



INSURANCE DIVISION
Islamabad

Before Shaukat Hussain, Commissioner (Insurance)

In the matter of

M/s. Adamjee Life Assurance Company Limited

Show Cause Notice No. ID/Enf/AdamjeeLife/2018/13849
& Issue Date: Dated February 27, 2018

Date of Hearing: February 28, 2019

Attended By: Mr. Jalaluddin Meghani
CFO and Company Secretary/ Authorized Representative
M/s. Adamjee Life Assurance Company Ltd.

Mr. Iqbal Bawaney
Authorized Representative

Mr. Bilal Ashfaq Memon
Authorized Representative

Date of Order: April 4, 2019

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

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This Order shall dispose of the proceedings initiated against M/s. Adamjee Life Assurance Company 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 life insurance business in Pakistan.

3. The Commission vide letter dated September 25, 2017 advised the Company to provide information as per the Information Seeking Memorandum (the "ISM") under Section 61 of the Ordinance. The first response of the Company, against the call for information notice, was received through letter dated October 16, 2017 and through subsequent emails from time to time.

4. Regulation 17(d) of the Regulations provides that the minimum financial protection component (i.e. sum cover payable on death due to any cause) for regular



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 2 -

43

premium individual life plans sold through Bancassurance, shall be in accordance with the minimum financial protection prescribed under the Rules.

5. Rule 3 of the Rules provides that all life insurers carrying unit linked business shall offer the unit linked regular premium individual products with minimum financial protection of "5 times the basic annual premium" and for single premium plans, minimum financial protection of at least "1.25 times of the single premium".

6. Perusal of the Annexure E (Statement of cycle-wise issuance of insurance policies) submitted by the Company in response to ISM revealed multiple instances (estimated to be around 1000), where the sum cover was found to be less than 5 times of the basic annual premium for regular premium plans and less than 1.25 times of the single premium in case of single premium plans. The explanation was called from the Company regarding such instances in the Annexure E vide email dated January 4, 2018.

7. The Company vide email dated January 11, 2018 responded as follows:

"We have investigated these cases and after investigation, we have come up with the following findings. "Response to Point 8 – Annexure E", with our working / responses has been attached:

In total there were 2585 such cases, out of those, 1517 are single premium cases in which the minimum cover multiple (CM) is 1.25. In all these cases the regulation of minimum CM is followed.

Further, there are 861 regular premium cases in which the minimum CM should be 5. The calculation of CM in the data has been carried out by dividing the total sum assured by total premium. As per our processes, we calculate CM by dividing Basic sum assured by Basic premium. The same is shown in the excel sheet 'Cover Multiple 5(BP)'

There are 163 cases in which the CM is calculated incorrectly due to premium error in the report. The error had occurred in cases where debit /credit entries were wrongly totaled after cancellation or when excess premium was received. We have rectified the same in the report and the correct CMs are shown in the sheet 'Error in Premium (SP)'. Three (3) samples of such cases are also attached separately.

Remaining 44 policies that are showing less than the prescribed multiples of protection are actually those policies which were issued as per regulation guideline however after policy issuance and upon client request the multiples were reduced. Later on, clarification was taken from SECP on reducing the cover multiples after policy issuance and based on the SECP's response we have not reduced any policy protection below the prescribed coverage since then. A sample of such case is also attached separately."

8. Policy schedule of the following policies (selected on basis of materiality in terms of policy value) was solicited vide email dated January 15, 2018:-

Issuance Period	Proposal Number	Product	Account Title	Premium
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SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 3 -

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February-01 to 15-2016	100131879	WO	NAVEED ANJUM	10,000,000
February-16 to 29-2016	100133062	WO	HAME RAJ MAL	10,000,000
March-01 to 15-2016	100134235	WO	RAEES ALTAF HUSSAIN RIND	50,000,000
March-16 to 31-2016	100136500	SL	SYED ALI ABUZAR	3,000,000
May-01 to 15-2016	100137222	SL	PARVEEN	4,000,000

9. The Company transferred copies of policy schedules of the aforementioned policyholders through online file transfer on SECP server on January 24, 2018. Through the perusal of policy schedules, it was confirmed that financial protection given to Ms. Parveen bearing proposal number 100137222 and to Mr. Raees Altaf Hussain Rind bearing proposal number 100134235 was below the minimum level prescribed by the Regulations.

