not be charged beyond the date of final repayment of the loan.

In PLI Lahore circle and Multan region, test check of record revealed that the insurants failed to pay the premium, therefore, their policies were forfeited. The insurants were also granted loan which was not repaid along with interest till the date of applying for surrender value. The interest on loan was required to be calculated upto the date of final payment whereas the same was calculated upto the date of forfeiture, resultantly, an amount of Rs2,177,015 was less recovered on account of interest on loan as shown below:

Sr. No.	Name of Circle / Region	Total No of cases	Amount (Rs)
1.	GM, PLI, Lahore	32	1,201,510
2.	RD, PLI, Multan	36	975,505
Total		**68**	**2,177,015**

Audit pointed this out to the management during March, 2017. It was replied that all due outstanding loans were recovered in surrender value cases in accordance with the rule. The date of final payment cannot not be anticipated whereas the date of forfeiture of surrender value can be ascertained correctly. The reply was irrelevant as the interest was calculated upto the date of forfeiture whereas the same was required to be calculated upto the date of final payment according to rule.

DAC in its meeting held on 30th April 2018, directed the management to re-visit the rules / matter at DG PPO level and get it verified from audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to recover the amount of interest from insurants in above mentioned 68 cases and take adequate measures for effective implementation of rules and regulations. In future the amount of interest on loan may be recovered upto the date of final payment instead of upto the date of forfeiture of policies.

(Item No.25)

4.2.12 Unlawful refund to insurant and non-recovery of honorarium from canvassers - Rs1.496 million

According to Article 35 (I & II) of PLI Account Code, (i) when premiums are discontinued in respect of policies of less than a year's standing, the insurant renders himself liable to pay the fixed fee of Rs10 and the travelling allowance, if drawn for the purpose of medical examination in this connection (ii) when the premiums are discontinued in respect of policies of not less than one year's standing but less than two years standing, nothing is paid or recovered from him.

Test check of record revealed that in two PLI Circles and one region, an amount of Rs1,334,230 was paid to insurants on account of irregular refund during the period 2011-12 to 2015-16 which was not admissible as the duration of the policy was less than two years. Moreover, an amount of Rs162,004 paid to canvassers as honorarium against these policies in Karachi circle was also not recovered. This showed inefficiency of the department regarding applicability of rules / regulations. The detail of payment of irregular refund is as under:

Sr. No.	Name of Circle / Region	Total No of Cases	Amount of Irregular Refund paid (Rs)	Amount of Honorarium (Rs)
01	GM, PLI, Karachi	88	797,221	162,004
02.	GM, PLI, Lahore	29	473,980	-
03.	RD, PLI, Multan	02	63,029	-
	Total	**119**	**1,334,230**	**162,004**

Audit pointed this out to the management during February & March, 2017. It was replied that no commission was paid on void and lapse policies and refund was allowed according to Rule-15 of PLI Fund Rules 2001. In case the insurant applied for revival of policy, commission was paid, otherwise irregular premium was refunded and no commission was paid for irregular period. The reply was not correct as the refund of premium was made prior to completion of two years of policy. Moreover, honorarium paid to canvassers on this account was also not recovered.

DAC in its meeting held on 30th April 2018, directed the management to re-examine the documents and produce record to audit for verification. However, no progress was made till finalization of this report.

Audit recommends PPOD to recover the amount of refund paid to insurants and honorarium from canvassing agents in above mentioned 119 cases and also stop this practice henceforth. Moreover, PPOD should take adequate measures to strengthen the internal controls so that rules/ regulation can be implemented effectively.

(Item No.38)

4.2.13 Payment of death claims without considering the findings of confidential inquiry report - Rs0.531 million

As per policy in vogue, if an insurant dies within 3 years of policy, a confidential enquiry is initiated not below the rank of Assistant Superintendent field or Assistant Director PLI to probe into the fact whether the insurant concealed the facts about his health while purchasing the policy or not.

In GM PLI Lahore, test check of record relating to death claims of non-medical policies, revealed that 3 death cases wherein the Assistant Director (F) recommended that the insurants concealed the facts about their health but got policies as they were patient of Jaundice, brain lesion and heart prior to taking of policies. The deceased families were not entitled to receive payment of claims but the General Manager PLI Lahore entertained the claims and paid Rs530,500 ignoring the findings of inquiry officers.

Audit pointed this out to the management during March, 2017. It was replied that the payment of Death Claims had been made after observing rules and in each case enquiry had been conducted. After fact finding report the Competent Authority had decided the case according to prescribed rules and payment was made accordingly. The reply was incorrect, therefore, not acceptable as the insurants concealed the facts about their health at the time of getting policies. Further, the inquiry reports also revealed that the deceased insurants were patients of different diseases at the time of getting policies but they concealed these facts therefore, were not entitled for any claim.

DAC in its meeting held on 30th April 2018, directed the management to produce the departmental confidential inquiry reports for verification to audit within a week. However, no progress was made till finalization of this report.

Audit recommends that responsibility may be fixed against the delinquents and confidential inquiry reports be provided to audit for verification. Further, a mechanism needs to be devised to avoid recurrence of such incidents in future.

(Item No.28)

4.2.14 Short realization of interest on forfeited policies - Rs0.133 million

According to Article 30 of P&T Account Code, when a policy has been forfeited, the insurant can get the surrender value of his policy, subject to the condition that the surrender value is to be calculated upto the month of forfeiture and from the value so calculated is to be deducted 12 months premium with interest thereon at 12%.

In one PLI circle and region, test check of record revealed that certain insurants did not deposit the premium and their policies were forfeited. These insurants were paid surrender value and one year premium was deducted from their claims but interest was not recovered at prescribed rates. Resultantly, an amount of Rs133,471 was less recovered as detailed below:

Sr. No.	Name of Circle / Region	Amount (Rs)
1.	GM, PLI, Lahore	46,610
2.	RD, PLI, Multan	86,861
Total		**133,471**

Audit pointed this out to the management during March, 2017. GM PLI Lahore replied that prescribed procedure was adopted at the time of calculation and the interest was recovered @ 12%. There was no less recovery of interest from forfeited policies. The reply was not acceptable as the interest was being calculated by applying a formula which reduced the amount of interest whereas the interest should have been calculated directly @ 12% on the amount deducted as one year premium.

DAC in its meeting held on 30th April 2018, directed the management to produce the record regarding calculation of interest and recovery thereof for verification to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to recover the amount of interest from the insurants and take adequate measures for effective implementation of the rules and regulations.

(Item No.24)

4.2.15 Manipulated honorarium received by Assistant Superintendents

According to Para 5 of Chapter 3 of PLI Manual, the posts of Assistant Superintendent (Field) PLI are sanctioned at a place where there is concentration of population and requirements of business call for the presence of a well-trained and whole time efficient canvasser. The AS (F) is not only to canvass for fresh business but he is expected to maintain close liaison with the policy holders in the area and to render them advice whenever necessary in connection with their PLI problems. The AS (F)

PLI will be required to give their prescribed quota of fresh business which will be fixed by the GM, PLI from time to time.

