



INSURANCE DIVISION  
Islamabad

Before Tahir Mahmood, Commissioner (Insurance)

*In the matter of*

**Alpha Insurance Company Limited**

Show Cause Notice No. and Issue Date: ID/Enf/Alpha/2017/12837 dated  
December 12, 2017

Date of Hearing: March 28, 2018

Attended By: 1. Mr. Waqas Asad Sheikh  
Advocate  
2. Mr. M. Ayaz Ghori  
CFO & Company Secretary  
Alpha Insurance Company Limited

Date of Order: April 20, 2018

**ORDER**

**Under Clause (vi)(h), (xi)(a), (xix), (xxxv)(c), and (xliii) of the Code of Corporate Governance for Insurers, 2016 read with Section 11(1)(f), Section 12, and Section 156 of the Insurance Ordinance, 2000**

.....  
This Order shall dispose of the proceedings initiated against M/s. Alpha Insurance Company Limited (the "Company"), its Chief Executive and Directors for alleged contravention of Clause (vi)(h), (xi)(a), (xix), (xxxv)(c), and (xliii) of the Code of Corporate Governance for Insurers, 2016 (the "Code") read with Section 11(1)(f), Section 12 of the Insurance Ordinance, 2000 (the "Ordinance"). The Company and its Directors shall be collectively referred to as the "Respondents" hereinafter.

2. The Company is registered under the Ordinance to carry on the business of non-life insurance in Pakistan.

3. During examination of the Annual Audited Accounts and Regulatory Returns for the year ended December 31, 2016, certain observations were raised by the statutory auditors in their review report to the members in Statement of Compliance with the Code, which are reproduced as under:-

i. *An Affidavit confirming the placement or non-placement of name on the Exit Control List (ECL) and status as to whether entered into a plea bargain with NAB has not been filed with SECP within a period of one month, as required under clause (vi)(h) of the Code;*



## SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 2 -

- ii. *The Company has prepared a "Code of Conduct" which has been disseminated among all the directors and employees of the Company, however, it has not been uploaded on the Company's website, as per clause (xi)(a) of the Code;*
- iii. *During the year no orientation course was carried out by the Company for its Directors, as required under clause (xix) of the Code;*
- iv. *Members of the Claim Settlement and Underwriting Committee, Reinsurance & Co-insurance Committee are same, other than CEO i.e. Mr. Jamil Anwar and Mr. Latif Ahmad Chaudhri, which is in violation of clause (xxxv)(C) of the Code;*
- v. *The minutes of the meetings were appropriately recorded and circulated, except for one meeting, the minutes of which were not circulated within 14 days thereof, as required under clause (xliii) of the Code;*
- vi. *The meetings of the Underwriting and Reinsurance & Co-insurance committee were not held in first, third, and fourth quarter, as required under clause (xliii) of the Code;*

4. The Company, vide letter dated September 8, 2017, was advised to submit its comments regarding the aforementioned non-compliances highlighted by the auditors. The Company, vide letter dated September 29, 2017, submitted its response, which is reproduced below:

- i. *Affidavit confirming the placement of name on the exit control list and status as to whether entered a plea bargain with NAB was subsequently obtained and submitted to the SECP.*
- ii. *We overlooked the requirement to place the 'Code of Conduct' on website therefore once it was highlighted by the Auditor we promptly complied with this by putting the Code of Conduct on our website.*
- iii. *Alpha Insurance Company is the subsidiary of the State Life therefore Alpha's Board of Directors are nominated by the State Life. When a director is nominated we provide a complete orientation about Alpha in the first board meeting but the auditors are of the opinion that this should be done separately therefore they put it as non-compliance while on the contrary we believe that we have complied with this.*
- iv. *The discrepancy has been rectified and currently the constitution of both these Committees are in line with the Code of Corporate Governance requirements.*
- v. *Exact reason for not circulating the minutes of the meeting within 14 days could not be explained as the secretary of that meeting have already resigned and left but we have noted this for future compliance and have been complying with it.*
- vi. *Exact reason for not having the meetings in 1st, 3rd, and 4th quarter could not be provided as the underwriter and MD / CEO at that time both have resigned and left the Company. However, we have noted the point for future compliance and would request*



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 3 -

you to please grant your waiver this time. At present the meetings are being held on quarterly basis.

5. In view of the above, it appeared to the Commission that the Company failed to comply with the said requirement as at December 31, 2016, under clause (vi)(h), (xi)(a), (xix), (xxxv)(c), and (xliii) of the Code.

