SECP

INSURANCE DIVISION
Islamabad

Before Tahir Mahmood, Commissioner (Insurance)

In the matter of

Pak Qatar Family Takaful Limited

Show Cause Notice No. and Issue Date:	ID/Enf/PQFTL/2018/13251 dated January 15, 2018
Date of Hearing:	March 7, 2018
Attended By:	1. Mr. M. Nasir Ali Syed Chief Executive Officer Pak Qatar Family Takaful Limited 2. Mr. Farrukh V. Junaidy Director Pak Qatar Family Takaful Limited 3. Mr. M. Kamran Saleem CFO & Company Secretary Pak Qatar Family Takaful Limited 4. Mr. Waqas Ahmad Chief Operating Officer Pak Qatar Family Takaful Limited
Date of Order:	March 21, 2018

ORDER

Under Regulation 17(d) of the Bancassurance Regulations, 2015 read with Rule 3 of the Unit Linked Product and Fund Rules, 2015 and Section 156 of the Insurance Ordinance, 2000

....

This Order shall dispose of the proceedings initiated against M/s. Pak Qatar Family Takaful Limited (the "Company"), its Chief Executive and Directors for alleged contravention of Regulation 17(d) of the Bancassurance Regulations, 2015 (the "Regulations") read with Rule 3 of the Unit Linked Product and Fund Rules, 2015 (the "Rules"). The Company and its Directors shall be collectively referred to as the "Respondents" hereinafter.

2. The Company is registered under the Insurance Ordinance, 2000 (the "Ordinance") to carry on family takaful business in Pakistan.

3. The Commission had initiated thematic review of Bancassurance business of insurers / takaful operators undertaking bancassurance business in order to check compliance of conduct of business with applicable regulatory provisions. Accordingly, the Company was advised to submit cycle wise issuance of insurance policies for each bank.

4. The first response of the Company, against the call for information notice, was received through letter dated October 10, 2017 and through subsequent emails/letters from time to time.

5. On perusal of the sample cases revealed that in certain cases, the policies were issued for very nominal sum assured with no natural death coverage for major or entire part of the policy term whereas only accidental death was covered in first 36 months of the policy term. Few instances noted from the sample cases are as follows:

Bank	Product	Policy Number	Premium Amount (PKR)	Sum Assured (PKR)	Policy Term	No Coverage for natural death
Dubai Islamic Bank	Al-Islami Sarmaya and Takaful Plan	4808120001253	1,500,000	1,500	3 years	36 months (3 years)
Dubai Islamic Bank	Al-Islami Sarmaya and Takaful Plan	4808120001350	500,000	500	3 years	36 months (3 years)
Standard Chartered	Mustehkam Takaful and Investment Plan	4808230001747	3,200,000	3,200	5 years	36 months (3 years)

6. The Company issued certain single premium unit linked policies in the years 2016 and 2017, wherein the sum assured of the plan was less than or equal to the amount of single premium. Whereas Regulation 17(d) of the Regulations requires that the minimum financial protection component (i.e. sum cover payable on death due to any cause) for single premium plan, sold through bancassurance, should be in accordance with the minimum financial protection prescribed under Rule 3 of the Rules i.e. 1.25 times of the single premium amount for death due to any cause.

7. Regulation 17(d) of the Regulations states that:

*"**Sales Process for Bancassurance business .-***

***(d) Minimum Financial Protection**. The minimum financial protection component (i.e. sum cover payable on death due to any cause) for regular premium individual life plans and single premium plan, sold through Bancassurance, shall be in accordance with the minimum financial protection prescribed under Unit Linked Products and Fund Rules, 2015 as amended from time to time. This shall be applicable to conventional non-linked products, unit linked investment linked products as well account value universal life products."*

8. Rule 3 of the Rules provides that:

Minimum Financial Protection.- *All life insurers carrying put unit linked business shall offer the unit linked products having the minimum financial protection component (i.e. life insurance coverage) as specified in table below:*

Product Type	***Minimum Financial Protection (life insurance cover for death due to any cause)***
Regular premium individual life contracts (endowment, whole life contracts etc.)	*5 times of the Basic Annual Premium*
Child education/marriage or family income benefit contracts (where no fixed sum cover is paid on death due to any cause)	*5 times of the Basic Annual Premium*
Single premium contracts	***1.25 times of the Premium***

(bold and underlined to put emphasis)

9. Accordingly, a Show Cause Notice (SCN) No. ID/Enf/PQFTL/2018/13251 Dated January 15, 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.