G.M PLI Karachi had fixed two types of quota for each AS (F) one was annual quota on which honorarium was admissible and the other was personal quota on which honorarium was not admissible. Test check of record revealed that AS (Fields) were not working according to their prescribed duties. As per practice in vogue one AS (F) sold out his policy to other AS (F) to accomplish his personal quota. On one hand AS (F) achieved his personal quota and on the other hand the other enjoyed the benefits of the policy.

Audit pointed this out to the management during March, 2017. It was replied that in accordance with Rule-3 of POIF Rule-2001, all citizen of Pakistan who had attained the age of 18 and not attained the age of 60 years and who had got assured means of regular income for the payment of premium are eligible for issuance and postal life insurance inclusive of PLI staff as a part of general public. However, necessary instructions to all AS (F) had been issued to extend the benefits of PLI insurance to general public. The reply was evasive, therefore, not acceptable because AS (F) were having PLI agencies in their names so the securing of business amongst the agency holders was against the rules.

DAC in its meeting held on 30th April 2018, directed the management to inquire the matter, fix responsibility and provide report to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to take appropriate measures to eliminate the personal quota as it was not covered under rules and make efforts to ensure that canvasser must maintain liaison with the general public through frequent visits, motivate the masses about the importance of insurance and procure the business.

(Item No.22)

4.2.16 Non-maintenance of record of actual insurant liability

According to Article 51 of PLI Account Code, actuarial valuation of the Post Office Insurance Fund is carried out once in five years by an Actuary on the basis of the data furnished by circle offices/regions of Postal Life Insurance, through the Director General. Preparation of the data for submission to the Actuary is done by the "Fund Valuation" section, main duties of which are as follows:

1. Preparation of valuation cards in respect of newly issued polices
2. Upkeep of the valuation cards and preparation of statements connected therewith, with reference to the records maintained on accounts of claims due for maturity, death or surrender and of converted paid up, cancelled and forfeited policies
3. Preparation of various statements in form A to H in connection with the data required by the Actuary
4. Preparation of miscellaneous statistics such as number of high value polices etc
5. Mortality investigation of fund

The record revealed that total number of 431,784 polices were in vogue and PLI Fund balance was Rs 43,260.621 million as on 30.06.2016 but the management did not maintain above-mentioned record indicating actual liability payable to insurants and actual reserves in hand after payment of these liabilities. Maintenance of such record is mandatory for valuation of fund and declaration of bonus. As such in the absence of essential data, legal obligation payable to insurants and actual position of reserve fund cannot be ascertained.

Audit pointed this out to the management during March, 2017. It was replied that valuation for calculation of liabilities payable to insurants was made by the Actuary after three years and next valuation report would be due in 2018. Due data will be provided to the Actuary for the sake of valuation of PLI fund and for ascertaining the total liabilities. The reply was not acceptable as Department did not maintain data base regarding outstanding liabilities payable to insurants and reserves in hand after payment of liabilities which was basic requirement for valuation of fund and declaration of bonus rates payable to insurants.

DAC in its meeting held on 30^{th} April 2018, directed the management to maintain the record regarding liability payable to insurant and reserves in hand and get it verified from audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to streamline the procedure effectively and prepare the requisite data timely and efficiently for submission to Actuary for valuation of fund and declaration of bonus rates. The availability of accurate record of liability payable is helpful for strategic planning.

(Item No.43)

4.3 Monitoring and Evaluation

4.3.1 Non-achievement of objectives through computerization - Rs55.509 million

The PPOD management signed an agreement with M/s 360 technologies during 2011-12 to develop an in house software application. As per agreement the contractor had to accomplish Postal Life Insurance Software (PLIS) maintenance & up gradation, data base maintenance, system security (virus protections) and Training of the employees. An expenditure of Rs55.509 million was incurred on purchase of hardware and maintenance / re-engineering cost of software for the period 2011-12 to 2015-16.

Following discrepancies were observed:

1. Conversion of policy module was not developed.
2. The Disaster Recovery Sites (DRS) was mandatory but was not installed.
3. Merger of data between PLI circles/regions was yet not made.
4. Training and installation Manuals and SOP for use of software were not developed / provided by vendor.
5. No postal officer/official was trained on new application.
6. Data of PLI policies was not entered in the PLI software to achieve accuracy and reliability.
7. No delivery of SMS with Mask to policy holders on every transaction was made.
8. The software was unable to generate reports like void/lapse and active/inactive policies.
9. Surrender value cases, loan cases, death cases, revival of policies case and final settlement on maturity claims were still being finalized manually in GM PLI Karachi & R.D PLI Multan.
10. Terminal maturity calendar to intimate the insurant of his /her 1st maturity 2nd maturity in advance was not available.

11. In case of Joint Policy & Child Protection Policy if death of 2nd assignee occurs the software was unable to mention his name on proposal form whereas the insurant's name was mentioned.
12. In case of SVC & Maturity when payment sanction order was issued from R.D PLI Multan on claim proposal name of A.D (F) B/Nagar was mentioned instead of A.D Claim Multan.
13. Interest on loan, late deposit of premia and maintenance of bonus card was carried out manually.
14. Management reports were not generated from the application software rather a request was made to the vendor for provision of these report. No efforts appear to have been made on record to impart training for employees from the vendor.

Despite incurring heavy expenditure on computerization, the system was not fully operational and the PPOD had to rely on manual system as the software suffered from various deficiencies and failed to achieve the objectives set for automation.

Audit pointed this out to the management during March, 2017. It was replied that all the deficiencies had been removed. The reply was not acceptable as no documentary evidence in support of reply was provided.

DAC in its meeting held on 30th April 2018, directed the management to produce the record for verification to audit within a week time. However, no progress was made till finalization of this report.

Audit recommends the PPOD to take appropriate measure to ensure application of validation checks thereby strengthening the reliability of data and eliminating reliance on manual system.

(Item No.27)

4.3.2 Non-recovery of initial expenses from insurants on payment of surrender value-Rs8.283 million

According to para-7 of chapter-7 of PLI manual, initial expense of insurance such as cost of canvassing, medical examination, postage, stationery, policy issue and audit are also proportionately high. They are, however, not realized in the beginning in lump sum but are spread out over the whole period of insurance and are included in the premium rates as small fraction thereof. If a policy holder, however, decides to surrender the policy or to have it made paid up, there are no further premia to be realized and the whole amount of initial expenses has to be made good out of the premia already collected.

In two PLI Circles and one Region, test check of record revealed that an amount of Rs8,282,766 was not recovered from the insurants on account of medical expenses and canvassing cost from the canvassers while making payment of surrender value as per detail given below:

Sr. No.	Name of Circle / Region	Amount of Medical Expenses (Rs)	Amount of Hon/RC (Rs)	Total (Rs)
1	GM, PLI, Karachi	412,000	5,012,444	5,424,444
2.	GM, PLI, Lahore	122,500	1,692,435	1,814,935
3.	RD, PLI, Multan	77,000	966,387	1,043,387
Total		**611,500**	**7,671,266**	**8,282,766**

Audit pointed this out to the management during February & March, 2017. GM PLI Karachi replied that rules permitted a policy holder to surrender his/her policy, if so desired. GM PLI Lahore replied that all surrender cases had been settled after observing all due formalities. PLI Manual provides for the recovery of expenses but there was no example of such calculation due to revision in rates of honorarium and bonus etc. The reply was not acceptable as rules were not observed while settling the claims of surrender values and initial expenses were not recovered from the insurants.