10. As per policy schedules submitted to this office, the financial protection given to other three policyholders listed in the table was in accordance with the minimum prescribed levels. The query was raised with the Company regarding difference in sum assured value in the Annexure E and the policy schedules, to which, the Company responded vide email dated January 25, 2018 as follows:

"Out of five (5) PSS submitted, three (3) of them had sum assured values different than the ones submitted earlier through Annexure E. Out of those three (3) PSS, PSS for Naveed Anjum (Proposal # 100131879) and Hame Raj Mal (Proposal # 100133062) had cover multiple of 1.25 in PSS whereas the data submitted in Annexure E showed sum assured with 1 cover multiple. This discrepancy is due to the report compiling error in our system, which was later corrected and hence the corrected values are shown in the submitted PSS.

PSS originally submitted of Syed Ali Abuzar (Proposal # 100136500) is the initial PSS. Customer had requested that the sum assured be reduced to 2 cover multiple and thereafter amended PSS was generated. The amended PSS along with customer's request are attached herewith for your reference."

11. The amended policy schedule of Mr. Syed Ali Abuzar (Proposal # 100136500) sent vide email dated January 25, 2018 was reviewed and it was found that policy schedule was amended to reduce the cover multiple to 2, in contravention of the prescribed minimum levels. Moreover, the policy schedules of the other two policyholders namely Ms. Parveen bearing proposal number 100137222 and Mr. Raees Altaf Hussain Rind bearing proposal number 100134235 also showed that financial protection given to them was below the minimum levels prescribed by the Regulations. The Company also accepted that 44 policies were issued with cover multiple less than the prescribed minimum levels vide its email dated January 11, 2018.

12. Hence, it appeared to the Commission that the Respondents have therefore contravened the provision of Regulation 17(d) of the Regulations read with Rule 3 of the Rules.

13. 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.”

14. Rule 3 of the Rules provides that:

Minimum Financial Protection.- All life insurers carrying out 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)
<i>Regular premium individual life contracts (endowment, whole life contracts etc.)</i>	<i>5 times of the Basic Annual Premium</i>
<i>Child education/marriage or family income benefit contracts (where no fixed sum cover is paid on death due to any cause)</i>	<i>5 times of the Basic Annual Premium</i>
<u>Single premium contracts</u>	<u>1.25 times of the Premium</u>

(bold and underlined to put emphasis)

15. Accordingly, a Show Cause Notice (SCN) No.ID/Enf/AdamjeeLife/2018/13849 dated February 27, 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.

16. The Company vide letter dated March 8, 2018 sought an extension to submit reply to the aforesaid SCN. The request of the Company was acceded to and the Company was granted extension until March 22, 2018 intimated through letter dated March 12, 2018.

17. Thereafter, the Respondents submitted their reply vide letter dated March 22, 2018, which is reproduced hereunder:

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At the outset, the Hon'ble Commission may please rest assured that it has always been the policy of Adamjee Life Assurance Company Limited ("Company") to conduct its affairs in accordance with the highest legal and ethical standards and to comply with all applicable laws, rules and regulations and the directions of the Hon'ble Commission.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 5 -

Para 2 of your SCN reproduces Regulation 17(d) of the Bancassurance Regulations, 2015 ("Regulations"), whereas Para 3 of the SCN reproduces Rule 3 of Unit Linked Products and Fund Rules, 2015 ("Rules") on which there can be no cavil. The Commission's letter dated September 25, 2017 seeking information, vide Information Seeking Memorandum and the Company's response through letter dated October 16, 2017 are also not disputed.

As mentioned in the Company's reply dated January 25, 2018, out of the five cases mentioned in Para 9 of the SCN, the cases of Naveed Anjum and Hame Raj Mal did have the cover multiple of 1.25, whereas Annexure-E submitted by the Company inadvertently mentioned 1 cover multiple due to error in the system, which was subsequently rectified and the corrected values are shown in PSS. This was beyond the control of the Company as such errors in the system are common feature in companies and other entities.

