



SECP

INSURANCE DIVISION
Islamabad

Before Hasnat Ahmad, Director (Enforcement)

In the matter of

M/s. Chubb Insurance Pakistan Limited

Show Cause Notice No. and Date : ID/Enf/Chubb/2019/364 Dated April 05, 2019

Date of Hearing: August 8, 2019

Attended By: Mr. Humzah Chaudhry
Country President
M/s. Chubb Insurance Pakistan Limited

Mr. Hasan Mahmood
Company Secretary
M/s. Chubb Insurance Pakistan Limited

Mr. Furkan Ali
Legal Counsel
M/s. Chubb Insurance Pakistan Limited

Date of Order: September 5, 2019

ORDER

Under Rule 58 of the Insurance Rules, 2017 read with Section 156 of the Insurance Ordinance, 2000

.....

This Order shall dispose of the proceedings initiated against M/s. Chubb Insurance Pakistan Limited (the "Company"), its Chief Executive and Directors for alleged contravention of Rule 58 of the Insurance Rules, 2017 (the "Rules") read with Section 156 of the Insurance Ordinance, 2000 (the "Ordinance"). The Company and its Directors shall be referred to as the "Respondents" hereinafter.

2. The Company is registered with the Securities and Exchange Commission of Pakistan (the "Commission") under the Ordinance to carry on general/ non-life insurance business in Pakistan.

3. The Commission vide letter dated November 28, 2018 advised the Company to submit cover notes and premium receipts in respect of four insurance policies selected on random sampling basis. However, review of the information submitted by the Company vide letter dated December 19, 2018, revealed that premium was received after expiry of the cover notes in respect of the following policies.

HMS



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 2 -

Policy Number	Cover Note Date/Extension Period date/ Letter date	Premium Receipt Date	Days elapsed
41150009	12-09-2017	25-05-2018	255
72150004	12-09-2017	25-05-2018	255
1016T022	26-10-2017	16-02-2018	113
41170057	30-10-2017	16-02-2018	109

4. Therefore, it appeared that the Respondents contravened the provisions of Rule 58 of the Rules.

5. Rule 58 of the Rules states that:

"Insurance policy not to be issued without receipt of premium.- (1) Save as provided under sub-rule (2), (3) and (4) below, no insurance policy shall be issued where premium has not been received by the insurer.

(2) An insurer may issue a cover note prior to the receipt of premium, in order to enable the intending policyholder to review the details and scope of coverage being offered.

Provided that the cover note should not be for a period exceeding seven days in the case of motor business and beyond thirty days in all other cases and must be replaced with an insurance policy before expiry of such cover note, subject to receipt of premium by the insurer.

(3) Notwithstanding the above, an insurance policy may be issued where the premium has been mutually agreed to be paid in installments and the first such installment has been duly received by the insurer.

(4) The policy schedule must clearly specify the number of agreed installments and their due dates, along with a stipulation that cover under the policy shall stand suspended in case any instalment is not received within the scheduled due date thereof.

(5) The provision of this rule shall apply in respect of direct non-life insurance contracts only."

6. Accordingly, a Show Cause Notice (SCN) No. ID/Enf/Chubb/2019/364 dated April 05, 2019 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.

7. Thereafter, the Company vide letter dated April 25, 2019 submitted reply to the aforesaid SCN, which is reproduced below:

"

At the outset we wish to state that compliance to country regulations is of utmost importance to the Company and we exercise due care in conduct of our business with due regard to applicable laws.

Handwritten signature/initials



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 3 -

In respect of the four selected policies, below are some additional details.

<i>Policy Number</i>	<i>Cover Note Issuance Date/ Extension Period</i>	<i>Premium Receipt Date</i>	<i>Policy Issuance Date</i>	<i>Policy Issued after receipt of Premium</i>
41150009	Endorsement	25-May-2018	09-July-2015	Extension Endorsement issued on September 22, 2017
72150004	Endorsement	25-May-2018	09-July-2015	Extension Endorsement issued on September 22, 2017
1016T022	26-Oct-2017	13-Feb-2018	22-Feb-2018	Yes
41170057	30-Oct-2017	13-Feb-2018	22-Feb-2018	Yes

In respect of Policy No. 41150009 and Policy No 72150004, please note that these pertain to a construction project for which the policies were issued in July, 2015 and premium was duly received. However, due to extension in construction period beyond the initial projections, extension to the policies was requested and the necessary endorsements were issued. Therefore, there was no occasion of any violation of Rule 58 of the Insurance Rules, 2017.