DAC in its meeting held on 30th April 2018, directed the management that necessary amendments in the rules may be made and got approved from the competent forum and verified from audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to recover the amount involved from insurants and internal controls be strengthened for effective implementation of rules. It must be ensured that once the insurant decided to surrender the policy, all the benefits associated with it have to be recovered.

(Item No.23)

4.3.3 Growth in PLI Business

i) The year-wise growth in terms of volume of fresh insurance business secured during the period from 2011-12 to 2015-16 is as under:

(Rs in million)

Year	Fresh Business	Growth over previous	Percentage growth over last year
2011-12	292.236	(53.376)	**(15.45)**
2012-13	349.393	57.157	**19.56**
2013-14	406.679	57.286	16.40
2014-15	418.149	11.47	2.82
2015-16	410.721	(7.428)	(1.78)

ii) The year wise growth in terms of securing fresh policies for the same period is as under:

Year	No of Fresh Policies	Growth over previous year	%age growth over last year
2011-12	27,343	(1,460)	(5.069)
2012-13	25,445	(1,898)	(6.941)
2013-14	22,767	(2,678)	(10.52)
2014-15	22,017	(750)	**(3.294)**
2015-16	18,882	(3,135)	**(14.239)**

The above tables show that there was no significant growth in PLI business for the period from 2011-12 to 2015-16. The annual growth in terms of fresh business ranged between 19.56% to (-) 15.45%. The annual growth in terms of number of policies procured during the same period was (-) 3.294 % to (-) 14.239%. The figures in the tables also indicated a continuous decline in annual growth in terms of number of policies secured. Although, the department hired the services of Actuary to review the PLI schemes but Actuary as well as management could not take effective measures to make PLI schemes attractive enough to capture new business.

Audit pointed this out to the management during February, 2017. It was replied that the Department had achieved target each year and gained increase in business instead of decrease. The reply was incorrect, therefore, not acceptable because the above tables clearly show that there was no significant growth in fresh insurance business during last five years. As regards annual growth in terms of number of policies procured, there was also continuous decrease for the same period. Further, figures given in the departmental reply did not tally with the figures mentioned in the above tables.

DAC in its meeting held on 30th April 2018, pended the para and directed the management to reconcile the figures with audit within a week. However, no progress was made till finalization of this report.

Audit recommends PPOD to take appropriate measures to accelerate growth of PLI business especially in new and non-performing schemes by developing aggressive marketing strategies, ensuring adequate publicity, redesigning the schemes, if necessary and providing quality services to the customers.

(Item No.1)

4.3.4 Poor performance in group insurance business

a) Group insurance coverage was extended to employees of Government Departments and other institutions. The year wise growth in terms of fresh business secured during the period from 2011-12 to 2015-16 is as under:

(Rs in million)

Year	Business Secured	Growth over previous Year	%age Growth over last year
2011-12	396.746	156.333	**65.03**
2012-13	418.895	22.149	5.58
2013-14	421.191	2.296	**0.55**
2014-15	450.784	29.593	7.03
2015-16	597.092	146.308	32.46

b) The year wise premium income and payments during the corresponding period is as under:

(Rs in million)

Sr No	Year	Premium Income	Payments	Difference
1	2011-12	396.746	356.708	40.038
2	2012-13	418.895	491.826	**-72.931**
3	2013-14	421.191	455.425	**-34.234**
4	2014-15	450.784	393.615	57.169
5	2015-16	597.092	600.13	**-3.038**

According to the above table, there was significant growth in group insurance business during the years 2011-12 and 2015-16 whereas growth during the period 2012-13 to 2014-15 remained average. As regards premium income and payments, it showed that during the years 2012-13, 2013-14 and 2015-16, the premium income was less than the payments made to the insurants on account of death claims and it seemed that the department did not calculate the base price offered to its clients efficiently despite hiring the services of Actuary. Resultantly, loss of Rs110.203 million was sustained during the above three years.

Audit pointed this out to the management during February, 2017. It was replied that figures shown in the observation were incorrect. The correct figures from July, 2011 to June, 2016 showing premium receipts Rs2,288.007 million and payments Rs2,185.069 million were duly incorporated in the respective Annual Reports and showed good performance of Group Insurance. The reply was not based on facts, therefore, not acceptable. The above table showed that during the years 2012-13, 2013-14 and 2015-16 the payments made on account of Group Insurance to insured Government Departments were in excess of the premium received thus, no surplus amount was contributed to the PLI Fund.

DAC in its meeting held on 30th April 2018, directed the management to implement the audit recommendation within a week. However, no progress was made till finalization of this report.

Audit recommends PPOD to take effective measures to accelerate growth of group insurance business by developing aggressive marketing strategies, ensuring adequate publicity and providing quality services to the customers. The base price offered to insurants need to be calculated rationally to avoid loss in future.

(Item No.2)

4.3.5 Declining trend in business among different schemes

As on June, 2016 seven schemes i.e. endowment insurance, fixed terms insurance policy, whole life Insurance policy, anticipated endowment insurance policy, child protection insurance policy, joint life Insurance policy and marriage / education insurance policy were being offered through Postal Life Insurance.

The business procured in respect of each of the above schemes in the selected circles/regions during the above period is given in table below which indicated the growth of business among different schemes.

Name of Scheme	**2011-12**		**2012-13**		**2013-14**		**2014-15**		**2015-16**	
	No of Policies	**% age**	**No of Policies**	**% age**	**No of Policies**	**% age**	**No of Policies**	**% age**	**No of Policies**	**% age**
Anticipated Insurance	524	1.60	463	1.52	432	1.46	406	1.54	378	1.57
Fixed Term Policy	5006	15.30	4,464	14.69	4,554	15.34	4,158	15.73	4,068	16.88
Whole Life Insurance	161	0.49	168	0.55	147	0.50	112	0.42	55	0.23
Anticipated Endowment Insurance	25,704	78.56	24,113	79.37	23,390	78.80	20,657	77.82	18,638	77.33
Child Protection	928	2.84	756	2.49	776	2.61	703	2.66	638	2.65
Joint Endowment Insurance	310	0.95	321	1.07	234	0.79	258	0.98	227	0.94
Marriage & Education Insurance	88	0.27	96	0.14	151	0.51	134	0.51	99	0.41
Total	**32,721**		**30,381**	**-**	**29,684**	**-**	**26,428**	**-**	**24,103**	**-**

The number of new policies procured under above seven schemes indicated that five schemes of PLI other than fixed term policy and anticipated endowment policy had not been popular. The number of new policies procured under anticipated insurance, whole life insurance, child protection insurance, joint endowment insurance and marriage & education insurance had declined consistently during last five years. The fixed term policy was popular in Karachi circle whereas Anticipated Endowment Policy (three term policy) was popular in Lahore circle and its regions.

