



FEDERAL OMBUDSMAN

REPORT BY THE COMMITTEE
CONSISTING OF

- (1) MS. TALAT ALTAF KHAN, Additional Secretary.
- (2) MR. RIAZ AHMED, Director General.

On

Public complaints and causes of concern in respect of
State Life Insurance Corporation of Pakistan (SLIC)



STATE LIFE
INSURANCE CORPORATION OF PAKISTAN



Wafaqi Mohtasib (Ombudsman)'s Secretariat,
Regional office, 15/A, Davis Road, Lahore.

Table of contents

<u>Sr. No.</u>	<u>Description:</u>	<u>Page No:</u>
1.	Background and Introduction of SLIC.	3 - 4
	i) Introduction to Insurance.	
	ii) Contract of Insurance.	
	iii) Doctrine of Insurance.	
2.	Types of Insurance	4 - 5
	i) Life Insurance	
	ii) Medical Insurance	
	iii) Disability Insurance	
	iv) General Insurance	
	v) Automobile Insurance	
	vi) Business Insurance	
	vii) Property Insurance	
	viii) Fire Insurance	
	ix) Flood Insurance	
	x) Policy Term	
	xi) premium	
3.	Organizational Structure of SLIC.	6
	i) Board of Directors	
	ii) Executive Directors	
	iii) Divisional Heads	
	iv) Regions	
	v) Zones	
4.	Objectives.	6
5.	Constitution of the Committee.	7
6.	Terms of Reference of the Committee.	7
7.	Methodology.	7
8.	Death Claims	7-8
9.	Revival of Policies	8
10.	Surrender of the Policy	8-9
11.	Key Business and Highlights.	9
	i) Individual Life	
	ii) Group Business	

- | | | |
|-----|---|---------|
| 12. | Observations. | 10 - 11 |
| | i) New Business Department | |
| | ii) Maturity Claims | |
| | iii) Role of Agent | |
| 13. | Recommendations. | 11-14 |
| | i) Death Claims | |
| | ii) Revival of Policy | |
| | iii) Surrender of the Policy | |
| | iv) New Business Department | |
| | v) Maturity Claims | |
| | vi) Role of Agent | |
| 14. | General but very Important Recommendations. | 14 |

Background and Introduction of SLIC.

State Life Insurance Corporation of Pakistan (the Corporation) was incorporated on November 1, 1972 under the Life Insurance Nationalization Order, 1972. Due to its well established Agency Network of more than 90,000 sales people, State Life is the largest Life Insurance Corporation since 1972 in Pakistan. The Life Insurance Business in Pakistan was nationalized in March 1972. Prior to 1972, 32 Life Insurance companies were involved in the life insurance business. These companies were later merged and placed under three Beema Units named “A”, “B” and “C”. Later, these Beema Units were merged on November 1, 1972 and State Life Insurance Corporation of Pakistan came into existence. The major function of State Life Insurance Corporation of Pakistan is to carry out Life Insurance Business; however, it is also involved in the other business activities such as investment of policyholders’ fund in Government securities, Stock market and Real Estate etc.

Introduction to Insurance:

Insurance

In law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium, and can be thought of as a guaranteed small loss to prevent a large, possibly devastating loss.

Insurer

An insurer is a company selling the insurance.

Insured

Insured is the person or entity buying the insurance.

Insurance Rate

Insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage.

Risk Management

Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

Contract of Insurance

The insurance contract is a contract whereby the insurer will pay the insured (the person whom benefits would be paid to, or on the behalf of), if certain defined events occur. Subject to the "fortuity principle", the event must be uncertain. The uncertainty can be either as to when the event will happen (i.e. in a life insurance policy, the time of the insured's death is uncertain) or as to if it will happen at all (i.e. a fire insurance policy). Insurance contracts are generally considered contracts of adhesion because the insurer draws up the contract and the insured has little or no ability to make material changes to it. This is interpreted to mean that the insurer bears the burden if there is any ambiguity in any terms of the contract.

Doctrines of Insurance.

