



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

Hammad Javed, Additional Director / Head of Wing (Licensed Entities-Adjudication Department-I)

In the matter of

Shaheen Insurance Company Limited

Show Cause Notice No. &	ID/Enf/Shahen/2019/3419
Issue Date:	August 04, 2023
Date(s) of Hearing(s):	October 24, 2023 November 23, 2023
Attended By:	Mr. Rizwan Akhtar (CEO) Mr. Nisar Ahmed Almani (CFO) Mr. Kashif Naeem (Compliance Officer) Mr. Tariq Hussain (Counsel for the Respondent)

ORDER

Under Regulations 5(a), 8(3), 9(b), 24(1), 25(1)(a) & 27(1)(d), Serial 3(ii) & (iv), 6(i)(a) & (b), (ii), (iii), (iv) and Note (ii) of Annex-1 of the AML/CFT Regulations, 2020 read with Regulation 31 thereof and Section 6A(2)(h) of the AML Act, 2010 and Rules 4(1)(a) and 6(1) of the AML Sanctions Rules, 2020

This Order shall dispose of the proceedings initiated against **Shaheen Insurance Company Limited (the Company and/or the Respondent)** vide Show-Cause Notice No. ID/Enf/Shahen/2019/3419 dated August 04, 2023 (**the SCN**) under Regulations 5(a), 8(3), 9(b), 24(1), 25(1)(a) & 27(1)(d), Serial 3(ii) & (iv), 6(i)(a) & (b), (ii), (iii), (iv) and Note (ii) of Annex-1 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (**the AML/CFT Regulations**) read with Regulation 31 thereof and Section 6A(2)(h) of the AML Act, 2010 and Rules 4(1)(a) and 6(1) of the AML/CFT Sanctions Rules, 2020 (**the AML Rules**).

2. An onsite inspection of the Company was conducted in order to assess its compliance with the applicable AML/CFT framework and Insurance Laws, in pursuance of the Commission's Inspection Order dated January 11, 2023 passed under Section 59A of the Insurance Ordinance, 2000 and Section 6A(2)(f) of the Anti-Money Laundering Act, 2010. The review period of the inspection was from January 1, 2022 to September 30, 2022 (**the review period**). Letter of Findings dated May 6, 2023 was sent to the Company to seek its response on the findings of the aforesaid inspection and Inspection Report was submitted on June 16, 2023.

3. As per the requirements of Regulation 27(1)(d) of the AML/CFT Regulations, it is mandatory to put in place an independent audit function to test the compliance system and mechanisms of the Company. Upon request of the inspection team, the Company only provided an unsigned internal audit report for the period from January to September, 2022, which contains no evaluation of compliance system of the entity. This confirms the fact that the Company has not tested the effectiveness of its compliance system.

4. While giving its response to the aforesaid observation, the Company has stated that its Board of Directors (**the Board**) decided to request Shaheen Foundation (parent undertaking) to carry out internal audit of the Company in compliance with amended Code of Corporate Governance for Insurers, 2016 (**the Code**), which was acceded. In the meanwhile, the Board also advised that an appropriate resource for the internal



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audit department needs to be hired. The foregoing response indicates that the management of the Company agreed with the findings of the inspection team and affirmed to comply with the requirements of Regulation 27(1)(d) of the AML/CFT Regulations, in future. Therefore, the Company, *prima facie*, did not ensure compliance with Regulation 27(1)(d) of the AML/CFT Regulations.

5. AML/CFT Policy of the Company is approved by its Chief Executive Office in contravention of the requirements of Regulation 5(a) of AML/ CFT Regulations, which requires that “*The regulated person shall have policies, controls and procedures, which are approved by its board of directors....*”. The Company agreed with the finding of the inspection team and affirmed to comply with the requirements of Regulation 5(a) of AML/CFT Regulations. Therefore, the Company, *prima facie*, did not ensure compliance with Regulation 5(a) of the AML/CFT Regulations.

6. AML/CFT Policy of the Company is deficient in many areas as it was not updated after February 07, 2019, i.e. no update has been ensured consequent to NRA 2019 and the promulgation of the AML/CFT Regulations. Major deficiencies pertain to the following areas:

- Risk Assessment and Mitigation and Applying Risk Based Approach, at entity level;
- Identification of Beneficial Owners (BO) especially in case of legal persons;
- Identity verification in respect of clients, BO, persons representing, etc.;
- Extra procedures to meet Enhanced Due Diligence (EDD) requirements;
- TF screening mechanism especially related to compliance of SRO 920/2020;
- Ongoing monitoring and TF screening;
- Aspects identified in NRA 2019.