It is worth mentioning here that above data was not available at DGPPO level. Had the same was maintained at Headquarter level the management of PPOD might have focused on policies declining day by day.

Audit pointed this out to the management during February, 2017. It was replied that the sale of different kinds of policies showed the trend of market, which was also observed in other Insurance Companies. Anticipated policies were popular because multiple cash payments were given to the insurants during the term of policy. The targets were being achieved. The reply was not acceptable as the department did not review these schemes annually having constant decreasing trend. Moreover, no effective measures were taken to make these schemes more attractive to capture new business.

DAC in its meeting held on 30th April 2018, directed the management to review the non performing schemes and fix future target by considering the number of policies and amount as well. However, no progress was made till finalization of this report.

Audit recommends PPOD to take appropriate measures to accelerate growth of PLI business especially in new and non-performing schemes by developing aggressive marketing strategies, ensuring adequate publicity, redesigning the schemes if necessary and providing quality services to the customers.

(Item No.3)

4.3.6 Insignificant contribution in PLI Fund

The year wise growth in PLI Fund through interest charged to Finance Division from 2011-12 to 2015-16 is as under:

(Rs in million)

Year	Balance of PLI Fund (Rs)	Growth over previous years through interest (Rs)	%age growth over last year
2011-12	27,536.721	1,556.413	5.99
2012-13	31,367.911	3,831.190	13.91
2013-14	34,495.635	3,127.724	9.97
2014-15	39,347.237	4,851.602	14.06
2015-16	43,263.621	3,916.384	9.95
	Total	**17,283.313**	

The year wise growth in terms of contribution to PLI Fund through business for the same period is as under:

(Rs in million)

Year	Receipt	Payment	Net balance contributed to PLI Fund	%age growth
2011-12	3,424.499	2,832.776	591.723	17.28
2012-13	3,778.005	3,231.443	546.562	14.67
2013-14	4,113.089	3,797.289	315.800	7.68
2014-15	4,473.581	4,071.979	401.602	8.98
2015-16	4,372.937	4,335.070	17.867	0.87
		Total	**1873.554**	

The analysis of data indicates significant growth in PLI Fund through interest for the period from 2011-12 to 2015-16 which ranged between 5.99% to 14.06% whereas, the contribution in PLI Fund through business was only 0.87% to 17.28%. Further, the growth during the year

2011-12 was 17.28% which decreased to 0.87% in the year 2015-16 showing continuous decreasing trend. Furthermore, 10.84% of PLI Fund increased through fresh business and 89.16% increased due to charging of interest to Ministry of Finance which showed that the interest was the main source of increase in Fund. The management of PPOD did not take effective measures to make the PLI business attractive enough to generate new business.

Audit pointed this out to the management during February, 2017. It was replied that receipts were more than payments which showed growing trend of PLI business. Moreover, payments were made from Post Office Insurance Fund instead of receipts. The reply was not based on facts therefore, not acceptable interest to PLI Fund was charged at the close of each financial year. The department did not exclude the payments from receipts. Table No.20 clearly depicted that there was a declining trend in contribution to PLI Fund through business.

DAC in its meeting held on 30th April 2018, directed the management to reconcile the figures with audit within a week. However, no progress was made till finalization of this report.

Audit recommends PPOD to take effective measures to accelerate growth of PLI Fund through fresh business by developing aggressive marketing strategies, ensuring adequate publicity, redesigning the schemes if necessary and providing quality services to the customers.

(Item No.4)

4.3.7 Non-achievement of targets

The fresh targets for PLI business was fixed on the basis of the targets and achievements of previous years. The Director General PPOD did not achieve the yearly targets from 2011-12 to 2015-16. The shortfall of targets ranged between 22.21% to 29.67% as per following details:

(Rs in million)

Year	Target Fixed	Target achievement as per statistical statement	Shortfall	%age
2011-12	407.430	292.236	115.294	28.27
2012-13	449.130	349.393	**99.737**	**22.21**
2013-14	524.986	406.679	118.307	22.54
2014-15	547.217	418.149	129.067	23.59
2015-16	584.000	410.721	**173.279**	**29.67**

Audit pointed this out to the management during February, 2017. It was replied that revenue targets for the last five years had been achieved. The reply was not based on facts, therefore, not acceptable. Figures in the above table clearly depicted shortfall in achievement of targets. Further, PPOD failed to popularize all its schemes except anticipated endowment policy and fixed term policy.

DAC in its meeting held on 30th April 2018, directed the management to reconcile the figures with audit within a week. However, no progress was made till finalization of this report.

Audit recommends PPOD to take appropriate measures, develop aggressive marketing strategies and ensure adequate publicity for achievement of annual targets.

4.3.8 Poor role of Actuary

An Actuary is a professional person who applies mathematical skills to financial, business and social problems. Actuaries are responsible for determining the liabilities associated with any policies issued and asset-liability management. Further, he is responsible for designing and pricing of products estimating fair value for accounts analysis which will be helpful for future project.

During review of the record relating to appointment of Actuary, it was noticed that the services of Actuary M/s Anwar Associates were hired for actuarial work but the following objectives set out through contract were not achieved for the period 2011-12 to 2015-16.

1. The consulting firm had to provide actuarial services to the management of PPOD at H/Q, Circles and Regional Directorate but these services were not being provided at GM PLI Karachi and Regional level.
2. Advice had to be given on various aspects of the PLI strategies keeping in view the prevailing environment and consumer requirement but no advice was given to the management was on record.
3. No proposal for launching new products, up gradation and re-pricing of the existing products/schemes was on record.
4. There was no reviewing mechanism available to assess the performance of the products.
5. The Actuary was duty bound to perform periodic statutory actuarial valuation for the life insurance portfolio i.e. Post Office Insurance Funds and recommendations for enhancement in bonus rates which was not done in the case.
6. Actuary should perform periodic review to analyze the appropriateness of the product mix in view of changing circumstances, market reaction and trends but no review/analysis was done to introduce new schemes

This depicts that the PPOD did not monitor and utilize the services of the Actuary effectively, resultantly; adverse growth in PLI business was noticed in all sectors.

Audit pointed this out to the management during March, 2017. It was replied that new products had been launched since decades. The reason was that neither there was Training & Research Branch nor Product Development Branch. The reply was not relevant as the Actuary failed to perform his duties listed in the contract.

DAC in its meeting held on 30th April 2018, showed serious concern on the non-performance of Actuary's laid down duties and directed the management to rationalize the same and take necessary steps for review and monitoring the duties under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to take appropriate measures for better utilization of the services of the Actuary so that PLI business could be expended in the market. Further a steering committee may be constituted to review the performance of Actuary on regular basis.

(Item No.41)

4.3.9 Delay in acceptance of Proposals

According to para 17 of Chapter-IV of PLI Manual, every case of fresh proposal has to be accepted within 15 days of receipt of a proposal by issue section of PLI Circle/Regions.

