



SECP
INSURANCE DIVISION
Islamabad

Before Tahir Mahmood, Commissioner (Insurance)

In the matter of

Afro-Asian Insurance Brokers (Pvt.) Limited

Show Cause Notice No. and Date : ID/Enf/Broker-AfroAsian/2018/14625, dated April 30, 2018

Date of Hearing: July 3, 2018

Attended By: 1. Mr. Rizwan Masoom Ali
Chief Executive Officer
M/s. Afro-Asian Insurance Brokers (Pvt.) Limited

2. Mr. Najeeb Mochhala
M/s. Horwath Hussain Chaudhry & Co.
(As Authorized Representative)

3. Mr. Hussain Juler
M/s. Horwath Hussain Chaudhry & Co.
(As Authorized Representative)

Date of Order: July 17, 2018

ORDER

Under Rule 37(b) and Rule 39(5) of the Insurance Rules, 2017 read with Section 102(6) of the Insurance Ordinance, 2000

.....

This Order shall dispose of the proceedings initiated against M/s. Afro-Asian Insurance Brokers (Pvt.) Limited (the "Company"), for alleged contravention of Rule 37(b) and Rule 39(5) of the Insurance Rules, 2017 (the "Rules"). The Company, its Directors including the Chief Executive Officer shall be referred to as the "Respondents" hereinafter.

2. The Company is licensed by the Securities and Exchange Commission of Pakistan (the "the Commission") under the Insurance Ordinance, 2000 (the "Ordinance") to carry on business of direct insurance broking in Pakistan.

3. It was observed that the Company failed to submit its Application for renewal of license to act as an insurance broker under Section 102 of the Ordinance within the period prescribed under Rule 39(5) of the Rules, which is at least one month prior to the expiry of license i.e. by December 28, 2017 (license expiry date: January 28, 2018).

4. The Commission vide letter dated May 22, 2017, advised the Company to ensure meticulous compliance with the applicable provisions of the law, specifically the timelines provided therein with regard to application for renewal of its licence. However, the



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Company failed to submit its renewal application even after expiry of its license, therefore, the Commission issued another reminder dated January 26, 2018, advising the Company to submit its application. After continued follow up, the Company eventually submitted its application for renewal of its license on April 2, 2018.

5. Upon scrutiny of the said Application, it was observed that the Company did not comply with Rule 37(b) of the Rules regarding minimum statutory deposit. Moreover, it also failed to submit its Application for renewal of license to act as an insurance broker under Section 102 of the Ordinance within the period prescribed under Rule 39(5) of the Rules.

6. In view of the aforesaid facts, it appeared that the Company contravened the provision of Rule 37(b) and Rule 39(5) of the Rules.

7. The provisions of Rule 37(b) of the Rules require that:

"37. Requirements for insurance broker's licence.- For the purposes of sub-section (3) of section 102 of the Ordinance, the following shall be the prescribed qualifications of a company for issuance of an insurance broker's licence, namely:-

(b) cash or approved securities to the value of ten percent (10%) of the minimum prescribed paid up capital of the insurance broker, deposited with the State Bank of Pakistan; Provided that existing licensed insurance brokers shall comply with the requirement of statutory deposit by December 31, 2017.

8. The provision of Rule 39(5) of the Rules state that:

"An application for the renewal of authorization to act as an insurance broker shall be submitted to the Commission at least one month prior to the expiry of the licence and shall also be accompanied by a renewal fee of rupees seventy five thousand rupees or rupees two for every rupees one thousand of the gross revenue, without netting off any expenses, whichever is higher during the preceding financial year, subject to a maximum of rupees five hundred thousand."

9. Section 102 of the Ordinance states that:

"Insurance brokers to be licensed.- (1) It shall be unlawful for any person to act as or describe himself or hold himself out or permit himself to be described or held out as an insurance broker in respect of direct insurance business unless he holds a current insurance broker's licence issued by the Commission.

(2) No person who is not a company shall be eligible to be licensed as an insurance broker.

(3) An insurance broker's licence may only be issued by the Commission to a company which complies with such minimum requirements as may be prescribed by the Government in respect of:

(a) paid-up capital;



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- (b) *statutory deposits;*
- (c) *professional indemnity insurance; and*
- (d) *such other matters as may be prescribed.*

(4) *An application for an insurance broker's licence shall be made in the prescribed form, and shall be accompanied by the following documents, namely:-*

- (a) *the memorandum and articles of the broker;*
- (b) *evidence of professional indemnity insurance;*
- (c) *da declaration in a prescribed form to the effect that neither the applicant nor any director or principal officer of the applicant is disqualified from holding his office as such;*
- (d) *a letter of support from not fewer than five registered insurers in the prescribed form, each signed, on behalf of the insurer, by a duly authorised representative;*
- (e) *evidence of payment of the prescribed fee; and*
- (f) *such other evidence and documents as may be prescribed.*

(5) *An insurance broker's licence shall be issued initially for a period of one year and may on application in the prescribed form be renewed annually.*

(6) *The Commission may cancel or refuse to issue or renew a broking licence, where the Commission believes on reasonable grounds that the broker has contravened a provision of the Ordinance, including without limitation that the broker has failed to maintain prescribed minimum levels of paid-up capital, statutory deposit or professional indemnity insurance.*

(7) *The Commission may apply for an order from the Tribunal, that a person is disqualified from acting as an insurance broker, or as a director or principal officer of an insurance broker, if it demonstrates on reasonable grounds that the activity of the person as an insurance broker or as a director or principal officer of an insurance broker would be detrimental to the interests of policy holders."*

10. Hence, a Show Cause Notice bearing number ID/Enf/Broker-AfroAsian/2018/14625 dated April 30, 2018 was issued to the Respondents, thereby calling upon them to show cause as to why punitive action may not be taken against them in terms of Section 102(6) of the Ordinance for contravening the provisions as aforesaid.