The Company agreed with the aforesaid findings of the inspection team and affirmed to comply with the requirements of Regulation 5(a) of AML/CFT Regulations. Therefore, the Company, *prima facie*, did not ensure compliance with Regulation 5(a) of the AML/CFT Regulations.

7. AML/CFT Policy of the Company under the heading “Customer Identification” stipulates that the Company will assess the domestic customer as low risk category, whereas a foreign organization requiring more careful identification procedure and close monitoring of account operations.

The above para in AML/CFT Policy of the Company contravenes the spirit of Risk Assessment and Customer Due Diligence, as envisaged under Regulation 8(3) of AML/CFT Regulations, which states that:

“The regulated person shall categorize each customer’s risk depending upon the outcome of the CDD process.”

8. While responding to the aforesaid observation, the Company has stated that AML/CFT Policy of the Company has been revamped and updated with the requisite changes in line with the current laws and regulations and approved by the Risk Management and Compliance Committee. Though the Company has merely mentioned the Policy has been updated but the same was not provided to the inspection team. Therefore, the Company, *prima facie*, did not ensure compliance with Regulation 8(3) of the AML/CFT Regulations.

9. Certain deficiencies were noted in maintaining record of directors, shareholders, authorized signatories etc. in Company’s database/system. The Company screens the proscribed person(s) received from the SECP e-services/ other notifications by using general insurance system, which contains only the policyholders’ name i.e. company name and individual policyholder name. The Company has not developed mechanisms, processes and procedures for screening and monitoring of its customers, potential customers and beneficial owners/associates of customers, etc. against NACTA/UNSC lists of proscribed persons & entities. The Company agreed with the finding of the inspection team and affirmed to comply with the requirements of Regulation 25(1)(a) of the AML/CFT Regulations. Therefore, the Company, *prima facie*, did not ensure compliance with Regulation 25(1)(a) of the AML/CFT Regulations.

10. During the review of 27 policyholders' files selected on sample basis, it was noted that in 11 instances being highlighted below, the Company has neither obtained identity documents nor performed any CDD measures in respect of the policyholders who became clients of the Company indirectly i.e., through co-insurance or reinsurance arrangement. In terms of Regulation 24(1) of the AML/CFT Regulations, the Company can make reliance on the CDD measures carried out by third parties only upon fulfillment of the conditions stipulated therein.

S. No.	Policy Number	Insurance Type
1.	2022/09/124TLLCCIP00003	Other Lead
2.	2022/06/104BPBAP00034	Re-Insurance Accepted
3.	2022/08/104EMBAP00016	Re-Insurance Accepted
4.	2022/03/124ECMIIP00001	Other Lead
5.	2022/02/104FGNAP00003	Re-Insurance Accepted
6.	2022/03/104MIPAP00004	Re-Insurance Accepted
7.	2022/06/104MILAP00063	Re-Insurance Accepted
8.	2022/06/104SLSAP00013	Re-Insurance Accepted
9.	2022/06/T104SARTAP00002	Re-Takaful Accepted
10.	2022/06/T104VCCTAP00034	Re-Takaful Accepted
11.	2022/06/104VCCAP00061	Re-Insurance Accepted

11. In response to the foregoing observation, the Company has stated that as per the industry practice, Company is obtaining letters from lead insurers confirming execution of CDD and AML compliances. However, the Company has not provided any evidence/ document in support of its response on the findings of inspection team. Therefore, the Company, *prima facie*, did not ensure compliance with Regulation 24(1) of the AML/CFT Regulations.

12. While reviewing the policyholders' files selected on sample basis, it has been noted that the following 12 policyholders' files did not contain biometric verification or NADRA Verisys of customers' identification as required under Regulation 9(b) read with Note (ii) of Annex 1 of the AML/CFT Regulations.

S. No.	Policy/Reference Number
1.	2022/09/124TLLCCIP00003
2.	2022/06/104BPBAP00034
3.	2022/08/104EMBAP00016
4.	2022/03/124ECMIIP00001
5.	2022/02/104FGNAP00003
6.	2022/03/104MIPAP00004
7.	2022/06/104MILAP00063
8.	2022/06/104SLSAP00013
9.	2022/06/T104SARTAP00002
10.	2022/06/T104VCCTAP00034
11.	2022/06/104VCCAP00061
12.	2022/08/125VPCIP00315

13. In response to the foregoing observation, the Company has stated that all of the above cases pertain to other lead business and the Company is obtaining confirmation letters from the lead insurers confirming execution of CDD and AML compliances. However, the Company has not provided any evidence/ document in support of its response on the finding of inspection team. Therefore, the Company, *prima facie*, did not ensure compliance with Regulation 9(b) read with Note (ii) of Annex 1 of the AML/CFT Regulations.