Audit scrutiny revealed that in two PLI Circles and one Region there was delay beyond 15 days in acceptance of proposals during the period 2011-12 to 2015-16 as per following details:

S. No.	Circle / Region	No of Policy Issued	No of Policies issued Delayed	%age
1	GM, PLI, Karachi	16,375	12,988	79.32
2	GM PLI, Lahore	102,707	82,530	80.35
3	RD PLI, Multan	25,296	25,296	100
Total		**144,378**	**120,814**	**83.68**

The above table revealed that 144,378 proposals were received during the period 2011-2012 to 2015-16. Out of these 120,814 proposals constituting 83.68% of total proposals received were delayed. Even though PLI had been computerized way back in 2008-09, but department had not been able to accept the proposals within given time frame.

Audit pointed this out to the management during February & March, 2017. It was replied that proposed forms duly completed in all respects had been accepted normally within 15 days of receipt of proposal in issue section. Moreover, these offices had been facing problems due to shortage of staff and frequent electricity failure. The nominal delay if any, in acceptance of proposal form occurred due to some technical reasons/missing documentary evidences. The reply was evasive as the above data had been derived from the record of PLI Circles which depicted that the policies were issued after inordinate delay.

DAC in its meeting held on 30th April 2018, directed the management to take steps for acceptance of proposals within stipulated time period for satisfaction of the customers under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to take effective measures to meet time lines and norms set for acceptance of proposals for providing efficient services to the customer.

(Item No.16)

4.3.10 Non-maintenance of maturity register

According to Para 3 of chapter-IX (Part-I claims) of the PLI Manual, every case regarding maturity during the next 12 months will be entered in the maturity register and one page will be given to each case. It will be personal responsibility of the Head Clerk/AS/AD to review the register each month and bring it up to date.

Customer satisfaction is the goodwill of the department which can be achieved by giving a proper and accurate maintenance of record & comprehensive feedback from the customers. For this purpose maturity register is an essential document which will be maintained and reviewed in order to achieve the objectives.

Test check of record revealed that circles/regions of PLI did not maintain the maturity register and maturity claims were settled with a delay of 3 to 34 months, resultantly, neither the proper intimation of final maturity were issued to the insurants nor the claims were finalized timely. Thus the objective for accurate maintenance of record and customer satisfaction cannot be achieved.

Audit pointed this out to the management during February & March, 2017. It was replied that instruction had been issued for maintenance of maturity register and ensuring timely finalization of maturity cases. The reply was not acceptable as the department did not maintain maturity register and claims were being settled with delay of 3 to 34 months.

DAC in its meeting held on 30th April 2018, directed the management to maintain maturity register and take effective steps for finalization of such cases within stipulated time period under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to maintain maturity register and ensure timely finalization of maturity cases.

(Item No.17)

4.3.11 Non-availability/un-reliable data of active/inactive policies and non-issuance of credit notices to insurants

According to Article-26 of PLI Account Code, when a policy holder has failed to pay a premium by the last working day for which the premium is due in respect of policy, the policy will become void. The Assistant Director will issue notice to the policy holder and ask him to pay the arrears from the first of the month for which the premia is due along with interest. If the arrears of premium and interest are paid by the policy holder by the due date, the policy will be formally revived.

Review of record relating to lapse/forfeiture of policies, it revealed that total number of 431,784 policies were in vogue upto June 2016 but

Director General Pakistan Post office department did not maintain record regarding active and inactive policies.

As per computerized record of PLI Circle Lahore total number of policies was 458,912 out of which 225,783 policies were active and 233,129 policies got lapsed as on 30.06.16. But as per record of DG PPO 431,784 policies were active all over Pakistan. Hence, there was a difference of 27,128 policies. Moreover, GM PLI Lahore was unable to provide year wise data regarding active and inactive policies for the period 2011-12 to 2015-16.

As per computerized record of PLI Circle Karachi 16,375 policies were procured during 2011-12 to 2015-16 out of which 8,882 polices were active and 7,493 of policies were inactive.

Audit pointed this out to the management during February & March, 2017. GM PLI Karachi replied that delay in submission of credit position to policy holders had occurred due to some technical problems with PLI computer of Lahore and Karachi. However, bugs had since been removed and intimation of credit were being sent vigorously. GM PLI Lahore replied that most of the parts of PLI software were developed / upgraded but due to non-availability of hardware the same could not be executed yet. However, funds for purchase of hardware had been requested from concerned quarters. Efforts were being made to ensure the security of data with the help of vendor. The reply was not satisfactory as there was variation in data regarding number of policies in vogue as on 30.06.2016 available at DG PPO and GM PLI Lahore. Moreover, department was unable to provide accurate data regarding active / inactive policies. Further, credit notices were not issued to insurants.

DAC in its meeting held on 30th April 2018, directed the management to reconcile the data and get it verified from audit. However, no progress was made till finalization of this report.

Audit recommends that data of lapsed/forfeited policies be maintained at DGPPO level. The software should be strengthened and updated to generate such reports besides issuance of non-credit notices to insurants.

(Item No.30)

4.3.12 Non-checking of cent per cent premium receipt schedules

According to para 21 (a & d) of the chapter-V (posting) of the PLI Manual a checking cell may be established which is responsible to ensure that in respect of every active policy which has not been cancelled forfeited or discharged, the monthly or annual premium, as the case may be, has been posted properly and omission or short payment, if any, are detected readily and all irregularities of premium which come to light are noticed to the insurants concerned promptly so as to give them a chance to rectify and thus save the policy from lapse and forfeiture. The main objective in having the posting of premia in the ledger card, is to see that a policy remains active and that defects and irregularities which may adversely affect the admissibility of final payment are settled in time and without much delay.

Insurance premia are realised every month which is payable in the post offices working under administrative control of PMGs. The post offices, after booking the premium amount under PLI receipts, prepare a schedule of receipts and send the same to Assistant Director (Field) concerned. The AD (F) then forwarded the same to concerned circles/regions of PLI. On receipt of schedules, PLI circle /region prepared and maintained a premium ledger account of insurants in a cell called “cent percent cell” so as to readily detect omissions and short payments of premia. Test check of record revealed that the post offices did not provide the schedule to the GM PLI Karachi even after lapse of 3 to 12 months. Moreover, the cent percent cell was not established in GM PLI Lahore & R.D PLI Multan at all. Due to late receipt of schedules of premium and non-establishment of cent percent cell, the error, omissions, fraud and misappropriation are not readily detected and final payments on maturity claims are also delayed.

Audit pointed this out to the management during February & March, 2017. It was replied that Ledger Cell is properly working on schedules which were re-checked in P.G Section. However, sometimes due to rush of work the schedule / voucher was not received in time causing delay. The reply was not acceptable as cent percent section did not exist in both PLI circles. Moreover, in GM PLI Karachi the schedules were received from AD PLI (F) with the delay of 3 to 12 months. In GM PLI Lahore cent percent checking of schedules was neither carried out on manual basis nor done by the computer section.

