



SECP

INSURANCE DIVISION  
IslamabadBefore Shaukat Hussain, Commissioner (Insurance)*In the matter of*M/s. Adamjee Life Assurance Company LimitedShow Cause Notice No. ID/Enf/AdamjeeLife/2018/13850  
& Issue Date: dated February 27, 2018

Date of Hearing: February 28, 2019

Attended By: Mr. Jalaluddin Meghani  
CFO and Company Secretary/ Authorized Representative  
M/s. Adamjee Life Assurance Company Ltd.Mr. Iqbal Bawaney  
Authorized RepresentativeMr. Bilal Ashfaq Memon  
Authorized Representative

Date of Order: April 4, 2019

**ORDER**

Under Clause 12(1) of the Annexure II, Part A, Accounting Regulations for Life Insurers of the Securities and Exchange Commission (Insurance) Rules, 2002 read with Section 156 of the Insurance Ordinance, 2000

.....  
This Order shall dispose of the proceedings initiated against the Chief Executive and Directors of M/s. Adamjee Life Assurance Company Limited (the "Company") for alleged non-compliance with Clause 12(1) of the Annexure II, Part A, Accounting Regulations for Life Insurers of the Securities and Exchange Commission (Insurance) Rules, 2002 (the "Rules"). The Chief Executive and Directors of the Company shall be referred to as the "Respondents" hereinafter.

2. The Commission had initiated thematic review of Bancassurance business of insurers in order to check compliance of conduct of business with applicable regulatory provisions by the insurers. Accordingly, call for information notice under Section 61 of the Ordinance, dated September 25, 2017, was issued to the Company. The call for information notice required the Company to provide information as per the Information Seeking Memorandum (the "ISM") and formats provided therein. The response of the Company, against the call for information notice was received through email dated October 16, 2017 and subsequent emails from time to time.

3. The information regarding persistency was solicited from the Company vide point No. 13 of the ISM as per Annexure G. The Bancassurance return i.e. statement of expenses required to be submitted under Regulation 18 of the Bancassurance Regulations, 2015 (the "Regulations") was also analyzed. The persistency bonus amount shown in the statement of itemized computation of acquisition cost for MCB non-



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unitized investment linked business (NUIL) was Rs. 1,647,250/- while persistency bonus was not given separately in the statement of expenses filed under Regulation 18 of the Regulations, rather the amount was clubbed with "other benefits paid to insurance intermediaries".

4. The Company was advised to provide breakup of the item titled as "other benefits paid to insurance intermediaries" vide email dated January 17, 2018. The Company provided the breakup vide its email dated January 23, 2018 as under:-

Persistency Bonus	2,957,600
Promotional Incentive	263,375
Amount reported as "other benefits to intermediaries"	3,220,975

5. It was observed that persistency bonus shown in the breakup provided by the Company was different from the persistency bonus amount reported in the statement of itemized computation of acquisition cost (reported as Rs. 1,647,250/-).

6. Explanation was sought from the Company regarding the anomaly vide email dated January 31, 2018 to which, the Company responded vide email dated February 1, 2018 as follows:

*"Until 2015, we used to record persistency bonus on basis of payment, and therefore the amount Rs. 1,310,350 which pertains to 2015 was recorded in 2016. However in 2016, auditors suggested to record the provision of persistency bonus relating to 2016 in the books of accounts and therefore a provision of Rs. 1,647,250 which was ascertained and paid in 2017, was recorded in the accounts of 2016.*

*The breakup of expense is as follows:*

<i>Persistency bonus related to 2015</i>	<i>Rs. 1,310,350</i>
<i>Persistency bonus related to 2016</i>	<i>Rs. 1,647,250</i>
<i>Total</i>	<i>Rs. 2,957,600</i>

*In the statement of itemized computation of acquisition cost however, we only did disclose the persistency bonus that belonged to 2016 i.e. Rs. 1,647,250."*

7. In view of the above explanation, it appears that the Company has adopted inconsistent approach in formulation of Bancassurance returns i.e. statement of itemized computation of acquisition cost, and statement of expenses under Regulation 18 of the Regulations. The Company has recognized expense in a year later than the year in which premium (to which it was referable) was recognized as revenue, in contravention of clause 12(1) of the Rules.

8. Clause 12(1) of the Rules states that:

*"12. Expenses:(1) Commissions and other expenses shall be recognised as expenses in the earlier of the financial year in which they are paid and the financial year in which they become due and payable, except that commissions and other expenses which are directly referable to the acquisition or renewal of specific contracts shall be recognized not later than the period in which the premium to which they refer is recognised as revenue."*



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9. In view of the violations highlighted in the preceding paras, the Commission initiated penal action by issuance of a Show Cause Notice (SCN) on February 27, 2018 bearing No. ID/Enf/Adamjeelife/2018/13850 to the Respondents, calling upon them to show cause as to why the fine, as provided under Section 156 of the Ordinance should not be imposed for non-compliance with Clause 12(1) of the Rules.

10. The Company vide letter dated March 8, 2018 sought an extension to submit reply to the aforesaid SCN. The request of the Company was acceded to and the Company was granted extension until March 22, 2018, intimated through letter dated March 12, 2018.

11. Thereafter, the Respondents submitted their reply vide letter dated March 22, 2018, which is reproduced hereunder:

".....