In the cases of Syed Ali Abuzar, Parveen and Raees Altaf Hussain, the initial PSS had mentioned the cover of five times, but because of old age and other personal reasons, these customers had requested for reduction of the coverage as it was not feasible for them to obtain such cover because of the applicability of mortality premium, which was not feasible for their particular plan / need and the Company had to reduce the coverage in order to minimize the mortality premium amount. Hence, this was done for the benefit of the certain customers as special cases and that too upon their specific requests. If the Company had not accommodated the requests of such customers, then they would have been left high and dry without any coverage.

It must be appreciated that where the customers are over age, mortality premium is required to be charged due to the risk involved, which is a common feature in all life insurance companies. This becomes unfeasible for old customers to obtain full unit linked coverage who request for reduction. The Company's replies vide its emails of January 23, 2018 and January 25, 2018 are self-explanatory.

On the other hand, the focal point in our case is that the Hon'ble Commission vide its Notification No.S.R.O.246(l)/2017 dated April 7, 2017 directed all registered life insurers under the Insurance Ordinance, 2000 ("Ordinance") to comply with the said Directive with effect from July 1, 2017. Hence, by virtue of this Notification, the effective date for making minimum financial protection component, a compulsory feature of all Unit Linked Products sold through any distribution channel and all regular/single premium life insurance products sold through Bancassurance channel was July 1, 2017. All the cases investigated into by the Hon'ble Commission pertained to the period prior to July 1, 2017.

The Policies mentioned in the Policy Schedules selected by the Hon'ble Commission on the basis of materiality in terms of value mentioned in Para 9 of the SCN reflects five cases i.e. Naveed Anjum, Hame Raj Mal, Raees Altaf Hussain Rind, Syed Ali Abuzar and Parveen. All these policies pertained to insurance period commencing between February 1 and May 15, 2016, whereas the Commission's Directive vide its Notification dated April 7, 2017, unequivocally stipulates that all registered life insurers were required to comply with the conditions of the Directive with effect from July 1, 2017 i.e.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 6 -

minimum financial protection component was to become a compulsory feature for all Unit Linked Products with effect from July 1, 2017.

The Company has been fully compliant in respect of all Policies issued under the Rules from July 1, 2017 onwards and therefore there is no violation. More specifically, the life insurers were given the opportunity to offer minimum financial protection components as prescribed under the Rules in their Life Insurance Products having savings components with effect from July 1, 2017. So much so, the Commission had also directed the life insurers to file before July 1, 2017 a written confirmation signed by their respective Chief Executives mentioning that all the then existing products should comply with the provisions of the such Directive (S.R.O.246(l)/2017 dated April 7, 2017) from July 1, 2017.

In the said Directive, it was further mentioned that failure on part of any insurer to comply with the directions contained in the Directive shall be punishable under Section 156 of the Ordinance. The Company has been fully compliant with the said Directive from July 1, 2017 onwards and therefore in our humble submission, punishment under Section 156 of the Ordinance cannot be imposed in this case.

We fully respect the Commission's approach in implementing the law in its true letter and spirit and pledge our full co-operation with the Commission in all statutory compliances. Therefore, without prejudice, if the Hon'ble Commission does not concur with our submissions, then we would respectfully request the Commission to take a lenient view, since we have acted in a good faith without any malafide intent."

18. Thereafter, the Commission vide letter dated June 25, 2018 scheduled the hearing on July 4, 2018 at 11th Floor, NIC Building, Jinnah Avenue, Blue Area, Islamabad. However, the Authorized Representatives, vide letter dated June 30, 2018, requested to defer the hearing for any date in August, 2018. The hearing was rescheduled on February 28, 2019 at the Commission's Karachi Office. The said hearing was attended by the Authorized Representatives namely, Mr. Iqbal Bawaney, Mr. Bilal Ashfaq Memon, and Mr. Jalaluddin Meghani for and behalf of the Respondents.

19. During the hearing, the Authorized Representatives, reiterated their comments submitted vide letter dated March 22, 2018 and maintained that the effective date for making minimum financial protection component, a compulsory feature of all unit-linked products sold through any distribution channel and all regular/single premium life insurance products sold through Bancassurance channel was July 1, 2017. The Authorized Representatives argued that all the said cases pertained to the period prior to July 1, 2017, and therefore requested the Commission to take lenient view in the matter.