DAC in its meeting held on 30th April 2018, directed the management to establish cent per cent cell for checking of premium receipt schedules under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends PPOD to ensure timely receipt of schedules/vouchers and establishment of cent percent cell so that errors and omissions may readily be detected and communicated to the insurants and final maturity cases be finalized in time.

(Item No.37)

4.3.13 Variation in Accounting Data

Review of the files of monthly targets & achievements received from PLI circles/regions with that of statistical statements revealed a huge difference between two sets of figures regarding achievement of targets as per following details:

(Rs in million)

Year	Target Fixed	Achievement as per Monthly Statement	%age	Achievement as per Statistical Statements	%age	Refund Paid to insurants
2011-12	407.43	428.45	105.16	292.24	71.73	295.630
2012-13	449.13	494.84	**110.18**	349.39	**77.79**	363.251
2013-14	524.99	555.36	105.79	406.68	77.46	465.459
2014-15	547.22	559.35	102.22	418.15	76.41	146.999
2015-16	584.00	569.48	**97.51**	410.72	**70.33**	129.459
Total	**2,512.763**	**2,607.48**		**1,877.18**		**1,400.798**

As per monthly statements the % age of target achieved was ranging from 97.51 % to 110.18% whereas, it was 70.33% to 77.79% as per statistical statements for the period from 2011-12 to 2015-16.

Audit pointed this out to the management during February, 2017. It was replied that all PLI receipts were deposited under head G-3109-1 PLI Fund and payments made were charged to head G-3109-2 including Fresh premium, subsequent premium, all recoveries i.e. premium interest on late payment. The P.G Section reconciled the departmental figures with DA PPO figures and after removing variation, if any, issued reconciliation certificates. All these figures had been verified by the two sets of accounts i.e. departmental schedules and DA PPO figures. The reply was not correct as the varying figures were attributed to refund of provisional premium deposited by the proposer subsequently declared unfit. Thus the accounting data together with the internal controls of the management was unreliable. The PPO management received Rs1,400.798 million in PLI Fund as premium in last five years and this amount was refunded to the proposers after declaring them medically unfit. The refund of amount should have been ultimately subtracted from monthly statements which was not done, thus, PLI accounts were inflated.

DAC in its meeting held on 30th April 2018, directed the management to reconcile the figures with audit within a week. However, no progress was made till finalization of this report.

Audit recommends PPOD to take effective measures for preparation of reliable accounting data representing true and fair picture of accounts.

(Item No.6)

4.3.14 Non-maintenance of loan interest Account and non-issuance of notices to insurants

According to Article-40 (vi) of postal Life Insurance Account Code, a monthly consolidated loan account of all loan transactions will be compiled which will also show monthly balance of outstanding loan paid out of the fund. Interest on loan will be shown separately in this account. Further, Article 40-A (ii) of PLI Account Code stipulates a notice regarding the amount to be paid as interest will be issued to the loanees before 1st July every year and notice thereof will be kept in the ledger account. A period of one month of grace will be allowed for payment of the interest.

During review of the record relating to loan and interest thereon, it was revealed that the Director General Pakistan Post Office Department received monthly returns from circles/regions of PLI, which contained information regarding loan paid, loan recovered and loan outstanding against the insurants but the interest recoverable on loan was not depicted in the monthly returns.

Moreover, the collection of data from circle/regions revealed that notices on account of interest due on loan were not issued during 2011-12 to 2015-16. As most of the insurants were illiterate and not familiar with the PLI rules, therefore, they fail to deposit interest in time. Due to non-issuance of notices to insurants, the interest amounts were accumulated and ultimately the insurants had no other choice but to surrender their policies due to accumulation of loan amount and interest thereon.

Audit pointed this out to the management during February & March, 2017. It was replied that notices on account of interest were issued from time to time. Recovery against loan was also 80% which reflected the pace of recovery. The reply was not satisfactory as monthly returns were not sent to DG PPOD from circles / regions of PLI containing information regarding interest recoverable on loans. Moreover, notices regarding interest due on loans were also not issued to insurants.

DAC in its meeting held on 30th April 2018, directed the management to maintain the loan interest account and issue notices to the insurants under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends the management to devise a mechanism to maintain computerized loan and interest account and issue notices of interest recoverable to the insurants on due dates. Moreover, the copies of notices issued should form the part of an individual file.

(Item No.32)

4.4 Compliance of Rules and Regulations

4.4.1 Unlawful amendment in rule and payment of honorarium and renewal commission - Rs1,087.083 million

According to Para 9 (d) of System of Financial Control and Budgeting, 2006, the approval of the Finance Division is required before issuing any orders that may affect the finances of the Federation. Rule 3 (3) (vii) of Chapter-III of PLI Manual prescribes that the renewal commission/ honoraria in the subsequent year, will be paid at the end of the year if the policy continues in force during the year. Rule 3 (3) (vi) further prescribes that honorarium should be paid to the Assistant Superintendents (Field) PLI for the business secured by them in excess of their prescribed annual quota at half the rate at which commission is admissible to the canvassing agents.

PPOD made amendment in rule 17 (ii) of PLI Account Code and enhanced the rates of honorarium/renewal commission. An amount of Rs1,087.083 million was paid to canvassing agents during 2012-11 to 2015-16. The detail is as under:

(Rs in million)

S. No.	Year	Amount
1	2011-12	295.630
2	2012-13	98.523
3	2013-14	243.344
4	2014-15	194.601
5	2015-16	254.985
Total		**1,087.083**

The amount was held unlawful due to the following reasons:

i) The admissible rate @ Rs4 per thousand of sum assured at the time of acceptance of proposal and Rs2 per thousand of sum assured after payment of three premiums were enhanced to 37.5% of premium realized in the first year, 10% of premium realized in second year and 5% of premium collected in subsequent year till maturity of the policy. The enhancement in rates was made without the approval of the Finance Division.

ii) Honorarium was paid to canvassers in advance instead of at the end of the year.

iii) The honorarium was paid to Assistant Superintendents (Field) on annual quota secured by them instead of in excess of their prescribed annual quota at half the rates at which commission was admissible to canvassing agents

Audit pointed this out to the management during March, 2017. It was replied that the rates for payment of honorarium / RC were approved during the corporate period (i.e. 1992-96). On dissolution of PPSC, all actions taken by the chairman PPSC hold good as decided by the President of Pakistan. The reply was not acceptable as Public Accounts Committee in its meeting held on 10th December, 2015 on the Audit Report for the year 2013-14 had settled the same nature para subject to approval of PLI Fund rules by the Finance Division.

DAC in its meeting held on 30th April 2018, Chairman, DAC settled the para in the light of Presidential order dated 26th August, 1996. However, audit contended that PAC while reviewing same nature para in the Audit Report for the year 2013-14 settled the para subject to approval of PLI Fund Rules by the Finance Division. Audit withholds such directives of the PAC. However, no progress was made till finalization of this report.

Audit recommends PPOD to get the expenditure regularized from Finance Division and till approval of PLI rule, no further payment should be made. Further, PPOD should take appropriate measures to strengthen the internal controls and ensure the proper implementation of PAC directives.