14. Several deficiencies were found out in the CDD/KYC process of the Company with respect to obtaining and subsequently maintaining complete CDD documents as per Annex 1 of the AML/CFT Regulations. Case-wise non-compliances of the respective Serial No. of Annexure 1 of the AML/CFT



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Regulations were specified in the attached Annexure to the SCN. In response to this observation, the Company has stated that necessary documents are being completed in respect of the abovementioned clients. However, the Company has not provided any evidence/ document in support of its response on the finding of inspection team. Therefore, the Company, *prima facie*, did not ensure compliance with Regulation 9(b) read with Serial No. 3(ii), 3(iv), 6(i)(a) & (b), 6(ii), 6(iii) and 6(iv) of Annexure 1 of the AML/CFT Regulations.

15. In view of the above, the SCN was served on the Respondent/Company calling upon it to show cause in writing within 14 days of the date of the SCN as to why penalty may not be imposed on it for contravening the aforesaid provisions of the law.

16. The relevant provisions of the law are reproduced as under:

Regulation 27(1)(d) of the AML/CFT Regulations:

Compliance Program (1) In order to implement compliance programs as set out in 7G of the AML Act, the regulated person shall implement the following internal policies, procedures and controls:

...

(d) an independent audit function to test the system.

Regulation 5(a) of the AML/CFT Regulations:

The regulated person shall:

(a) have policies, controls and procedures, which are approved by its board of directors, to enable them to manage and mitigate the risks that have been identified in its own risk assessment and any other risk assessment publicly available or provided by the Commission;

Regulation 8(3) of the AML/CFT Regulations:

The regulated person shall categorize each customer's risk depending upon the outcome of the CDD process.

Regulation 25(1)(a) of the AML /CFT Regulations:

The regulated person shall undertake TFS obligations under the United Nations (Security Council) Act 1948 and/or Anti-Terrorism Act 1997 and any regulations made there under, including:

(a) develop mechanisms, processes and procedures for screening and monitoring customers, potential customers and beneficial owners/associates of customers to detect any matches or potential matches with the stated designated/proscribed persons in the SROs and notifications issued by MoFA, NACTA and MoI.

Regulation 24(1) of the AML /CFT Regulations:

Any regulated person may rely on a third party to conduct CDD on its behalf as set out in provisions 8-23 of these regulations, provided that the regulated person shall-

- (a) remain liable for any failure to apply such indicated CDD measures above;*
- (b) immediately obtain from the Third Party the required information concerning CDD;*
- (c) take steps to satisfy itself that copies of identification data and other relevant documentation relating to CDD requirements will be made available from the third party upon request without delay;*
- (d) keep that copies of identification; and*
- (e) satisfy itself that the Third Party is supervised by an AML/CFT regulatory authority or an equivalent foreign authority and has measures in place for compliance with AML Act obligation of CDD and record keeping.*

Regulation 9(b) of the AML /CFT Regulations:

The regulated person shall:

(b) verify the identity of that customer using reliable and independent documents, data and information as set out in Annex 1.



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Note (ii) of Annex 1 of the AML /CFT Regulations:

The photocopies of identity documents shall be validated through NADRA Verisys or Biometric Verification. The regulated person shall retain copy of NADRA Verisys or Biometric Verification (hard or digitally) as a proof of obtaining identity from customer.

Serial 3(ii) of the AML/CFT Regulations:

3. Sole proprietorship:

(ii) Attested copy of registration certificate for registered concerns

Serial 3(iv) of the AML/CFT Regulations:

3. Sole proprietorship

(iv) Account opening requisition on business letter head.

Serial 6(i)(a) of the AML/CFT Regulations:

6. Limited Companies/ Corporations

(i) Certified copies of:

(a) Resolution of Board of Directors for opening of account specifying the person(s) authorized to open and operate the account

Serial 6(i)(b) of the AML/CFT Regulations:

6. Limited Companies/ Corporations

(i) Certified copies of:

(b) Memorandum and Articles of Association

Serial 6(ii) of the AML/CFT Regulations:

6. Limited Companies/ Corporations

(ii) Certified copy of Latest 'Form-A/Form-B'

Serial 6(iii) of the AML/CFT Regulations:

6. Limited Companies/ Corporations

(iii) Incorporate Form II in case of newly incorporated company and Form A / Form C whichever is applicable; and Form 29 in already incorporated companies

Serial 6(iv) of the AML/CFT Regulations:

6. Limited Companies/ Corporations

(iv) Photocopies of identity documents as per Sr. No. 1 above of all the directors and persons authorized to open and operate the account

Regulation 31 of the AML/CFT Regulations:

(1) Any contravention of these regulations shall be cognizable by the Commission in accordance with section 6A of the AML Act and liable to sanction provided in the AML/CFT Sanctions Rules, 2020 and imposed by the Commission according to Clause (h) of Sub-section (2) of Section 6A of AML Act.