11. The Authorized Representative of the Company vide letter dated May 11, 2018 submitted response to the Show Cause Notice on behalf of the Respondents, which is reproduced below:

"Refer to the provisions of Rule 37(b) of the Insurance Rules, 2017[Minimum Statutory Deposit]:

- *We would like to inform you that company has already met the requirement of Rule 37(b) wherein company have deposited the remaining balance of Rs. 1,000,000/- with State Bank of Pakistan vide pay order No. 17837331 dated 04-05-2018 and same has been submitted to your good office vide our reply letter dated May 04, 2018. Copy of the reply letter alongwith courier slip are enclosed herewith for your ready reference.*



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Refer to the provisions of Rule 39(5) of the Rule, 2017 [Application for renewal of authorization to act as an insurance broker under Section 102 of the Insurance Ordinance, 2000]:

- *The Company was incorporated on November 02, 2009 as a private limited Company.*
- *The Directors of the Company are very vigilant and law abiding and the Company regularly filed their annual returns Form- A & 29 with the SECP as per Companies Act, 2017 and also compliance under the Insurance Rule, 2017.*
- *We at this point wish to inform you that the company was in its nascent stage and the secretarial functions were outsourced and there existed a communication gap between the Company and the outsourced secretarial function company due to turnover in the CFO position.*
- *Also, the reason for the delay was due to sad demise of Chairman (Late) Syed Akbar Ali Khan of the Company.*

We assure you that compliance will be made on time in line with the requirement of Insurance Rule, 2017, Insurance Ordinance, 2000 and Companies Act 2017, in future."

12. Thereafter, the Commission, vide hearing notice no. ID/Enf/Broker-AfroAsian/2018/15414 dated June 25, 2018, scheduled the hearing for July 3, 2018 at 04:15 p.m.

13. The hearing was held at the Company Registration Office of the Commission in Karachi which was attended by Mr. Rizwan Masoom Ali, Chief Executive Officer of the Company along with Authorized Representatives namely Mr. Najeeb Moochhala and Mr. Hussain Juler, hereinafter referred to as Authorized Representatives of the Respondents.

14. During the hearing, the Authorized Representatives and CEO admitted that compliance with regulatory requirements could not be made within the prescribed period. However, the Company submitted its application for renewal of license on April 2, 2018 and the same was approved by the Commission. They apprised that after sudden death of the ex-chairman of the Company, the current CEO joined the Company in March 2018. The Authorized Representatives assured the Commission that compliance would be ensured in future and requested the Commission to take a lenient view in the matter.

15. The Company was required to submit an application for renewal of its license to act as an insurance broker at least one month prior to expiry of the license in compliance with Rule 39 (5) of the Rules i.e. by December 28, 2017. The Company, however, failed to timely submit the application. The Company in its written submission admitted its default for failure to apply for renewal of license within the stipulated time. From the record, it has been observed that the Company submitted its application dated on April 2, 2018 e.g. after a delay of more than 3 months.

16. In terms of Rule 37(b) of the Rules, licensed insurance brokers were required to comply with the statutory deposit requirement by December 31, 2017. The Respondents in their reply to the SCN have stated that they have met the statutory requirements by



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their reply to the SCN have stated that they have met the statutory requirements by depositing an amount of Rs. 1,000,000/- with State Bank of Pakistan vide pay order No. 17837331 dated May 4, 2018. This evidences the fact that the Company did not comply with statutory deposit requirement within the prescribed period.

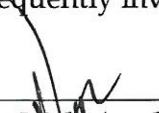
17. In view of the above, the Respondents have contravened the provision of Rule 37(b) and Rule 39 (5) of the Rules, on account of which the Commission may cancel the insurance broking license or refuse to renew the broking license under Sections 102(6) of the Ordinance.

18. Section 102 (6) of the Ordinance states that:

"(6) The Commission may cancel or refuse to issue or renew a broking license, where the Commission believes on reasonable grounds that the broker has contravened a provision of the Ordinance, including without limitation that the broker has failed to maintain prescribed minimum levels of paid-up capital, statutory deposit or professional indemnity insurance."

19. I have carefully examined and given due consideration to the submissions made by the Respondents, and have also referred to the provisions of the Ordinance and other legal references (i.e. the Rules), I am of the view that the element of default of 37(b) and Rule 39 (5) of the Rules is there, for which the broking license may be cancelled in terms of Section 102(6) of the Ordinance. However, the Respondents have submitted the application for renewal of license and got its license renewed. Moreover, the Respondents have met the statutory deposit requirement and they have also assured the Commission to comply with the rules and regulations in future. Therefore, I take a lenient view this time and hence warn the Respondents to be careful in future.

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


Tahir Mahmood
Commissioner (Insurance)