(Item No.14)

4.4.2 Unlawful allocation of canvassing agencies to officers and payment of Honorarium / Renewal Commission-Rs71.407 million

According to Article 17(II) of PLI Account Code, the honorarium will be sanctioned to canvassers from among the Non-Gazetted Government employees. Moreover, Chapter-III (3) of PLI manual stipulates that the canvassers fall into two categories: whole time Assistant Superintendent (Field) whose main duty is to do canvassing and other allied work and honorary canvassers from among the non-gazetted departmental employees who work in their own spheres of influence during their off duty hours.

Test check of record revealed that PLI Circles Karachi & Lahore and Regional office Multan allotted canvassing agencies to Assistant Directors (Field) and officers of PPOD working in General Post Offices who are supervisors/gazetted officers. Due to this, officers cannot concentrate on their supervisory duties but they spend most of the time to get policies from prospective insurants for their own benefits. The record further revealed that an amount of Rs71.407 million was paid to officers as honorarium/ renewal commission during the period 2011-12 to 2015-16. The detail of payment of honorarium and Renewal Commission is as under:

S. No.	Name of Circle / Region	Honorarium/RC paid to officers (Rs in million)
01.	GM, PLI, Karachi	5.810
02.	GM, PLI, Lahore	45.270
03.	RD, PLI, Multan	20.327
	Total	**71.407**

Audit pointed this out to the management during February & March, 2017. It was replied that as per amendment in the PLI Manual vide PPSC Gazette Notification No. -6/93 dated 15.05.1993 there was no bar on any officer of Pakistan Post to work as PLI canvasser. Almost all the AD (F) were promoted from AS (F) who were performing their duties of canvassers and allotted respective Canvassing Agency numbers. The reply was not acceptable as gazetted officers were not allowed to work as canvassing agents according to PLI Account Code. The amendment in rule was made by the DG PPOD without the consultation of Finance Division for which he was not competent to do so.

DAC in its meeting held on 30th April 2018, directed the management to revisit the instructions at headquarter level and stop such practice at the earliest under report to audit. Moreover, the amount of honorarium / renewal commission may also be recovered. However, no progress was made till finalization of this report.

Audit recommends PPOD to recover the amount of Honorarium / Renewal Commission from the officers and canvassing agencies as well as personal quota assigned to gazetted officers may be cancelled. The payment of Honorarium / Renewal Commission to officers be stopped immediately.

(Item No.18)

4.4.3 Unlawful payment of death claims on non-medical policies - Rs8.001 million

According to Para 8, Chapter-II, of the PLI Manual, the non-medical policies were introduced by Government of Pakistan vide Notification No.PLI.32-13/60 dated 24th April, 1961. By virtue of this notification a person can get Postal Life Insurance Policy not exceeding a sum of Rs.15,000 without undergoing a medical examination. However, insurance cover was restricted, in case, if the insured dies within 2 years of issue of the policy except where death is caused by an accident or by Cholera, Plague, Small poxes, Typhoid, the amount of benefit payable in respect of the policy shall, subject to the policy being in full force, otherwise be limited to the sums, i) if death occurs within 6 months of issue of policy 10% of sum insured , ii) in the event of the death of insured occurring after 6 months of the issue of policy 30% of the sum insured, iii) in the event of the death of the insured occurring after 01 year but within 02 years of the issue of the policy 60% of the sum insured.

Audit checked record of two PLI Circles and one Region which revealed settlement of 105 death cases before completion of 2 years from the date of acceptance of the policy during the period 2011-12 to 2015-16. These insurants died due to Heart Attack, Kidney Failure, TB and Brain Haemorrhage etc. The death claims of these insurants should have been settled according to the above instructions/rules but their families had been paid full amount of sum insured. Resultantly an unlawful payment of Rs.8,001,300 was made as per following details:

S. No.	Name of Circle / Region	No. of Death cases	Amount Paid (Rs)
01.	GM, PLI, Karachi	23	1,766,300
02.	GM, PLI, Lahore	64	4,075,000
03.	RD, PLI, Multan	18	2,160,000
Total		**105**	**8,001,300**

Audit pointed this out to the management during February & March, 2017. It was replied that no non-medical policy had been secured. The policies mentioned in the annexure do not fall under non-medical polices. These policies were secured under rule 28(1) of POIF Rules. The reply was not acceptable as the two types of policies were in vogue i.e. non-medical and medical policies. In case of policy below the limit of Rs200,000, the medical test of the insurant was not required whereas in case of policy above the limit of Rs200,000 the medical test of the insurant was essential. Further, in case of non-medical policies, the rates for payment on account of death claims fixed by the government within two years were not observed and full amount of the policy was paid. PPO Department was not competent to make amendment in rules without the consultation of Finance Division.

DAC in its meeting held on 30th April 2018, directed the management to get the rules approved from Finance Division. However, no progress was made till finalization of this report.

Audit recommends that amendments made in rules be got vetted / approved from Finance Division. The monitoring of internal controls be strengthened for effective implementation of rules & regulations and practice of paying full amount to the deceased family may be stopped henceforth.

(Item No.19)

4.4.4 Unlawful rebate to postal employees due to amendment in Rule - Rs 7.044 million

According to Rule-4 of Chapter XIII of PLI Manual, if a general change is proposed to be made the rule concerned may be amended in consultation with Finance Division. Director General PPOD made amendments in the rule according to which postal employees were entitled to get the rebate equal to honorarium/commission admissible to canvassers on the payment of premium while taking the postal life insurance policy. The said rule was amended without the approval of Finance Division.

In GM, PLI, Karachi, audit revealed that 1,252 postal employees were insured, since the amendment and implementation of rule, out of which 233 files of postal employees were checked. It was found that two types of rebates had been allowed to postal employees i.e. one was according to PLI Fund rules and other was allowed by the Director General. The rebate allowed by DG PPO through amendment in rule works out to Rs7,043,598 which was held unlawful.

The record further revealed that these insurants after depositing 24 months premia, got their policies converted from higher sum assured to lower sum assured as well as class of policy from 70 years to 5 years. Therefore, initially sum assured of Rs232.049 million were reduced to Rs38.024 million and class of policy 70 years to 5 years. The record revealed that each employee had more than 4 policies. The postal department introduced this policy for 2 main purposes, firstly for the welfare of the postal employees and secondly to increase the premium income but the postal employees misused this welfare scheme and made it a source of income by getting more than 4 policies.

Audit pointed this out to the management during March, 2017. It was replied that audit observation was not based on facts as rebate and commission were different in insurance business. The postal authority introduced postal policy for the welfare of postal employees as well as increase in the premium income. No extra benefit was being extended to the postal staff. The reply was not tenable as the amendment in rules was made without the approval of Finance Division. Moreover, the postal employees misused this welfare scheme and made it a source of income by getting policies of higher value and after completion of 2 years period got them converted into lower value and then purchased new policy.