Rules 4(1)(a) of the AML Rules:

(1) On any contravention as set out in rule 3(2), any or all of the following sanctions may be imposed by the concerned AML/CFT Regulatory Authority, namely: -

a. Impose a monetary penalty in accordance with these Rules;

Rules 6(1) of the AML Rules:

(1) The AML/CFT Regulatory Authority shall apply monetary penalties upto Rs. 100 Million per violation, in accordance with the risk-based penalty scale of the respective AML/CFT Regulatory Authority.



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Section 6(A)(2)(h) of the AML Act:

(h) impose sanctions, including monetary and administrative penalties to the extent and in the manners as may be prescribed, upon their respective reporting entity, including its directors and senior management and officers, who violates any requirement in section 7(1), 7(3) to 7(6) and 7A to 7H and any rules or regulations made thereunder or those who fail to comply with the TFS regulations. Any person aggrieved by the imposition of sanctions under this clause may prefer an appeal in such manner and within such period to such authority as may be prescribed;

17. The Respondent, vide letter dated September 01, 2023 submitted its 1st reply to the SCN, the relevant extracts are as under:

**Quoted*

"We would further like to respectfully make following submissions for the errors/ weaknesses intimated through abovementioned SCN;

a) Regulation 27(1)(d) of SECP AML/CFT Regulations

It is respectfully submitted that during internal audit of remaining months (Oct - Dec) of the year ended December 31, 2022 internal auditors of the Company have reviewed its compliance system.

b) AML / CFT Policy

It is respectfully submitted that AML/CFT Policy of the Company has been revamped and updated with the requisite changes in line with the current laws and regulations (attached in annexure A) and approved by the Risk Management and Compliance Committee of the Management. BOD approval of the updated policy is being sought in the next meeting.

c) Regulation 25(1)(a) of SECP AML/CFT Regulations Mechanism

It is respectfully submitted that Company does not allow opening of a customer account without screening the same against NACTA website and evidence thereof is placed in each customer file. Company has further amended its existing core software i.e. IGIS for incorporating the detail of directors, authorized signatories, beneficial owners, associate of customers, and entered all the data in IGIS with respect to corporate clients in line with revamped AML/CFT Policy.

d) Regulations 24(1) and 9(b) of SECP AML/CFT Regulations - Reliance on Third Parties and verification of identities

Letters from co insurers/ reinsurers confirming compliance with CDD measures for each of the identified policy are being collected.

e) Annexure 1 of AML/CFT Regulations - CDD documents of direct parties

It is respectfully submitted that out of 5 clients identified, 3 clients are old and have been associated with the Company for a number of years. Relevant documents for each of the identified policies of direct clients are being obtained.

We may also respectfully submit that Shaheen Insurance being a small company with limited resources is making serious and concerted efforts to strengthen its human resource. During the last couple of months, there has been a very high turnover in our compliance function as two of our resources in the department resigned resulting in oversight of some of the requirements. Nevertheless, Company is making every possible effort to train and retain best possible resource in the face of multiple challenges.

It is further humbly requested that the Company is making efforts to ensure compliance of the deficiencies identified, and it will be ensured that the same are in place within sixty days' time, with compliance report submitted to SECP to this effect. Accordingly, it is requested that a lenient view may please be taken and these inadvertent violations may be condoned, being unintentional.



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In the meantime, we assure you that every possible step will be taken to avoid such occurrence in future.

***Unquoted**

18. In order to provide the Respondent an opportunity of personal representation, hearing in the matter was fixed for October 24, 2023. The said hearing was attended by Mr. Rizwan Akhtar (CEO), Mr. Nisar Ahmed Almani (CFO) and Mr. Kashif Naeem (Compliance Officer) as the Authorized Representatives of the Respondent (**the Authorised Representative**). During the hearing, the Authorised Representatives were advised to submit the reasons for alleged non-compliances, as narrated in the SCN. The Authorized Representatives reiterated the submissions made in the written reply dated September 1, 2023.

19. Subsequent to the hearing, the Respondent vide letter dated October 28, 2023 requested that it may be allowed to submit a revised reply to the SCN and grant another opportunity of hearing in the matter, which was acceded to vide correspondence dated November 03, 2023.