For Policy Nos. 1016T022 and 41170057, we wish to clarify that these pertain to renewal of a multi-national client for which insurance cover is negotiated by them globally. The 30 Day Cover Note (copies of which have already been submitted) issued to the client included a premium payment notice (copy attached) emphasizing requirements under Rule 58 of the Insurance Rules 2017. Regular follow-up was also maintained, and the client informed us that premium payment was in process pending completion of their vendor registration (a KYC/ due diligence requirement at the client's end). Policy document was issued only after receipt of premium in due compliance with Rule 58 of the Insurance Rules, 2017.

We reiterate that due regard to applicable laws is a priority for the Company and we endeavor to remain compliant at all times. Trust the above serves to clarify our position as regards your observations on the subject and we request your understanding in the matter.

Should you require any further information please let us know."

8. The Commission vide its notice No. ID/Enf/Chubb/2019/704 dated May 16, 2019, scheduled the hearing for May 23, 2019 at the Commission's Head Office. However, the hearing was rescheduled for August 8, 2019, on request of the Company. The said hearing was attended by Mr. Humzah Chaudhry (Country President), Mr. Hasan Mahmood (Company Secretary), and Mr. Furkan Ali (Legal Counsel) in person as Authorized Representatives on behalf of all the Respondents.

9. During the hearing, the Authorized Representatives explained that Policy No. 41150009 and Policy No 72150004, pertained to a construction project for which the policies were issued in July 2015 and premium was duly received. They further maintained that due to extension in construction period beyond the initial projections, extension to the policies was requested and the necessary endorsements were issued.

Hus



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 4 -

10. As per the record provided by the Company, cover not/extension period date for both the policies mentioned in Para 9 above were September 12, 2017, while premium was received on May 25, 2018 i.e. after a delay of 255 days. Whether it was extension, endorsement or renewal of the policies, the Company was required to follow the spirit of law as laid down in Rule 58 of the Rules.

11. The Authorized Representatives claimed that after expiry of first cover notes against Policy Nos. 1016T022 and 41170057, revised cover notes effective from January 14, 2018 were issued. Thereby, reducing the term of the policies to 10 months instead of one year (as per initial cover). The Authorized Representatives reiterated that policy documents were issued only after receipt of premium in compliance with Rules 58 of the Rules.

12. The Respondents, in their written comments earlier provided to the Commission did not mention issuance of the revised cover notes against Policy Nos. 1016T022 and 41170057 and stated as under:-

".... we wish to clarify that these pertain to renewal of a multi-national client for which insurance cover is negotiated by them globally. The 30 Day Cover Note (copies of which have already been submitted) issued to the client included a premium payment notice (copy attached) emphasizing requirements under Rule 58 of the Insurance Rules 2017. Regular follow-up was also maintained, and the client informed us that premium payment was in process pending completion of their vendor registration (a KYC/ due diligence requirement at the client's end). Policy document was issued only after receipt of premium in due compliance with Rule 58 of the Insurance Rules, 2017."

13. During the hearing, the Authorized Representatives however, stated that revised cover notes were issued and provided copies of the same. It has been observed from the revised cover notes that the premium was still delayed by two days i.e. 30 days period expired on February 14, 2018, whereas premium was received on February 16, 2018. Furthermore, the Company, despite expiry of the first cover notes, used the same reference/policy numbers. Surprisingly, neither the implementation instructions received from the UK office regarding the said policies were changed nor the premium was reduced with corresponding decrease in term of the policies. If the Company had issued revised cover notes with reduced term, their premium should have been reduced accordingly. Furthermore, the Company should have provided copies of the revised cover notes to the Commission in response to its letter dated November 28, 2018, so that the same could have been considered before initiating the instant proceedings.

14. In a nutshell, the Company was required to receive premium before issuance of the policies, except in the circumstances where premium is received in installments and the same is agreed between the insurer and the insured as per the provisions of Rule 58 of the Rules.

Handwritten signature/initials



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 5 -

15. In addition to the above, it is important to note that Rule 1(2) of the Rules clearly states the period of commencement of the applicability of such Rules. The same is reproduced hereunder for ease of reference:

"Short title and commencement.-

...

(2) These rules shall come into force at once."

16. 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 violation of Rule 58 of the Rules, is clearly established, for which the Respondents may be penalized in terms of Section 156 of the Ordinance.

17. 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."

18. In exercise of the power conferred on me under Section 156 of the Ordinance read with S.R.O. 1346 (I)/2018 dated November 5, 2018, I, instead of imposing a fine take a lenient view and warn the Respondents to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future. However, the Respondents are hereby directed to take immediate steps to discontinue issuing policies in contravention to the provisions of Rule 58 of the Rules.

19. 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.

Hasnat Ahmad

Director/ HoD (Enforcement)

