



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALISED COMPANIES DIVISION
(INSURANCE DEPARTMENT)**

Ref No.ID-SEC/LI/01/2003

January 8, 2004

Subject:- **Modifications in Life Insurance Accounting Regulations / Formats**

Attention of the life insurance companies is drawn to the accounting regulations/formats notified under the Securities and Exchange Commission (Insurance) Rules, 2002 (S.R.O. 938(I)/2002 dated December 12, 2002).

2. While preparing the annual accounts for the year 2002, life insurance companies experienced certain difficulties in following the revised accounting regulations/formats referred to in Para 1 above and suggested some modifications/amendments therein. Giving due consideration to the proposals, the accounting regulations/formats for life insurance companies are modified as under:-

Changes in Accounting Regulations -Text

Sub-regulation 1(4) is modified to read as follows:

- (4) Published financial statements means the accounts which are required to be presented by a company under section 233 of the Companies Ordinance 1984, or, in the case of the State Life Insurance Corporation of Pakistan, under the Life Insurance Nationalization Order, 1972.

Sub-regulation 3(1) is modified to include:

- Summary of Assets in Pakistan (Form LJ)
- Statement of Changes in Equity (Form LL)
- Statements required under S 52(2) (a) & (b) (Form LM)
- Statement required under S 52(2) (c) (Form LN)

Sub-regulation 4(1) is modified to include, under the statements required to be filed under S233(5) of the Companies Ordinance, 1984

- Statement of Changes in Equity (Form LL)

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Regulation 8 is changed to the following:

- (1) A liability for outstanding claims shall be recognised in respect of all claims incurred to balance sheet date.
- (2) A claim shall be considered to be incurred at the time of the incident giving rise to the claim, except as otherwise expressly indicated in a contract of insurance. In the case of investment-linked business, claims shall be recognized at the time at which the policy ceases to participate in the earnings of the fund.
- (3) Outstanding claims which have been reported and which are contractually payable within twelve months of the balance sheet date must be measured at the undiscounted value of expected future payments and should be included in the balance sheet under the head Outstanding Claims.
- (4) Outstanding claims which have been reported but which are contractually payable over a period exceeding twelve months from the balance sheet date shall be included in determining policyholder liabilities, being stated at values determined by the Appointed Actuary using bases consistent with those used in the determination of other aspects of policyholder liabilities
- (5) Claims incurred but not reported shall be included in determining policyholder liabilities, being stated at values determined by the Appointed Actuary.
- (6) Provisions booked for experience refund of premiums as per terms of the policy contracts shall be the part of outstanding claims and be shown accordingly in the Balance Sheet. It shall not be the part of the policyholder liability.

Sub-regulations 12(6) and 12(7) are added as under:

- (6) Branch overheads are those expenses other than commission and other benefits to insurance intermediaries, which are incurred to run the affairs of the Branch. The Branch Overheads among others may include the following types of cost:
 - Salaries, perquisites, overriding commission and incentives to those personnel related with the branch and primarily involved with the acquisition of insurance business.

- Such proportion of all other operational cost incidental to run Branch functions such as utilities, entertainment, telephone, rent and building maintenance cost as relates to the acquisition of insurance business.
- (7) Other acquisition costs are those directly related to the procurement of insurance business like policy stamps etc.

Sub-regulation 13(3) is deleted.

Sub-regulations 15(6) and 15(7) are modified to read as follows:

- (6) Subject to the provisions of Section 21 of the Ordinance, the financial statements shall show the allocation of surplus, if any, in the individual statutory fund ledger account provided the respective individual statutory fund ledger account does not carry a debit balance, in the financial year required to be made under section 21 of the Ordinance, and such accounts as are relevant shall be recorded following such allocation of surplus.
- (7) Policyholder liabilities shall include the actuarial present value of all bonuses allocated to in-force policies out of surpluses arising as a result of the actuarial valuation carried out as at the date of the financial statements.

Sub-regulation 16(1)(c), is inserted as under:

- (c) After initial recognition, the following financial assets that have a fixed maturity should be measured at amortized cost using the effective interest method i.e. the effective internal rate of return to maturity is used to recognize periodical investment income based on the net present value of future anticipated cash flows on a uniform basis: -
- loans and receivables originated by the enterprise and not held for trading.
 - held-to-maturity investments: and
 - any financial assets that do not have a quoted market price in an active market and whose fair value can not be reliably measured.

Changes in Accounting Regulations - Forms

Modified/Additional Forms (LA, LB, LD, LD1, LE, LF, LH, LI, LJ, LK, LL, LM & LN) are attached. (It may, however, be noted that Form LC & LG have not been changed).

3. All life insurance companies are accordingly advised to prepare the annual accounts for the period ended December 31, 2003 onwards on the modified formats enclosed.

(SHAFAT AHMAD)
Executive Director

Distribution

1. Chief Executives / Managing Directors of all life insurance companies
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