20. The Respondent submitted its revised reply dated November 10, 2023 to the SCN. The relevant extracts are reproduced as under:

***Quoted**

a) Regulation 27(1)(d) of SECP AML/CFT Regulations

With reference to audit of Compliance function, it is submitted that as the audit of compliance checking is a routine exercise and is conducted on day-to-day basis and left-over compliance is reported on quarterly report October-December 2023. Further, to strengthen audit of its compliance function, Company is actively perusing for addition of new and experienced resource to strengthen the company's internal audit activities. We are committed for conduct of internal audit activities in line with the requirements of AML and CCGI. We re-affirm our commitment and obligations to adhere to comply with the requirements of Regulations 27(1)(d) of AML Regulations.

b) AML / CFT Policy

Section 5(a) of the AML Regulations state that:

5. Risk Mitigation and Applying Risk Based Approach - The regulated person shall: (a) have policies, controls and procedures, which are approved by its board of directors, to enable them to manage and mitigate the risks that have been identified in its own risk assessment and any other risk assessment publicly available or provided by the Commission;

Please note that the company was managing its risks through its underwriting and Claim policies which were approved by the Board. These were also provided to the inspection team. Further, please note that the SECP inspection team accepted that the company also has separate appropriate AML/ CFT policies and procedure in place and has been approved by CEO and not approved by the BOD. We immediately acted upon the observation and updated the AML/CFT Policies of the Company in line with the current laws and regulations (attached in annexure A) and got approved from the Risk Management and Compliance Committee and placed before the Board of Directors that have been approved in last BOD meeting.

The prima facie fact is that the company is complying with the requirements and adhering the Risk assessment and mitigation and applying Risk based approach at the entry level, through underwriting and claim policies.

- i. Identification of beneficial owners (BO) especially in case of legal persons*
- ii. Identity verification in respect of clients, BO, person representing etc.*
- iii. Extra procedures to meet due diligence (EDD) requirements*
- iv. TF screening mechanism especially related to 920/2020.*



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- v. Ongoing monitoring and TF screening
- vi. Aspects identified in NRA 2019

Please note that the Company is complying with all procedures and in order to further reinforce, a separate revamped policy has been designed, which has been approved by the Risk Management and Compliance Committee and by the Board of Directors.

Whereas the application of Regulation 8(3) of AML / CFT Regulation 2020 is concerned Company is already complying with the requirements of customer's identification process on the basis of risk outcomes on the basis of CDD, while on the recommendation of inspection team we are strengthening this activity further.

c) Regulation 25(1)(a) of SECP AML/CFT Regulations - Screening Mechanism

Please note that the Company has appropriate procedures for screening of prescribed person and the Company did not allow opening of a customer account without screening the same against NACTA website/ records and evidence thereof is placed in each customer file which was shown to the inspection team and that has been accepted by the inspection team; however Company has further amended its existing core software i.e. IGIS for incorporating the detail of directors, authorized signatories, beneficial owners and associate of customers and entering all the data in IGIS with respect to corporate clients in line with revamped AML/CFT Policy.

d) Regulations 24(1) and 9(b) of SECP AML/CFT Regulations - Reliance on Third Parties and verification of identities

Please note that the Company followed proper system for verification as the major portion of the policy in case of Co-Insurance was related to other insurer and the prime responsibility to carry out CDD activities was with the insurer who holds majority share, and this practice is in line with the industry practice. The company in every case got in writing confirmation Letters from co insurers / reinsurers confirming compliance with CDD measures for each of the identified policy are being collected. So, the company has complied with the requirements to conform CDD. However, observation of SECP inspection team may strengthen our system and which is noted for future compliance.

Please also note that SECP inspection team also did not identify any non-compliance of CDD requirements by the co- insurer/ insurer.

e) Annexure 1 of AML/CFT Regulations - CDD documents of direct parties

It is respectfully submitted that out of 5 clients identified, 3 clients are old and have been associated with the Company for a number of years. Relevant documents for each of the identified policies of direct clients are being obtained.

We may also respectfully submit that Shaheen Insurance being a small company with limited resources is making serious and concerted efforts to strengthen its human resource. During the last couple of months, there has been a very high turnover in our compliance function as two of our resources in the department resigned resulting in oversight of some of the requirements. Nevertheless, Company is making every possible effort to train and retain best possible resource in the face of multiple challenges.

f) Further compliance

- i. As per Regulation 9 of AML / CFT regulations company has fully complied with the requirements of Regulation 9 and have system to verify the customer data on timely manner.
- ii. Company is maintaining documents identity verified from NADRA verysis system as required Note of Annexure-1 of AML/CFT Regulations.



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- iii. Similarly, we also strictly observed the compliance under Regulation 3(ii), 3(iv), 6(i)(a), 6(i)(b), 6(ii), 6(iii), 6(iv), 13 Rules 4(i)(a), 6(a), 6A(2), (h).