*At the outset, the Hon'ble Commission may please rest assured that it has always been the policy of Adamjee Life Assurance Company Limited ("Company") to conduct its affairs in accordance with the highest legal and ethical standards and to comply with all applicable laws, rules and regulations and the directions of the Hon'ble Commission.*

*Para 2 of the SCN reproduces Clause 12(1) of Annexure II, Part A of the Securities and Exchange Commission (Insurance) Rules, 2002 ("Rules") on which there can be no cavil, whereas the contents of Paras 3, 4 and 5 of the SCN are also not disputed.*

*As to Paras 6, 7 and 8 of the SCN, we have clarified that until 2015, the Company used to record and recognize persistency bonus in the financial year in which they were paid or became due and payable. It may be noted that the amount of total persistency bonus for the year 2015 could not be ascertained until March 2016 when the Audited Financial Statements of the company for the year ended 2015 were already closed and finalized, therefore, it was paid and recorded in the year 2016. The Company could accrue persistency bonus only after the amount of persistency bonus was determined as payable which was not the case.*

*In the year 2016, since the persistency amount was determined before the finalization of Annual Audited Financial Statements for the year ended 2016, the Company's Auditors suggested to record the provision for persistency bonus relating to the year 2016 in the books of accounts for the year 2016 and therefore provisions of Rs.1,647,2501- was provided in the books of accounts which was paid in 2017. Thus the Company acted in accordance with the requirements of Clause 12(1) of the Annexure II, Part A, of the Securities and Exchange Commission (Insurance) Rules, 2002 (the "Rules").*

*It may kindly be appreciated that the Company has not concealed any material fact, nor any undue advantage has been gained by the Company, and the Company has rectified its procedures according to the Regulations in year 2016, whereas the Company and its Management have all along acted in good faith and there has been no willful contravention of the Rules. Hence, it would not be fair to penalize the Company even after rectification of such un-willful non-compliance from the Rules, if there is any procedural or accounting deviation.*



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*We fully respect the Commission's approach in implementing the law in its true letter and spirit and pledge our full co-operation with the Commission in all statutory compliances. Therefore, without prejudice, if the Hon'ble Commission does not concur with our submissions, then we would respectfully request the Commission to take a lenient view, since we have acted in a good faith without any malafide intent."*  
....."

12. Thereafter, the Commission vide letter dated June 25, 2018 scheduled the hearing on July 4, 2018 at 11th Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad. However, the Authorized Representatives vide letter dated June 30, 2018 requested to defer the hearing for any date in August, 2018. The hearing was rescheduled on February 28, 2019 at the Commission's Karachi Office. The said hearing was attended by the Authorized Representatives namely, Mr. Iqbal Bawaney, Mr. Bilal Ashfaq Memon, and Mr. Jalaluddin Meghani for and on behalf of the Respondents.

13. During the hearing, the Authorized Representatives reiterated their written comments and maintained that until 2015, the Company used to record and recognize persistency bonus in the financial year in which they were paid or became due and payable. They further stated that the amount of total persistency bonus for the year 2015 could not be ascertained until March 2016 and the Company rectified its procedures according to the Regulations in the year 2016. The Authorized Representatives requested the Commission to take a lenient view in the matter.

14. Clause 12(1) of the Rules requires that the commissions and other expenses shall be recognized as expenses in the earlier of the financial year in which they are paid and the financial year in which they become due and payable, except that commissions and other expenses which are directly referable to the acquisition or renewal of specific contracts shall be recognized not later than the period in which the premium to which they refer is recognized as revenue.

15. However, the Company has adopted inconsistent approach in preparation of Bancassurance returns i.e. statement of itemized computation of acquisition cost, and statement of expenses under Regulation 18 of the Regulations. The Company has recognized expense in the year later than the one in which premium to which it was referable, was recognized as revenue, in contravention of Clause 12(1) of the Rules.

16. The Company has admitted the default but argued that persistency bonus for the year 2015 could not be determined when the financial accounts were closed and finalized. Therefore, it was included in the books of account of the year 2016 in addition to the 2016's persistency bonus.

17. The Company has also explained that in the year 2016, since the persistency amount was determined before the finalization of annual audited financial statements for the year ended 2016, the Company on the suggestion of the auditors recorded the provision for persistency bonus relating to the year 2016 in the books of accounts for the year 2016.



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18. I have carefully examined and given due consideration to the written and verbal submissions of the Respondents, and have also referred to the provisions of the Ordinance, the Rules made thereunder and/or other legal references. I am of the view that the violation of Clause 12(1) of the Annexure II, Part A, Accounting Regulations for Life Insurers of the Securities and Exchange Commission (Insurance) Rules, 2002 is clearly established, for which the Respondents may be penalized in terms of Section 156 of the Ordinance.

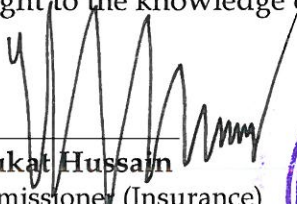
19. Section 156 of the Ordinance provides that:

*“Penalty for default in complying with, or acting in contravention of this Ordinance.- Except as otherwise provided in this Ordinance, any insurer who makes default in complying with or acts in contravention of any requirement of this Ordinance, or any direction made by the Commission, the Commission shall have the power to impose fine on the insurer, and, where the insurer is a company, any director, or other officer of the company, who is knowingly a party to the default, shall be punishable with fine which may extend to one million rupees and, in the case of a continuing default, with an additional fine which may extend to ten thousand rupees for every day during which the default continues.”*

20. In exercise of the power conferred on me under Section 156 of the Ordinance, I impose a fine of Rs. 50,000/- (Rupees Fifty Thousand only) on the Company under the said provision of the Ordinance, due to the non-compliances, as mentioned hereinabove. Moreover, the Respondents are hereby warned and directed to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

21. Hence, the Company is hereby directed to deposit the applicable fine in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited within thirty (30) days from the date of this Order and furnish receipted vouchers issued in the name of the Commission for information and record.

22. This Order is issued without prejudice to any other action that the Commission may initiate against the Company and / or its management (including the CEO of the Company) in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

  
Shaukat Hussain  
Commissioner (Insurance)

