

**Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)**

**In the matter of Show Cause Notice issued to East West Insurance Co. Limited**

Date of Hearing

March 17, 2020

**Order-Redacted Version**

Order dated April 21, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of East West Insurance Co. Limited. Relevant details are given hereunder:

<b>Nature</b>	<b>Details</b>
1. Date of Action	Show Cause Notice dated November 29, 2019
2. Name of Company	East West Insurance Co. Limited
3. Name of Individual*	Not Applicable.
4. Nature of Offence	Alleged violations of Regulation 4(a) & (d), Regulation 6(3)(a) & (b), Regulation 6(4), Regulation 6(8), Regulation 6(5a), Regulation 9(4), Regulation 13(1), Regulation 13(2), Regulation 14(2), Regulation 15(1) and Regulation 15(2), Regulation 18(c), and Regulation 20(aa), (a)& (b) of the of Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018.
5. Action Taken	<p>Relevant extracts from the Order on findings and outcome of the matter are as follows:</p> <p>“8. I have examined the submissions and arguments of the Respondents and their Authorised Representatives in light of the requirements of applicable provisions of the Regulations. I am of the considered view that the Respondents did not ensure their compliance with the mandatory provisions of the Regulations in the following instances:</p> <p>(i) The Company did not have proper policies and procedures in place for identification of beneficial ownership of its customers. Resultantly, verification of identity of beneficial owners and understanding</p>



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	<p>and obtaining the information on the intended nature of business relationship were not carried out. This state of affairs has resulted in violation of Regulation 4(a), 6(3)(a)&amp;(b).</p> <p>(ii) While defending its position on the issue of NADRA Verisys of CNICs of customers, the Company has taken plea that National Risk Assessment, 2019 (NRA, 2019) has recognized non-life insurance business as 'low risk'. It may be clarified that NRA 2019 has mentioned the vulnerability level of non-life insurance sector with regard to AML/CFT but it does not imply that non-life insurance companies do not need to undertake NADRA Verisys as part of their Customer Due Diligence. As far as the Company's plea that the Banks through which the insurance business is procured, are responsible to undertake KYC/CDD of such customers, is concerned, it is further clarified that pursuant to Regulation 12(1), the Company was required to obtain immediately, the necessary information relating to identification of the customer, identification of the beneficial owner and/or the nature of business of the customer if it was making reliance on a third party. However, it was observed that neither CNICs of customers were obtained nor NADRA Verisys thereof was carried out which constitutes violations of Regulation 6(3)(a) and 6(4) read with Annexure I to the Regulations. Moreover, it was evident from the policy files examined by the inspection team that risk categorization of customers was not being carried out which establishes violations of Regulation 6(8).</p> <p>(iii) The Company has stated that the internal audit report was issued in September 2019; however, it does not deliberate on any issue of internal controls with regard to AML/ CFT. Moreover, the Company's internal audit plan for 2019-20 does not address the internal audit on AML/CFT. This state of affairs confirms that the Company does not have an independent audit function to test the system as</p>
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	<p>to its effectiveness in respect of counter AML/CFT measures. Therefore, violation of Regulation 4(d) is established.</p> <p>(iv) The Company did not maintain proper record in policy files of respective customers, which includes copies of cheques for premium receipts and claim payments. This has resulted in violation of Regulation 15(1) and (2) of the Regulations.</p> <p>(v) The Company has not yet completed screening of its existing customers against the proscribed persons/entities due to constraints of the application software being used by the Company for screening purposes. Furthermore, the application is not capable of screening of beneficial owners of customers. Therefore, the Company did not ensure compliance with Regulation 4(a), in this regard.</p> <p>(vi) The Company's AML policy did not deliberate on any requirement to conduct ongoing monitoring of its customers to ensure that the transactions are consistent with the regulated person's knowledge of the customer, his business and risk profile and where appropriate, the sources of funds. This has resulted in contravention of Regulation 4(a) and Regulation 13(1).</p> <p>9. In view of the foregoing facts, I am of the considered view that multiple violations of the Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. <u>650,000/- (Rupees Six Hundred Fifty Thousand only)</u> is hereby imposed on the Company."</p>
6. Penalty Imposed	Penalty of Rs. 650,000/- (Rupees Six Hundred Fifty Thousand only) was imposed on the Company.
7. Current Status of Order	Appeal was not filed against this Order.

Redacted version issued for placement on website of the Commission.