We therefore affirm our commitment that the Company is striving hard to ensure compliance, and we assure that the same will be followed in letter and spirit. Accordingly, it is requested that a lenient view may please be taken and these inadvertent violations may be condoned, being unintentional.

***Unquoted**

21. The Respondent was provided second hearing opportunity on November 23, 2023. The second hearing was attended by Mr. Rizwan Akhtar (CEO), Mr. Nisar Ahmed Almani (CFO), Mr. Kashif Naeem (Compliance Officer) and Mr. Tariq Hussain (Counsel for the Respondent) as the Authorized Representatives of the Respondent. The Authorized Representatives reiterated the submissions and arguments made in written reply dated November 10, 2023.

22. Subsequent to the second hearing held in the matter on November 23, 2023, the Respondent vide letter dated November 30, 2023 stated that the submissions made vide letter dated November 10, 2023 may be considered as final. Further, the Respondent stated to have enclosed extracts from minutes of the Board of Directors' meeting held on October 25, 2023 with regard to approval of its AML policy. It was added that specified deficiencies in AML policy have now been removed. In addition, screenshots of some of the clients' record in the database system were also attached, thereto. Moreover, the Respondent stated to have enclosed copies of letters from coinsurer partners with regard to AML/CFT compliance.

23. I have reviewed the facts of the case, submissions made by the Respondent and its Representatives in view of the relevant regulatory provisions of the AML/ CFT Regulations and have observed at the outset that the Respondent vide its 1st reply to the SCN dated September 01, 2023 and revised reply to the SCN dated November 10, 2023 mainly cited high turnover of resources in its compliance function as a reason for oversight of aforementioned requirements of the AML/CFT Regulations, which infact is in itself an admission. Further, the Respondent, vide its revised reply dated November 10, 2023, requested for leniency on these violations, being unintentional. However, the specific submissions given by the Respondent against each of the identified non-compliances are analyzed as under:

(a) Failure in Implementation of an Independent Audit Function to Test the System in Contravention of Regulation 27(1)(d) of the AML/CFT Regulations:

With regard to the observation on non-compliance of Regulation 27(1)(d) of the AML/CFT Regulations, the Respondent vide its 1st reply to the SCN stated that during internal audit of last quarter for 2022 i.e. Oct-Dec, 2022, the internal auditors had reviewed compliance system of the Company. In its revised reply to the SCN, the Respondent has taken stance that "as the audit of its compliance checking is a routine exercise and is conducted on day-to-day basis and leftover compliance is reported in the quarterly report of October to December, 2023. Further, to strengthen audit of its compliance function, the Company is actively perusing for addition of new and experienced resource to strengthen the company's internal audit activities." However, it has been noted that the Respondent did not provide copy of the internal audit report for the subsequent period. Merely, mentioning of having conducted subsequent audit of compliance system cannot absolve the Respondent from the identified contravention, thus, the submissions of the Respondents cannot be considered as a plausible justification. Moreover, the Respondent's failure to submit an appropriate response and/or evidence on the noted contravention that the Respondent had provided unsigned internal audit report for the review period is in itself an admission. In view of the foregoing, contravention of Regulation 27(1)(d) of the AML/CFT Regulations is established.

(b) Non-Existence of the Updated & Approved AML Policy in Violation of Regulation 5(a) of the AML/CFT Regulations:

With regard to compliance of Regulation 5(a) of the AML/CFT Regulations, it has been observed that the Respondent admitted its AML/CFT policy, as provided to the inspection team, to have been

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approved by the Chief Executive Officer only, which does not meet the requirement of Regulation 5(a) of the AML/CFT Regulations that explicitly requires the AML/CFT policies, controls and procedures to be approved by board of directors, instead. During the inspection, the Respondent agreed with the observation of the inspection team and submitted that the updated AML/CFT Policy shall be placed by the Board for seeking its approval. However, the Respondent vide its 1st reply to SCN submitted that it has revamped/updated the AML/CFT policy with the requisite changes in line with the current laws and regulations that has been approved by the Risk Management and Compliance Committee, whereas the board approval was due in the next meeting. Though the Respondent vide its revised reply to the SCN stated that the approval of the Board in respect of updated AML/CFT Policy has been obtained in the last board meeting. Subsequently, the Respondent, vide letter dated November 30, 2023, stated to have furnished extracts from minutes of its Board of Director's meeting held on October 25, 2023 with regard to approval of its AML policy wherein deficiencies of the AML policy were addressed. The perusal of the provided extracts reveals the minutes of Board of Directors' meeting to be draft minutes. Further, it has been observed that the AML/CFT Regulations were promulgated on September 28, 2020 and came into force at once, yet the Respondent failed to ensure compliance of Regulation 5(a) of AML/CFT Regulations until October 25, 2023, which infact also reveals a lapse of over a year from the period under review. Thus, contravention of Regulation 5(a) of the AML/CFT Regulations is established.