1. There should be a certain definite loss taken place at a known time, in a known place and from a known cause. Therefore the time, place and the cause of loss should be clear enough.
2. The incident that represents the cause of the claim should be accidental or beyond the control of the beneficiary.
3. The size of the loss must be significant from the perspective of the insured. Insurance premiums should cover both the estimated cost of losses, plus the cost of policy, regulating the losses, and providing the principal required to logically assure that the insurer would be able to reimburse claims.
4. The amount of premium should be affordable.
5. The possibility of loss and the cost of compensation should be calculable or estimable.

Types of Insurance.

Below are some kinds of insurances.

Life Insurance

Life insurance policy insures the life of the insured. The insurance company is legally bound to provide a monetary benefit to the deceased's family or the beneficiary after the death of the policy holder. The proceeds are paid to the beneficiary either in a lump sum amount or an annuity.

Medical Insurance

Medical insurance is also called med claim. Under this policy the insurance policy pays the amount to the insured for his health purpose. This amount covers the cost of medical treatment.

Disability Insurance.

There are two types of disability insurance. One is simple disability insurance and the other is total disability insurance.

General Insurance

It includes automobiles insurance, business insurance, property insurance etc.

Automobile insurance

In UK this insurance is called motor insurance. It compensates the loss or damage occurred to the vehicle. But in United States auto insurance policy is essential to legally operate a vehicle on public roads.

Business insurance

Business insurance protects the businesses against risks of losses and damages and compensates in case of loss

Property insurance

This type of insurance protects the property against the risks like fire, theft etc. This category also includes fire insurance, flood insurance, earthquake insurance etc.

Fire Insurance

It is an insurance covering the damage to the property caused by fire.

Flood Insurance

This type of insurance pays the policy holder in case of any loss or damage to the property due to flood. It protects the property against the flooding.

Policy Terms

Insurance policies specify an amount at which coverage ends, known as the policy limit. Most types of insurance specify the limit as an amount written in the contract.

Premium

An insurance company sets a policy's premium by multiplying a rate for each unit of insurance coverage by the total amount of coverage being purchased. Most people pay insurance premium once or twice a year. Other people choose to make automatic monthly payments to their insurance company by a bank account.

Organizational structure of SLIC

The Corporation is headed by chairman who is a chief executive of the Corporation and appointed by the Government of Pakistan. Presently, Ms. Nargis Ghaloo is the Chairperson of the Corporation

The organizational structure of the corporation is as follow:

- **Board of Directors**

It comprises ten Directors including Chairman who are appointed by the Government of Pakistan and are responsible for devising strategies & plans to achieve the goals of Corporation.

- **Executive Directors**

It comprises ten Executive Directors responsible for implementation of policies set by the Board of Directors.

- **Divisional Heads**

There are 14 Divisional Heads who are responsible for the functional area assigned to them.

- **Regions**

There are 6 Regions in Pakistan headed by regional chiefs responsible for looking after all the zones under his administration.

- **Zones**

There are 29 Zonal Offices all over the Pakistan.

Objectives

- To run life insurance business on sound lines
- To provide more efficient service to policyholders
- To maximize return to policyholders by economizing expenses and increasing yield on investment
- To make life insurance a more effective means of mobilizing national savings
- To widen the area of operation of life insurance and make it available to as large a section of the population as possible, extending it from comparatively more affluent sections of society to the common man in towns and villages.

Constitution of the Committee.

A committee was constituted under Article 18 of the President Order No. 1 of 1983 with the following members:-

- I. Ms. Talat Altaf Khan, Additional Secretary
- II. Mr. Riaz Ahmad Director General

Terms of Reference of the Committee.

The terms of Reference of the committee is as follows

- To identify maladministration in cases related to death claims, revival of the policies and payment of surrendered values.
- To probe into the causes of alleged delays while dealing with the aforementioned cases.
- To trace the overall deficiencies in the system.
- To make recommendations and suggest remedial measures so as to bring about improvement in the identified areas as aforesaid.

Methodology

The committee in discharge of its duties held meetings with State Life Officials. The detailed meetings were made with Dr. Sajjad Hassan Zaidi AGM, Regional Office, twice with Dr. Arshad Iraqi, AGM Principal Office Karachi, and Mr, Jamil Anwar Executive Director (Policy Holder Services) from Karachi. Different SOPs and Circulars regarding the working and performance of different procedures were called and studied in details. Insurance ordinance 2000 was gone through in detail especially the specific portions related to life insurance. Proposals forms, claim forms, maturity and surrender discharge vouchers and various other forms were also examined.