DAC in its meeting held on 30th April 2018, directed the management to observe the rules / instructions of DG PPO and recover the rebate under intimation to audit. However, no progress was made till finalization of this report.

Audit recommends that amendment made in the POIF Rules 2001, may be got approved from Finance Division. The practice for getting more than 01 policy be stopped immediately.

(Item No.21)

4.4.5 Unlawful amendment in PLI Rules

Postal life Insurance Account Code was issued under the authority of President of Pakistan. The Director General Pakistan Post Office was assigned administration of the Fund and was also authorized to issue subsidiary regulations and orders as he may deem necessary. Further, PLI Manual prescribed that any change in the rule will be subject to prior approval of Finance Division.

Post Office Insurance Fund Rules were updated upto March-2001 and certain rules were amended without the concurrence/prior approval of the Finance Division. Moreover, said rules were also not got vetted from Auditor General of Pakistan. Therefore, PLI business carried out under such amended/updated rules was termed as unlawful operations.

Audit pointed this out to the management during February, 2017. It was replied that Post Office Insurance Fund Rules 2017 (POIF) were being updated in the light of the amendment and would be submitted for the approval of competent authority. The reply was not acceptable as the despite a lapse of about seventeen years, approval of Finance Division was not obtained.

DAC in its meeting held on 30th April 2018, directed the management to get the revised PLI Rules, 2001 approved from Finance Division at the earliest. However, no progress was made till finalization of this report.

Audit recommends that amendments in POIF rules may be got vetted from the Auditor General of Pakistan followed by the concurrence/approval of Finance Division.

(Item No.29)

4.5 Overall Assessment

4.5.1 Efficacy

It was observed that despite hiring the services of professional Actuary, no proposal for launching new products, up gradation and re-pricing of the existing products/schemes was made. As required, actuary did not perform periodic statutory actuarial valuation for the life insurance portfolio i.e. Post Office Insurance Funds and gave no recommendations for enhancement in bonus rates. Further, periodic review by actuary to analyze the appropriateness of the product mix in view of changing circumstances, market reaction and trends was not made to introduce new schemes.

Despite huge investment on computerization the Postal Life Insurance Software (PLIS) has not yet been fully functioning and failed to achieve the desired results and targets.

4.5.2 Efficiency

Performance Audit of PLI and its operations revealed that annual targets set for securing fresh PLI business could not be achieved by PPOD. Insignificant growth in business was observed during last five years. The performance of Group Life Insurance business in Karachi was negligible despite the fact that it is a largest city and industrial hub of Pakistan where corporate offices of almost all major private and public sector enterprises are situated.

The lack of interest on the part of PLI management and reluctance in making whole-hearted efforts for business development by the staff resulted into declining of overall efficiency of PLI.

4.5.3 Economy

Provision of life insurance coverage to the common man with maximum benefits at minimum cost was one of the prime objective of establishment of PLI. The overall assessment of PLI made during Performance Audit revealed that higher cost was incurred to attain fresh business. The audit observed non-recovery of initial expenses from insurants on payment of surrender policies, non-recovery of difference of honorarium already paid to canvassers on conversion of policies, wrong payment of bonus, less recovery of interest on loan / forfeited policies, payment of honorarium / renewal commission on enhanced rates without approval of Finance Division and un-lawful rebates to postal employees. The above factors contributed towards cost escalation of PLI which not only affected economy but also market competitiveness of PLI.

4.5.4 Effectiveness

The audit observed that PPOD could not take effective measures to penetrate the market and accelerate the growth of PLI business, especially in new and non-performing schemes. Therefore, the objective of PLI to provide life insurance coverage to the common man and to make postal life insurance a more effective means of mobilizing national savings could not be achieved.

4.5.5 Compliance with Rules

The instances of non-compliance with rules and procedures were observed. Rules and regulations with regard to conversion of policies, allocation of canvassing agencies to officers, payment of death claims on non-medical policies and rebate to postal employees were not observed. The certain rules were amended without the approval of the Finance Division.

5. CONCLUSION

5.1 The key audit findings

The performance audit report on Postal Life Insurance comprises of 38 audit paras:

i. PPOD incorrectly charged interest to PLI Fund. Pension contribution, commission of policies, postage charges and rent of residential / office building was not excluded from the monthly interest bearing balance.
ii. PPOD failed to observe the rules and regulations with regard to conversion of policies. In PLI Circle, Karachi 2385 policies were converted from higher sum assured to lower sum assured. The class of policy (maturity period) was also changed in violation of rules. Resultantly, PLI sustained heavy loss. Further, bonus was also wrongly paid to insurants in these conversion cases.
iii. PPOD failed to reduce the risk of surrender of policies. Review of record relating to maturity and surrender value cases revealed that 15902 maturity cases and 29533 surrender value cases were finalized from 2011-12 to 2015-16. The percentage surrender of policies ranged from 147.06% to 262.71%.
iv. PPOD failed to utilize the services of Actuary effectively for the benefit of the department. No proposal for launching new product, up-gradation and re-pricing of the existing products was made.
v. PPOD had to rely on manual system as the software suffered from various deficiencies.
vi. Audit observed delays in settlement of claims. The test check of record revealed that maturity claims were settled with a delay of 3 to 34 month.
vii. Audit also noticed that there were delays in acceptance of insurance proposals. Audit found that 83.68% of the proposals received during the period 2011-12 to 2015-16 were accepted with delays of more than 15 days.
viii. PLI Account Code was issued under the authority of President of Pakistan. The DG PPOD was authorized to issue subsidiary rules and

regulations to run the business. PLI Fund rules were updated upto March, 2001 and certain rules were amended without the approval of the Finance Division.

ix. Audit observed insignificant growth in the insurance business as well as number of policies ranging between 19.56% to (-) 15.45% and (-) 3.294% to (-) 14.239% respectively during the period 2011-12 to 2015-16, which showed consistent declining trend during last five years.

x. PPOD failed to achieve the yearly targets set for procurement of business during the period from 2011-12 to 2015-16. The short fall of targets ranged between 22.21% to 29.67%.

5.2 Key audit recommendations

The PPOD needs to devise a system to:

i. Improve the accuracy and completeness of accounts by ensuring correct charging of interest to PLI Fund besides adjustment of wrongly charged interest to the Fund.

ii. Strengthen the internal controls with respect to conversion of policies for ensuring compliance to rules & regulations. Efforts may also be made for sustainable business development of PLI Fund.

iii. Reduce risk of surrender of policies by maintaining close liaison with the insurants. Notices need to be issued to defaulters instantly.

iv. Take appropriate measures for better utilization of the services of the actuary so that PLI business could be expended in the market.

v. Ensure application of validation checks thereby strengthening the reliability of data and eliminating reliance on manual system.

vi. Time norms for acceptance of proposals and settlement of claims may be reviewed for providing more efficient customers service.

vii. Get approval of PLI Fund Rules, 2001 from Finance Division.

viii. Take appropriate measures to accelerate growth of PLI business, especially in new and non performing schemes by developing aggressive marketing strategies, ensuring adequate publicity, redesigning the schemes if necessary and providing quality services to the customers.

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