6. Clauses (vi)(h), (xi)(a), (xix), (xxxv)(c), and (xliii) of the Code state that:

## Clause (vi)(h) - Qualification and Eligibility to Act as a Director

....

"(vi) No person shall be appointed as a director of an insurer if he / she -

.....

(h) has been placed on exit control list or has entered into a plea bargain with the National Accountability Bureau, or ....."

## Clause (xi)(a) - Responsibilities, Powers and Functions of Board of Directors

... ..

(xi) The insurer shall ensure that:

(a) Professional standards and corporate values are put in place that promote integrity for the Board, senior management and other employees in the form of a Code of Conduct, defining therein acceptable and unacceptable behaviors. The Board shall take appropriate steps to disseminate Code of Conduct throughout the insurer along with supporting policies and procedures and these shall be put on the insurer's website; ....."

## Clause (xix) - Orientation Courses

"(xix) The insurer shall make appropriate arrangements to carry out orientation courses for its directors to acquaint them with their duties and responsibilities and enable them to manage the affairs of the insurer on behalf of shareholders (policyholders in the case of mutual insurer, which are the members of such insurer)".

## Clause (xxxv)(C) - Committees

"(xxxv)(C) The members of the Claim Settlement Committee, other than Chief Executive Officer, shall not be the member of the Underwriting Committee or the Reinsurance & Co-insurance Committee, the insurer may, at its discretion, form only one committee to carry out the responsibilities of the Underwriting Committee and the Reinsurance & Co-insurance Committee, in which case that insurer shall be deemed to have constituted both the Underwriting committee as well as the Reinsurance & Co-insurance Committee."

## Clause (xliii) - Committees

"(xliii) All committees (whether management committees or the Board committees) shall meet at least once in every quarter. However, the Nomination committee, and Ethics, Human Resource & Remuneration Committee shall be required



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 4 -

*to meet on need basis and not on a quarterly basis. The proceedings of the meetings shall be recorded and be kept at the insurer's head office. Each committee of an insurer shall appoint a secretary of the Committee. The secretary shall circulate minutes of meetings of the relevant Committee to all members, directors and, if necessary, the Chief Financial Officer within a fortnight."*

7. Section 11 (1)(f) of the Ordinance provides that:

*"Conditions imposed on registered insurers.-(1) An insurer registered under this Ordinance shall at all times ensure that:*

*(f) the insurer meets, and is likely to continue to meet, criteria for sound and prudent management including without limitation those set out in section 12;"*

8. Section 12 of the Ordinance requires that:

*"Criteria for sound and prudent management.- (1) For the purposes of this Ordinance, the following shall, without limitation, be recognised as criteria for sound and prudent management of an insurer or applicant for registration as a person authorised to carry on insurance business:*

*(a) the business of the insurer or applicant is carried on with integrity, due care and the professional skills appropriate to the nature and scale of its activities;*

*(b) each director and officer or (in the case of an applicant which is a body corporate incorporated outside Pakistan) the principal officer in Pakistan of the insurer or applicant is a fit and proper person to hold that position;*

*(c) the insurer or applicant is directed and managed by a sufficient number of persons who are fit and proper persons to hold the positions which they hold;*

*(d) the insurer or applicant maintains adequate accounting and other records of its business; and*

*(e) the insurer or applicant maintains adequate systems of control of its business and records.*

*Explanation: A person is a fit and proper person who possesses such experience and qualifications as are appropriate for the duties for which he is responsible, and conducts those duties with due diligence and skill. A person is not a fit and proper person to hold the position of Chairman, or of Chief Executive or principal officer in Pakistan, of an insurance company if that person does not have experience or qualifications of direct relevance to the conduct of insurance operations. A person is not a fit and proper person if the association of that person with the insurer is or is likely, for whatever reason, to be detrimental to the interest of the insurer or of the policy holders, or is otherwise undesirable.*

*(2) Accounting and other records shall not be regarded as adequate for the purposes of clause (d) of sub-section (1) unless they are such as:*

*(a) to enable the business of the insurer or applicant to be prudently managed;*  
*and*



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 5 -

*(b) to enable the insurer or applicant to comply with the obligations imposed on it by or under this Ordinance.*

*(3) In determining whether any systems of control are adequate for the purposes of clause (e) of sub-section (1), the Commission shall have regard to the functions and responsibilities for those systems which are held by the persons who are responsible for the direction and management of the insurer or applicant and to whom clause (b) of subsection (1) applies.*

*(4) The insurer or applicant shall not be regarded as conducting its business in a sound and prudent manner if it fails to conduct its business with due regard to the interests of policy holders and potential policy holders.*

*(5) The insurer or applicant shall not be regarded as conducting its business in a sound and prudent manner if it:*

*(a) fails to satisfy an obligation to which it is subject by virtue of this Ordinance;*

*or*

*(b) fails to supervise the activities of a subsidiary with due care and diligence and without detriment to the insurer's or applicant's business.*

*(6) No insurer shall appoint a managing agent for the conduct of its business."*

9. Accordingly, a Show Cause Notice (SCN) No. Id/Enf/ Alpha/2017/12837 dated December 12, 2017 was issued 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 on them for the aforementioned alleged contraventions of the law.