Death Claims

There are 99 % complaints lodged in Wafaqi Mohtasib office are of death claims repudiation. It is experienced that most of the cases are early death claim (death within two years of policy issue). Investigation is carried out by the Agency and denial of the claim is made on the basis of pre-insurance ailment which is usually a hospital record.

The history is given by the attendant of the patient at the time of admission in hospital which is made the basis of repudiation and usually questioned by the complainant. It has been observed that the usual ailments are of very simple nature like Diabetes and Hypertension and prevalence of these ailments in society is over-whelming.

The delay in settlement of claims is quite usual and delays of years is a normal phenomena. The excuses for delays are made in investigations, claim forms submission, guardianship and nominations or succession certificates. The hierarchical acceptance or rejection of the claim is good but the process is very lengthy and sometime it takes too long to decide. The claimants usually belong to un-educated class and completion of claim forms as per requirement of the Agency is sometimes difficult for them on their own and they have to seek assistance/advice of some professional person. (Death Claim forms are attached as Annex C).

The general attitude of the Agency towards death claims is a negative honesty. The first feeling after receiving a death claim intimation is to repudiate it in any way. The fear of commercial auditors also plays some role for this negativity.

The quality of investigation is very poor. There is no qualification or selection criterion for claim investigators. The hearsay evidences are made a part of investigations and the basis of repudiation. Though, it is true that to conduct investigation without any legal entity is a difficult job but still does not provide sufficient excuse to make repudiation on weak and challengeable evidences.

Revival of policies

The premium may be paid by cash or through cheques and receipts are issued both ways. In case of cheque dishonor, the intimation to the policy holder is mandatory which is often missing on the part of Agency which causes disputes regarding late fee charged on the due premium and sometimes on the currency of the policy. The collection system is not on line and payment of other Zones can be deposited by the policy holder and received by the department but not transferred to respective zones which obviously change the policy status. The policy holder is satisfied that he has paid all due premium but those are not accounted for in his policy and after years either at maturity or death, the fact is disclosed that his regular premium has not been deposited. At that time he is asked to bring original deposit receipts and whole onus of proof is put on him. Some complaints of this nature have been observed in Wafaqi Mohtasib Secretariat.

The declaration of Good health is a very simple form and does not carry any material information rather having simple yes no questions resulting in issues pertaining to a renewal contract and the contestability period starts again with this renewal contract. The policies accepted at standard rate of irrespective sum assured can be revived on Declaration of Good health.

Surrender of the policy

The policy acquires a cash value after two premiums (after single premium there is absolutely no return) and this cash value is returned back on request of policy holder which is called surrender of the policy. The common reason for surrender of policy is financial hardships as the policyholder either needs money or unable to pay his due premium in coming years.

The calculation of surrender value is a soft ware based program devised by the Actuarial Division and no changes in paid amount can be made.

However, the issue of Zakat Deduction is very interesting. Policyholder asks for his money back due to financial hardships as he cannot continue his policy. Further the Agency also has many cuts in his paid amount as per their calculations and deduct Zakat on his net payment which is very ironical and repayment to the spirit of commandment of Zakat. The complaints in delay of surrender payments are of procedural nature.

Key Business & Highlights

Individual Life

- Total number of policies in force (individual life) was 357,413 in 1973 and 4,274,293 in 2012.
- First year premium has gone up from 48.2 (Year 1973) million rupees to 13.9 billion rupees (Year 2011).
- Total claims including Death, Maturity, Annuity and Surrender paid by the Corporation are 7,409 amounting to 18.43 billion rupees for the year 2010.

Group Business

- The total number of lives covered under group life was 6.10 million in 2011.
- The total premium under group life was Rs. 4.74 billion in the year 2011 as compared to Rs. 3.7 billion in the year 2010.

The Corporation distributes 97.50% of its actuarial surplus in the Life Fund to policyholders in the form of reversionary bonuses, while the remaining balance of 2.5% goes to the sole shareholder which is the Government of Pakistan.

