



SECP

INSURANCE DIVISION
Islamabad

Before Tahir Mahmood, Commissioner (Insurance)

In the matter of

IGI Life Insurance Limited

Show Cause Notice No. and Issue Date: ID/Enf/IGILife/2018/13376 dated
January 24, 2018

Date of Hearing: July 4, 2018

Attended By:

1. Mr. Nadeem R. Malik
Chief Executive Officer
IGI Life Insurance Limited
2. Dr. Bakht Jamal
Head of Takaful
IGI Life Insurance Limited
3. Syed Fahad Subhan
CFO
IGI Life Insurance Limited
4. Nasir Qureshi
Company Secretary
IGI Life Insurance Limited

Date of Order: July 30, 2018

ORDER

**Regulation 8(5) read with Regulation 12 and 13 of the Bancassurance Regulations,
2015 and Section 156 of the Insurance Ordinance, 2000**

.....

This Order shall dispose of the proceedings initiated against M/s. IGI Life Insurance Limited (the "Company"), its Chief Executive and Directors for alleged contravention of Regulation 8(5) read with Regulation 12 and 13 of the Bancassurance Regulations, 2015 (the "Regulation"). 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 Life Insurance business in Pakistan.

3. The Commission initiated thematic review of bancassurance business of insurers in order to check compliance of conduct of business with applicable regulatory provisions. 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



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as aforementioned, required the Company to provide information as per the Information Seeking Memorandum (the "ISM") and formats provided therein.

4. During review of bancassurance business of the Company, it was observed that the "cost of insurance consultants/salaries and other benefits of bancassurance sales consultant" were recorded as expense for those products of the Company which were being sold on Direct Sales Model. The instances of recording of such expense as reflected in the statement of expenses filed under Regulation 18 of the Regulations (Annexure B1 and B2 to the ISM) are as follows:

Amount in Rs. 000'

Nature of Business	Name of Bank	Bancassurance Model	Cost of Insurance Consultant Recorded (Year 2016)
Conventional (Life Non-Participating / Individual)	Alfalah Bank	Direct Sales	1,677
Investment Linked	Standard Chartered	Direct Sales	842
Total			2,519

5. In this regard, Regulation 8(5) of the Regulations requires that the commission payable to banks by insurer shall be in the form as set out in the Regulations and shall also not exceed the limits set out in the Regulations.

6. In the case of Direct Sales Model, the Regulations have deliberated the different classes of remuneration that can be given to the bank as commission, contained in Regulation 12 and 13 thereof. The different classes of remuneration are:

- (i) First policy year commission to the bank;
- (ii) Renewal years commission to the bank/share in investment management charge;
- (iii) Production bonus;
- (iv) Persistency bonus; and
- (v) Sales and marketing incentive.

7. From the perusal of aforementioned categories of remuneration, cost of insurance consultants, in the case of Direct Sales Model, cannot be recorded as expense by the Company and subsequently paid to the sales staff of the Bank.

8. In view of the above, it appeared to the Commission that the Company failed to comply with mandatory requirements under Regulation 8(5) read with Regulation 12 and 13 of the Regulations by recording cost of insurance consultants in the case of Direct Sales Model.

9. Regulation 8(5) of the Regulations provides that:

" Commission Payable to Bank.-

(5) The following shall be applicable for life insurers, in addition to those stated above:



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(a) *The commission payable to the Bank shall be in the form as set out in these Regulations and shall not exceed the limits set out in these Regulations;*

10. Regulation 12 of the Regulations states that:

“ Direct Sales Model.- Where Bank uses its own sales force to market and distribute insurance products through its own distribution channel then such model shall be referred to as Direct Sales Model.

(a) Regular Premium Individual Life Plans.- (Savings Products and Protection Products)

(i) First Policy Year Commission to Bank.- In the first policy year the commission to the bank will be subject to the maximum limit given as per Table A1 in Schedule to these Regulations;

(ii) Renewal years commission to Bank.- For the bank's efforts in collecting second year and subsequent year's premium the second policy year commission and subsequent policy year commission to the Bank (as a percentage of the corresponding policy year collected premium) will be subject to the maximum limit given as per Table A1 in Schedule to these Regulations;

(iii) Share in Investment Management Charge (as an alternative to second policy year and onwards commission rate).- Starting from the second policy year onwards, for investment linked unit linked and investment linked account value products, the Insurer shall be allowed to share with the Bank, a part of the investment management fee as a percentage of the net asset value (NAV) of the underlying unit linked fund, or the investment fund up to the extent of the fund attributable to the policies procured through the Bank. The maximum share of the Bank in the NAV shall at any time not exceed 50% of the total investment management fee charged by the Insurer on the fund to the extent of the policies procured through the Bank, up to a maximum of 0.75% per annum of the NAV.

(iv) Production Bonus.- In lieu of a lower first policy year commission, an Insurer shall be allowed to pay production bonus to the Bank linked to achievement of mutually agreed new business targets. The sum of the Production Bonus percentage and first policy year commission shall not exceed the maximum commission rate mentioned in Schedule to these Regulations. The Production Bonus in aggregate as a percentage of the first policy year collected premium shall not exceed 5%.

(v) Persistency Bonus.- For the Bank's efforts in collecting renewal premium, and improving and maintaining persistency, an Insurer shall be allowed to pay persistency bonus to the Bank based on minimum persistency level achieved and the rates as per as per Table A2 in Schedule to these Regulations. An Insurer may split 4th year and onward commission rates into upfront commission and targeted persistency level.

(vi) Maximum Aggregate Commission.- The maximum commission payable, i.e. cumulative first policy year, second policy year and subsequent policy year onwards



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commission, as stated above, over the entire premium paying term of a policy shall not exceed the maximum limits prescribed as per Schedule to these Regulations. For policies with premium paying terms between 10 and 20 years, or terms less than 10 years, these limits shall be prorated according to premium paying term.