10. The Company vide letter dated January 23, 2018 sought an extension to submit reply to the aforesaid Show Cause Notice. Subsequently, the Company was granted extension until February 2, 2018.

11. Thereafter, the Respondents submitted their reply vide letter dated February 2, 2018, which is summarized hereunder:

i. Unit linked products are offered with minimum financial protection component i.e. life insurance coverage as prescribed by Rule 3 of the Rules.

ii. Regular premium plans, their product structure and implemented rules prescribe that each Regular Premium plan will be issued with minimum financial protection for death due to any cause equal to 5 times of the basic annual premium.

iii. Similarly, Single contributions contracts, their product structure and implemented rules prescribe that each lump sum plan will be issued with minimum financial protection for death due to any cause greater than 1.25 times of the premium. In fact, our memberships for lump sum plan were always issued with a minimum sum assured being twice of the contribution.

iv. In the beginning of year 2017, a system based anomaly was unearthed in the issuance of certain lump sum plans auto-underwriting thereby, resorting to health conditions, customer declarations, customer inclination towards investments etc. the underwriting module applied exclusion/postponed decision on the life of the proposed for natural death only for a certain period of time. Moreover, the coverage was also provided to the customers /participants on the death due to the accidental means.

v. The said automated underwriting decisions, which on realization were immediately ceased and a patch was deployed in system to apply restrictions for the decision of the postponement and exclusions. It is relevant to quote here that percentages of such cases out of the approximately issued 6,000 plans in the referred period was negligible.

vi. The said system lacuna did not in any way had a negative impact of any sort on the policy (cash value) of the customer/policyholder. The policyholders have gained as per their wishes and likings.

vii. Furthermore, we would also like to place reliance on the SRO 246(I)/2017 dated April 7, 2017 whereby the Commission directed all the registered life insurers under the Ordinance to comply with the requirement contained in the Bancassurance Regulations 2015 in respect of such life insurance policies to which the directive applies. Accordingly, the Commission advised the companies to furnish the compliance to it with effect from July 1, 2017. The compliance report as requested was submitted with the honorable Commission.

12. The Commission, vide its notice no. ID/Enf/PQFTL/2018/13881 dated March 2, 2018, scheduled the hearing for March 7, 2018 at the Company Registration Office Karachi.

13. The hearing was attended by the authorized representatives of the Respondents namely Mr. Nasir Ali Syed, Mr. Farrukh V. Junaidy, Mr. M. Kamran Saleem, and Mr. Waqas Ahmed representing all the Respondents before the Commission in the instant matter.

14. During the hearing, the Representatives admitted that in the year 2017, there were some technical glitch, which resulted in such errors. The errors were ultimately addressed. They maintained that system lacuna did not have a negative impact of any sort on the policy (cash value) of the customer/policyholder. The Representatives further claimed that percentages of such cases was negligible out of the approximately 6,000 plans issued in the referred period. The Representatives requested the Commission to take lenient view in the matter.

15. In terms of Rule 3 of the Rules, the unit linked products should be issued with the minimum financial protection component. However, perusal of the data provided by the Company revealed that certain single premium policies were issued with cover multiple less than prescribed minimum cover multiple. It was also observed that the Company issued certain single premium policies with no natural death coverage (death due to any cause) for entire term of the policy.

16. The Respondents have admitted in their written submissions as well as during the hearing that in the beginning of year 2017, a system based anomaly was unearthed

in the issuance of certain lump sum plans for a certain period of time. Moreover, the coverage was also provided to the customers /participants on the death due to the accidental means. The Respondents have, however, subsequently ceased automated underwriting decisions and a patch was deployed in system to apply restrictions for the decision of the postponement and exclusions. The Respondents have argued that percentage of such cases was negligible. The response of the Company also highlights internal control deficiencies in the Company's system.

17. 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 Regulation 17(d) of the Regulations read with Rule 3 of the Rules is 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.

18. 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."*

19. In exercise of the power conferred on me under Section 156 of the Ordinance read with S.R.O. 750(I)/2017 dated August 2, 2017, I, instead of imposing the fine as provided under the said provision, 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 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)