Observations

New Business Department

The first entry of policy holder is through proposal form which is filled by the policy holder, witnessed by the field agents of the Agency and submitted in new business

department. There are two types of proposal forms

- Non medical proposal form
- Medical proposal forms

The 90% of the business is non medical which is processed by non medical proposal forms and the limits of medical examination vary with age and sum assured and up to 2.4 Million and 40 years of age, non medical business is accepted without any medical examination. The age and sum assured related medical examination as per Agency requirements are attached as Annex. A. Both the proposal forms are attached as Annex B. It is observed that 95% of the complaints lodged in Wafaqi Mohtasib are of repudiation of death claims and in most of the cases the basis of repudiation are medical bases. The acceptance of the proposal is by specialized professionals called under writers. The complaints for non acceptance of business have not been observed. The other issue is delivery of policy documents after acceptance of proposal and serious and non ignorable delays have been observed which cause problems for policy holders. The late delivery of policy documents also compromises the right of policy holder for free look period which allows the policy holder to refund its first year premium, if he feels this contract as inappropriate or the terms and conditions of the contract are not as per his requirement. After lapsing this period, policyholder has no legal way of getting his first year premium refund in any case. Record keeping complaints are seldom but increasing as there is no proper record keeping for policy files. The issue of policy stamps has been observed and it is surprising that a Federally administrated Corporation is paying different rate of policy stamps in all provincial and federal areas. Further, the rate of policy stamp duty is highest in Punjab which is Rs. 3 rupees per thousands and the minimum is Rs.0.60 in other provinces / areas. The accounts of the policy stamps duty are not reconciled with Provincial Revenue Authorities and hence there is every likelihood of the provision of fake stamps.

Maturity claims

All the policies got matured other than those got surrendered in between the term. The policy once acquiring cash values even its premium have not been paid regularly reaching maturity date have maturity value due on part of Agency. It has been observed that the unpaid maturity claims on part of Agency are in thousands which have not been claimed by the policyholders either they have forgotten the policies or the amount receivable on their part is

so less to bother. These claimants are un-traceable on the part of Agency as the addresses are of years old and on contact is available to find them out.

The maturity claim payments are made by the Agency when claimed and after fulfilling certain requirements. Here again the deduction of Zakat is mandatory and as per Zakat Authorities, the declaration of exemption of Zakat must be one month old which cause an undue delay of one month or encourage the malpractice of selling one month old Zakat declaration with some higher price.

Role of Agent

The Agency is procuring its business through contractually based field agents and no other way of acquiring business has been adopted. The Agency has entered in to the business of Bank Assurance but it is in infancy stage.

The role of the agent is pivotal as he is the only link between Proposer and the Agency. All the information is provided through proposal form about the Proposer are through the field agent as he is the eyes and ears of the Corporation.

In case of non medical proposal forms the whole responsibility of the contents and truths about the Proposer is of Field Agent who not only witnesses/attests the information but in addition gives his report which is a part of proposal form and recommends to accept the risk both physically and financially.

There is no selection criterion for the appointment of Agent except being resident of Pakistan and at least having qualification at Secondary School (Matric) level. There is no formal interview or any other formality for this appointment. The professional courses for their onward progress are very poorly structured.

There is no check/accountability on their performance except the level of procuring of first year business which is really the most profitable item for them too.

The complaints of frauds and premium embezzlement are common and in most of the cases of death claim repudiation, the negligence/overlook or malafidie of the Field Agents is obvious and common. Suspended/terminated Field Workers are restored just on the basis of first year premium procurement without any lawful justification.

Recommendations

The committee has made following area wise recommendations

Death Claims

1. The settlement of death claims should be prompt and within the time frame as advised in the Insurance Ordinance.

2. The claim forms should be revised and should be made easy.
3. There must be separate claim forms for early and non early death claims and it is recommended to make two separate teams for handling these claims. The team for non early claim should facilitate the claimants in fulfilling the due requirements and settlement should be made in no time.
4. The quality of investigation should be improved and claim examiners should be trained to conduct the inquiry in more specific and concise way. Hearsay evidences and concrete evidences should clearly be separated.
5. For any repudiation, there must be concrete evidences which clearly go back to pre-insurance period. There must be treatment recoup of pre-insurance time and not the history based findings.
6. It is a usual finding that repudiation is based on the history of Diabetes and Hypertension without considering the relation of cause of death and these ailments which have become very common in public especially in last few years. These ailments are not considered as a Disease in general and it is very difficult to ascertain after death that the concealment of this fact was willful or ignorance.
7. The issue of succession and guardian ship certificate is worth considering but it is beyond the Agency boundaries as it involves the claimant and the court of laws.