(b) The maximum commission limits as per Schedule to these Regulations will also be applicable for single premium savings products, regular premium annuities, regular premium personal accident type policies, group term life policies for retail customers of Bank, including yearly renewable term policies, personal accident policies, group credit life and similar products."

11. Regulation 13 of the Regulations states that:

"Sales and Marketing Incentives to Banks.- (1) To promote Bancassurance business, an Insurer shall be allowed to share with the Bank in the costs of sales and marketing incentives including sales conventions and awards called by whatever name in respect of bancassurance business. The share of the Insurer in such activities shall not exceed 5% of the first policy year collected premium.

(2) For the purpose of sub regulation (1) above, an Insurer shall incorporate the minimum persistency benchmarks, as given in Table A2 and A4 to the Schedule, with all sales and marketing incentives including sales convention at each Bank level.

(3) All insurers shall provide a separate disclosure of expenses incurred under sub regulation (1) above to be included in the Statement of Expenses (for aggregate bancassurance business) and Statement of Expenses (for each bank) as specified under regulation 18(c) and 18(d) respectively."

12. Accordingly, a Show Cause Notice (SCN) No ID/Enf/IGILife/2018/13376 dated January 24, 2018 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.

13. The Company wide letter dated January 30, 2018 sought an extension of 10 days to submit reply to the aforesaid Show Cause Notice. The request of the Company was acceded to and the Company was allowed extension until February 10, 2018.

14. Thereafter, the Respondents submitted their reply vide letter dated February 9, 2018, which is reproduced hereunder:

".....

It is respectfully submitted that the cost of insurance consultants reported against Direct Sales Model, at Standard Chartered Bank Ltd. ("SCB") and Bank Al-Falah Ltd. ("BAFL") conventional relates to the staff of IGI Life Insurance Ltd ("IGI Life").

The cost of insurance consultant recorded against BAFL-conventional in fact relates to staff deployed at BAFL-Islamic Banking Group (Takaful) and were inadvertently



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reflected in BAFL-conventional. The Banca Takaful agreement with BAFL-IBG was signed on July 14, 2015 and sales commenced in September 2015.

This agreement was based on Referral Model. New business under the earlier Bancassurance agreement with BAFL-conventional which was based on Direct Sales Model was discontinued from September 2015. The staff related expenses booked are shown as Annexure A.

The cost of consultants recorded against SCB relates to staff deployed to undertake support and co-ordination functions of IGI Life. These functions include follow-up of underwriting requirements, providing the bank with persistency due reports, renewal premium follow-ups and complain handling etc. The staff related expenses are shown as Annexure B.

It is once again reiterated that the said cost relates to IGI Life's staff and no reimbursements were paid to the sales staff of SCB and BAFL. Further, we have reclassified the said cost and the same shall not be included in the Bancassurance return for the year 2017 onwards.

IGI Life is continuously strengthening the internal control systems and processes with a view to ensure full compliance with the regulatory requirements. We also request for a personal hearing in order for us to further elaborate our position on the observations made by SECP....."

15. The Commission, vide its notice no. ID/Enf/IGILife/2018/15431 dated June 25, 2018, scheduled the hearing for July 4, 2018 at the Company Registration Office Karachi.

16. The hearing was attended by Mr. Nadeem R. Malik, Deputy CEO of the Company along with other authorized representatives namely Dr. Bakth Jamal, Syed Fahad Subhan, and Mr. Yasir Qureshi representing all the Respondents before the Commission in the instant matter.

17. During the hearing, the Representatives admitted that it was the first statement of expenses submitted to the Commission under Regulation 18 of the Regulations. They maintained that all the issues/discrepancies were subsequently rectified. They further requested the Commission to take lenient view in the matter.

18. In terms of Regulation 13(3) of the Regulations, the Company was required to submit Statement of Expenses (for aggregate bancassurance business) and Statement of Expenses (for each bank). While, Regulation 12 of the Regulations defines different classes of remuneration, which can be given to a bank as commission under Direct Sales Model. It is evident from the plain reading of Regulation 12 of the Regulations that cost of consultants, which in the instant case has been included in Direct Sales Model, is not included in the classes of remuneration defined under the said the Regulation.

19. However, Statement of Expenses filed under Regulation 18 of the Regulations with the Commission shows instances where the Company has recorded "cost of



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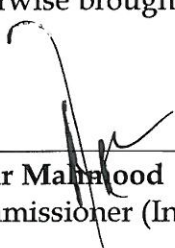
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insurance consultants/salaries and other benefits of bancassurance sales consultant" as expense for those products of the Company which were sold on Direct Sales Model.

20. The Respondents have admitted that cost of insurance consultants reported against Direct Sales Model, at Standard Chartered Bank Limited and Bank Al-Falah Limited (BAFL)-Conventional relates to the staff of the Company. The cost of insurance consultant recorded against BAFL-conventional in fact related to staff deployed at BAFL-Islamic Banking Group (Takaful) and was inadvertently reflected in BAFL-conventional. The arguments, documents and evidences, which have been submitted by the Respondents so far, have been found to be evidencing the fact that the Company has failed to comply with requirements of Regulation 8(5) read with Regulation 12 and 13 of the Regulations. However, the Respondents have reclassified the 'consultation' cost and have assured that this cost would not be included in Bancassurance Returns 2017 onwards.

21. 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 default of Regulation 8(5) read with Regulation 12 and 13 of the Regulations is established, however, I, instead of imposing the 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.

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.


Tahir Mahmood
Commissioner (Insurance)