10. The Authorized Representative of the Respondents, Mr. Waqas Sheikh, vide letter dated December 21, 2017 sought an extension of three weeks to submit reply to the aforesaid Show Cause Notice. The request of the representative was acceded to and the Company was allowed extension until January 10, 2018.

11. Thereafter, the Authorized Representative submitted reply on behalf of the Respondents vide letter dated January 9, 2018, which is reproduced hereunder:

".....

1. *That at the very outset, we would like to deny each and every allegation contained in the show - cause notice dated 12<sup>th</sup> December, 2017 therein and further we would like to submit the following in our defense:*

*(i) That the Company has already submitted response to alleged violations vide letter dated 29-09-2017. Moreover, it is pertinent to mention that the Company is committed towards providing excellent service to the policyholders. That the Commission should appreciate that our Company places paramount importance to the interest of the policyholders and the fact that there no major complaints against us from policyholders is a manifestation of our commitment towards excellence and professionalism.*

# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 6 -



- (ii) *That the remedial measures undertaken by the Company are enumerated in the letter dated 29<sup>th</sup> September, 2017. That all the alleged violations pointed out in the show-cause notice dated 12<sup>th</sup> December, 2017 are merely procedural, that the Company is not involved any violation which may be deemed to be considered detrimental to the interests of the policyholders*
- (iii) *That even otherwise, the Company never had intention to commit violation of the Insurance Ordinance, 2002/ or any regulations administered by the Commission.*
- (iv) *That, it is pertinent to mention the issue enumerated in Para 5(i), (ii), and (iv) was immediately rectified by the Company upon surface during the audit. The immediate compliance speaks volume of the commitment and the importance which the Company places upon regulatory requirements.*
- (v) *That in relation to the alleged violation enumerated in Para 5(iii), it is pertinent to mention that the Company is fully compliant and providing complete orientation to the Director(s) in the first board meeting which the Director attends prior to the commencement of the meeting, however, there is a difference of opinion between the Company and the Auditor. There is no specific requirement contained in the Code for Insurers, 2016 ("Code") that the orientation course must be conducted separately.*
- (vi) *That in relation to the alleged violations enumerated in Para 5 (v) and (vi), we have explained the impediments faced by the Company at the relevant time in letter dated 29-09- 2017.*  
....."

12. The Commission, vide its notice no. ID/Enf/ Alpha/2018/14101 dated March 20, 2018, scheduled the hearing for March 28, 2018 at the Commission's Company Registration Office Karachi.

13. Meanwhile, the Authorized Representative vide email dated March 26, 2018 submitted response on behalf of Mr. Ajaz Ali Khan, the Respondent, whereby it was stated that SCN was issued on the basis of Annual Audited Accounts and Regulatory Returns for the year ended December 31, 2016, whereas Mr. Ajaz was appointed as CEO of the Company on April 8, 2017. It was further elaborated that Mr. Ajaz cannot be held responsible for the period prior to his appointment and therefore he is not a necessary party in the instant show cause notice.

14. The hearing was attended by Mr. Wasqas Asad Sheikh, Advocate along with M. Ayaz Ghori CFO & Company Secretary of the Company as Authorized Representatives, representing all the Respondents before the Commission in the instant matter.

15. During the hearing the Representatives apprised that discrepancies highlighted by the auditors have been rectified. Measures taken included, submission of affidavit to SECP regarding placement of names on ECL and plea bargain with NAB, placement of the Code of Conduct on website, regularizing of the Committees in line with the

A handwritten signature in black ink is located in the bottom right corner of the page. The signature is stylized and appears to be the initials 'AK' followed by a flourish.



## SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 7 -

Code and noting of the delay in recording of the minutes for future compliance. The Representatives requested the Commission to take lenient view in the matter.