Revival of policy

1. The premium collection system must be on line and any payment received either cash or cheque should immediately be credited to the account of policy holder.
2. The dishonored cheque should immediately be informed to the concerned policy holder and it should be made sure that this information has reached to him.
3. Renewal contract is again the begging of the existing policy as condensability period starts again, so all the due requirements of new contract should apply to it.

Surrender of the policy

1. The processing of the surrender application must be prompt and procedural delays must be minimized.
2. The Zakat on Surrender payment should not be deducted as it seems illogical to deduct Zakat from the payment of a person who is not able to continue his policy due to financial hardships.

New Business Department

1. The proposal forms both medical and non medical should be revised and made simple, concise, specific and easily understandable.
2. The declarations made by the proposer should be bold and clear so that he can understand what he is going to do and what liabilities he is going to take (duty of

disclosure) and in case of any mis-information, he will be held responsible and hence will be sufferer.

3. There must be at least some basic medical tests to rule out common ailments like Diabetes and Hypertension (the most commonly observed ailments in last years which are the basis of repudiation by the Agency). The chronic liver disease is also very common and in 90% cases the cause of death is chronic liver disease, so this could also be included in this list.
4. There must be a vigilant monitoring of all the medical service providers and they should be paid appropriate charges. There must be a committee of senior officials and in house doctors for their appointment or termination.
5. The delivery of policy documents should be within the constitutional time frame and all necessary measures should be taken immediately.
6. The policy stamp duty should be same for whole country as the Agency is a federally administered corporation and the disparity in rates should be taken to the respective board of revenues of each province.
7. The policy stamp duty accounts should be audited and reconciled with the respective finance divisions to rule out any fake or bogus stamps and it should be ascertained that all the revenue collected in this way is going to Government treasury.
8. For prompt delivery of policy documents, the system of postage stamps may be changed and like some other department and institution, a symbolic stamp of postage paid may be affixed and the revenue may be deposited to the treasury by a single cheque. This mechanism will ease the system and cost of printing of stamps, collection and existence of fake stamps will be abolished.

Maturity claims

1. Un claimed maturity claims are in thousands in State Life and most of them are un-traceable. As per discussion with Agency officials all the efforts to trace the claimant has become in vain, it is suggested to take help of Print media to catch attraction of those claimants and if no response happens than they all may be written back year wise.
2. Processing of maturity claims must be very prompt, quick and procedural delays should be minimized. The policy holder should not be penalized for lost policy files as it is the sole responsibility of the Agency to keep them in safe custody for the whole term.
3. One month old Zakat declaration is an un liked practice as it causes one month avoidable delay and it is recommended to stop this practice after consultation with Zakat Authorities.

Role of Agent

The role of agent is of prime important nature and perhaps the most ignored segment of the Agency. It is recommended:

1. The minimum qualification for agent must not be less than Bachelor's Degree.

2. The training courses should be structured as per latest curriculum and emphasis should be made to adopt ethical practices while securing business.
3. Their monitoring should be very strict and anybody involved in malpractices should be dealt with an iron hand. There must not be any soft corner for them and usual practices of forgiveness and excuses should be discontinued as it gives rise to multiple grievances of policy holders.
4. The agents should be made equally responsible for any fraudulent claims and where found involved in any malpractice /maladministration, recovery amount should be made by them to the claimants.

General but very Important Recommendations

1. The Corporation must go for advanced computerization and technology as most of the delays are due to manual processing which is time consuming. It should put its system on-line so that policy holder may know his policy status without going to office.
2. The Corporation web site must be equipped with all necessary information such as having facility of sending applications for loan, surrender, death and maturity claims.
3. The Corporation must open its premium collection centers at appropriate places, as it is very strange that only Zonal Offices are authorized to collect the premium, which alongwith other difficulties have long queus of policy holders to deposit the premium amount.
4. The Executive Directors and the Chairman is appointed by the Government of Pakistan. It is, therefore, recommended that such appointments must be made as per SECP criterion and professional persons having experience of this industry should be preferred.