(c) Incomplete Customers' Database Constituting Non-Compliance of Regulation 25(1)(a) of the AML/CFT Regulations:

With regard to the maintenance of data of Directors, shareholders, authorized signatories etc. in the Respondent's policyholders' database, it was observed that the Respondent has been screening against the proscribed persons/entities received from SECP e-Services/ notifications through general insurance system (IGIS) that contains only policyholders' names i.e. company's name and individual's name. The Respondent has not developed mechanism, processes and procedures for screening and monitoring of its customers and beneficial owners/ associates of customers, and database of customers against NACTA's proscribed persons and organization lists in UNSC List. The Respondent vide 1st reply to the SCN and revised reply to the SCN took similar stance that it doesn't allow account opening without screening against NACTA website and apprised that it has amended its existing core software i.e. IGIS for incorporating the aforesaid deficient particulars with respect to corporate clients in line with its revamped AML policy. Further, the Respondent's other submission vide its 1st reply to the SCN that evidence of screening against NACTA website were placed in each customer's file and this submission was extended by the Respondent vide its revised reply to the SCN that these files were shown to the inspection team, which the inspection had accepted, was shared with the inspection team. However, it has been confirmed by the inspection team that the Respondent did not show them any evidence of screening against NACTA website during the inspection. Moreover, the Respondent, vide its revised reply to the SCN, has stated to have amended its existing software i.e. IGIS for incorporating requisite detail/information with respect to corporate clients in line with its revamped AML policy and furnished copies of screenshots of some of its clients' record from the database system vide letter dated November 30, 2023. In this connection, the finding of the inspection team that the Respondent had not developed mechanism, processes and procedures for screening as envisaged in AML/CFT Regulations is endorsed by the written submission of the Respondent that its software i.e. IGIS has now been amended for incorporating the detail of directors, authorized signatories, beneficial owners and associate of customers and entering all the data in IGIS with respect to corporate clients in line with its revamped AML policy. Though, the Respondent has taken remedial steps to ensure compliance in future, however, it does not absolve the Respondent from the established contravention of Regulation 25(1)(a) of AML/CFT Regulations during the period under review.

(d) Non-Existence of Risk Categorization in Violation of Regulation 8(3) of the AML/CFT Regulations:

With regard to the risk categorization of customers, it was noted in the then AML policy of the Respondent that it would assess all domestic customers as low risk, whereas foreign organizations

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would require more careful identification procedure and close monitoring of account operations. This clearly revealed that Respondent's existing AML/CFT policy contravened the requirements of the Risk Assessment and Customer Due Diligence as envisaged in Regulation 8(3) of the AML/CFT Regulations. Though the respondent did not categorically respond to this alleged contravention of AML/CFT Regulations in its 1st reply to the SCN and revised reply to the SCN, except for just stating in its revised reply to the SCN that it is already complying with the requirements of customer's identification process on the basis of risk outcomes on the basis of CDD. In this regard, I find it pertinent to highlight here that the Respondent has a flawed understanding of the specific requirement of Regulation 8(3) of AML/CFT Regulations that leaves no ambiguity for risk categorization of each customer's risk depending upon the outcome of the CDD process. Although, this submission of the Respondent is also not in accordance with requirements of Regulation 8(3) of the AML/CFT Regulations, yet this submission has not been found in accordance with the Respondent's own AML policy that was implemented during the period under review. Therefore, contravention of Regulation 8(3) of the AML/CFT Regulations is established.

(e) Reliance on Third Parties Without Fulfilling the Conditions of Regulation 24(1) of the AML/CFT Regulations:

With regard to the compliance of Regulation 24(1) of the AML/CFT Regulations, it was observed in 11 instances that the Respondent had neither obtained identity documents nor performed any CDD measures in respect of the policyholders who became clients of the Respondent indirectly i.e. through co-insurance or reinsurance arrangements. The Respondent vide its 1st reply to the SCN that letters from coinsurers/ reinsurers confirming compliance with CDD measures for each of the identified policy are being collected. Further, the Respondent vide its revised reply to the SCN shifted the responsibility of CDD measures to other insurers being major stakeholders of such insurance policies and reiterated confirmation that letters from the respective co-insurers/reinsurers are being collected. However, the Respondent, vide letter dated November 30, 2023, stated to have enclosed copies of letters from coinsurer partners with regard to AML/CFT compliance. In this connection, it has been observed that first letter out of the two enclosed letters is undated and without disclosing/mentioning the name/identity of the signatory. Whereas, the second enclosed letter rather states to have complied with SECP (AML/CFT) Regulations 2018, instead of AML/CFT Regulations 2020 (under which the SCN was issued) and also fails to disclose/mention the name/identity of the signatory. Further, both letters are noted to be without stating the name of officer/position and postal address of the Respondent, being recipient of these letters. Moreover, these two enclosed letters fail to contain any evidence that would form basis of having obtained requisite CDD information/documentation by the Respondent from the coinsurer partners in respect of specified 11 policies. The requirements of Regulation 24(1) of AML/CFT Regulations are emphasized here that unconditionally required the Respondent to immediately obtain from the Third Party the required information concerning CDD and remain liable for any failure to apply such indicated CDD measures above. Therefore, the Respondent has contravened the requirements of Regulation 24(1) of the AML/CFT Regulations.

(f) Failure in Verification of Identity of Customers in Violation of Regulation 9(b) read with Note (ii) of Annex-1 of the AML/CFT Regulations:

With regard to the NADRA Verisys of customers' identities or biometric verification in terms of Regulation 9(b) read with Note (ii) of Annex-1 of the AML/CFT Regulations, the inspection team observed 12 instances where policyholder files did not contain biometric verification or NADRA Verisys. The Respondent vide its 1st reply to the SCN and revised reply to the SCN just submitted that out of 5 clients identified, 3 clients are old and have been associated with it for a number of years. Relevant documents for each of the identified policies of direct clients are being obtained. This stance of the Respondent with respect to 3 policyholders is unsatisfactory as no exception from verifying customers' identity can be attributed on the basis of being associated for a number of years. Rather, it is a matter of serious concern as the Respondent has failed to provide evidence of verification of identity of its such old policyholders and have also refrained from giving any explanation or evidence with regards to the remaining 9 instances. The mere statement by the



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Respondent that it is fully complied with the requirements of Regulation 9 as it is maintaining identity documents (verified from NADRA Verysis system) and also has a system to verify the customer data on timely manner cannot be considered as a plausible justification in absence of any documentary evidence. Therefore, the Respondent is non-compliant with Regulation 9(b) read with Note (ii) Annex-1 of the AML/CFT Regulations.

(g) Deficiencies in CDD Process of Specified Customers in Contravention of Regulation 9(b) of the AML/CFT Regulations:

Regarding certain deficiencies highlighted in KYC/CDD process with respect to specified customers, as detailed in Annexure to the SCN, the Respondent vide its 1st reply to the SCN assured that compliance report would be furnished within 60 days after ensuring compliance of the identified deficiencies. However, the Respondent did not provide any evidence/ document in support of its commitment till date. Further, the Respondent in its revised reply to the SCN claimed without furnishing any evidence that it has fully complied with the requirements of Regulation 9 and strictly observed the compliance with S. No. 3(ii), 3(iv), 6(i)(a), 6(i)(b), 6(ii), 6(iii), 6(iv) and Rules 4(1)(a) & 6(1) of the AML Sanctions Rules and Section 6A(2)(h) of the AML Act. In view of this, it is evident that the Respondent has just made claims of compliance, thus, the Respondent has failed to ensure compliance with the requirements of Regulation 9(b) read with Serial No. 3(ii), 3(iv), 6(i)(a)&(b), 6(ii), 6(iii) and 6(iv) of Annex-1 of the AML/CFT Regulations.

24. Keeping in view the above contraventions of Regulations 27(1)(d), 5(a), 8(3), 25(1)(a), 24(1), 9(b) read with Note (ii) of Annex-1 and Regulations 9(b) read with Serial No. 3(ii), 3(iv), 6(i)(a)&(b), 6(ii), 6(iii) and 6(iv) of Annex-1 of the AML/CFT Regulations have been established. Therefore, I, in terms of powers conferred upon me under Section 6A(2)(h) of the AML Act and other enabling provisions of the law, impose a penalty of **Rs. 650,000/- (Rupees Six Hundred Fifty Thousand Only)** on the Respondent.

25. The Respondent is advised to meticulously adhere to all applicable Laws, Rules, Regulations and Directions etc. notified/issued from time to time relating to anti money laundering and countering finance of terrorism in true letter and spirit, at all times.

26. The Respondent is hereby directed to deposit the aforesaid penalty in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and furnish receipted voucher issued in the name of the Commission for information and record.

27. This Order is being issued without prejudice to any other action that the Commission may initiate against the Company and / or its management (including CEO of the Company) in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

(Hammad Jayed)

Additional Director / Head of Wing
Licensed Entities-Adjudication Department-I

Announced:

January 26, 2024
Islamabad