16. Clause (vi)(h) of the Code states that no person shall be appointed as a director of an insurer if he / she has been placed on exit control list or has entered into a plea bargain with the National Accountability Bureau. In this regard, an Affidavit confirming the placement or non-placement of name on the Exit Control List (ECL) and status as to whether entered into a plea bargain with NAB was required, which was not filed with SECP within a period of one month, as required under clause (vi)(h) of the Code. The Company vide letter dated September 29, 2017 intimated that the said Affidavit was subsequently obtained and submitted to the SECP.

17. Clause (xi)(a) of the Code requires that the Board shall take appropriate steps to disseminate Code of Conduct throughout the insurer along with supporting policies and procedures and these shall be put on the insurer's website. It was revealed that the Company prepared a "Code of Conduct" which was disseminated among all the Directors and employees of the Company. However, it was not uploaded on the Company's website. The Company has admitted that once highlighted by the auditors, the Code of Conduct was placed on website of the Company.

18. Clause (xix) of the Code requires that the insurer shall make appropriate arrangements to carry out orientation courses for its Directors to acquaint them with their duties and responsibilities and enable them to manage the affairs of the insurer on behalf of the shareholders/policyholders. It was noted that during the year no orientation course was carried out by the Company for its Directors. The Company in its response dated September 29, 2017 stated that being subsidiary of the SLIC, its Board of Directors are nominated by the SLIC. It was further stated that the Company provides orientation to the newly nominated Directors in their first Board meeting, but the auditors are of the opinion that this should be done separately. It is clarified here that Alpha Insurance Company Limited is a separate entity and registered as non-life insurance Company. Therefore, it is required to have separate training for the members of the Board of Directors as required under the Code.

19. Clause (xxxv)(c) of the Code provides that the members of the Claim Settlement Committee, other than Chief Executive Officer, shall not be the member of the Underwriting Committee or the Reinsurance & Co-insurance Committee. However, in the instant case it was observed that Members of the Claim Settlement and Underwriting Committee, Reinsurance & Co-insurance Committee were same, other than CEO. Their nomination was in violation of clause (xxxv)(c) of the Code. The Company in its response has stated that the said non-compliance has been rectified and currently members of the both the Committees comply with the requirements of the Code.

20. Clause (xliii) of the Code requires that all Committees shall meet at least once in every quarter. However, the Nomination Committee, and Ethics, Human Resource & Remuneration Committee shall be required to meet on need basis and not on a quarterly basis. The proceedings of the meetings shall be recorded and be kept at the insurer's



# SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 8 -

head office. Each Committee of an insurer shall appoint a secretary of the Committee. The secretary shall circulate minutes of meetings of the relevant Committee to all members, Directors and, if necessary, the Chief Financial Officer within a fortnight. It was revealed that the meetings of the Underwriting and Reinsurance & Co-insurance Committees were not held in first, third, and fourth quarter, as required under clause (xliii) of the Code. The Company has stated that reason for not having the meetings in 1st, 3rd, and 4th quarter are not known as both the underwriter and MD / CEO at that time have left the Company. However, the Company has assured to comply with the requirements in future. Furthermore, it was also noted that the minutes of one meeting were not circulated within 14 days as required under clause (xliii) of the Code. The Company in response dated September 29, 2017 stated that it has noted the non-compliance for future compliance.

21. The Company has admitted the default in its reply dated September 29, 2017 prior to the issuance of Show Cause Notice. However, the Representative of the Company termed these violations as merely procedural and claimed that the Company was not involved in any violation, which may be deemed to be considered detrimental to the interests of the policyholders. The plea of the counsel is not tenable as severity of violation of law cannot be associated with the fact that interest of policyholders is involved or any complaint is filed with the Commission.

22. 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 violations of Clause (vi)(h), (xi)(a), (xix), (xxxv)(c), and (xliii) of the Code read with Section 11(1)(f), Section 12 of the Ordinance are clearly established, for which the Respondents may be penalized in terms of Section 156 of the Ordinance and/or direction to cease entering into new contracts of insurance may be issued.

23. 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.”*

24. In exercise of the power conferred on me under Section 156 of the Ordinance I, instead of imposing the maximum fine as provided under the said provisions, impose a fine of Rs. 50,000/- (Fifty Thousand Only) on the Company due to the default of Clause (vi)(h), (xi)(a), (xix), (xxxv)(c), and (xliii) of the Code read with Section 11(1)(f), Section 12 of the Ordinance, as mentioned in the above paras hereof. The Respondents





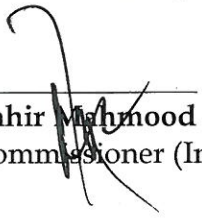
## SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 9 -

are hereby warned to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

25. 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.

26. 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.

  
Tahir Mahmood  
Commissioner (Insurance)