20. In terms of Regulation 17(d) of the Regulations, the minimum financial protection component (i.e. sum cover payable on death due to any cause) for regular premium individual life plans sold through Bancassurance, shall be in accordance with the minimum financial protection prescribed under the Rules. Whereas, Rule 3 of the Rules provides that minimum financial protection for regular premium individual life contracts is "5 times the basic annual premium" and for single premium plans,



minimum financial protection is at least "1.25 times of the single premium". However, it was observed that certain policies were issued with cover multiple less than prescribed minimum cover multiple.

21. It is clarified that directive SRO 246(I)/2017 (the "directive") dated April 7, 2017 was issued in addition to the Rule 3 of the Rules (dated April 22, 2015) and the Regulations (dated July 31, 2015), which were implemented with immediate effect. The directive widened the scope of minimum financial protection to the saving products as well and was applicable with effect from July 1, 2017. Thus, Company's primary argument that all cases investigated by the Commission having minimum financial protection less than the limits prescribed under the Regulations were from period prior to July 1, 2017 is not tenable. For the sake of brevity, contents of the SRO 246(I)/2017 are reproduced hereunder:

"The SECP through the Unit Linked Product and Fund Rules, 2015 notified vide S.R.O 343(I)/2015 dated April 22nd, 2015 and the Bancassurance Regulations, 2015 notified vide S.R.O 722(I)/2015 dated July 31st, 2015 had made minimum financial protection component a compulsory feature of all the unit linked products sold through any distribution channel and all regular/single premium life insurance products sold through the Bancassurance channel.

Henceforth, all life insurers/family takaful operators shall offer minimum financial protection component, as prescribed under the Unit Linked Products and Fund Rules, 2015 (as amended from time to time), in all their life insurance/family takaful products having savings component being distributed through any distribution channel or through direct selling of such products."

22. In addition, Regulation 1(3) of the Regulations states that:

"(3) These Regulations shall be applicable on all new insurance business written on or after January 1, 2016 under the Bancassurance Agency Agreements. However, the Insurer and the Bank shall make amendments in the existing Bancassurance Agency Agreements, wherever necessary, to comply with these Regulations no later than December 31, 2015. The Insurer shall send a written confirmation, signed by the Designated Insurance Executive, to the Commission mentioning that the necessary changes have been completed and the relationship with the Bank complies with the requirements of these Regulations."

23. It has been noted that as per amended policy schedule of Mr. Syed Ali Abuzar (Proposal # 100136500), provided vide email dated January 25, 2018, cover multiple was reduced to 2, in contravention of the prescribed minimum levels. Furthermore, the policy schedules of other two policyholders namely Ms. Parveen (proposal # 100137222) and to Mr. Raees Altaf Hussain Rind (proposal # 100134235) also revealed that financial protection given to them was below the minimum levels prescribed by the Regulations. It is appropriate to mention here that the Company vide its email dated January 11, 2018 accepted that 44 policies were issued with cover multiple lower than the prescribed minimum levels. While, the Respondents have also admitted that the Company reduced the coverage in certain cases to benefit the customers as special cases

84



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 8 -

and that too upon their specific requests. In some instances, the Company admitted that there were errors in the system, which were subsequently rectified.

24. 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.

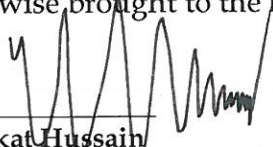
25. Section 156 of the Ordinance provides that:

“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.”

26. In exercise of the power conferred on me under Section 156 of the Ordinance, I impose a fine of Rs. 200,000/- (Rupees Two Hundred Thousand only) on the Company under the said provision of the Ordinance, due to the non-compliances, as mentioned hereinabove. Moreover, the Respondents are hereby warned and directed to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

27. Hence, the Company is hereby directed to deposit the applicable fine in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited within thirty (30) days from the date of this Order and furnish receipted vouchers issued in the name of the Commission for information and record.

28. 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.


Shaukat Hussain
Commissioner (Insurance)

