



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department- I

### Adjudication Division

*Before*

**Shahzad Afzal Khan, Director / Head of Department (Adjudication-I)**

*In the matter of*

### **Shaheen Insurance Company Limited**

Show Cause Notice No. & Issue Date: ID/Enf/Shahen/2019/3423  
August 4, 2023

Date of Hearing: October 24, 2023  
November 23, 2023

Present at the Hearing: Mr. Rizwan Akhtar (CEO)  
Mr. Nisar Ahmed Almani (CFO)  
Mr. Kashif Naeem (Compliance Officer)  
Mr. Tariq Hussain (Counsel for the Company)  
(*Authorized Representatives*)

### **ORDER**

### **Clause xx, lvi(g), xxix & (xi)(b) of the Code of Corporate Governance for Insurers, 2016 read with Section 40A of the SECP Act, 1997**

This Order shall dispose of the proceedings initiated against **Shaheen Insurance Company Limited (the Company and/ or the Respondent)** on account of alleged non-compliances of Clauses xx, lvi(g), xxix & (xi)(b) of the Code of Corporate Governance for Insurers, 2016 (**the Code**) vide Show Cause Notice ID/Enf/Shahen/2019/3423 dated August 4, 2023 (**the SCN**). The Company is registered under the provisions of the Insurance Ordinance, 2000 (**the Ordinance**) to undertake non-life insurance business in Pakistan.

2. Brief facts of the cases are as under:

- (i) 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 Ordinance 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 (**LOF**) 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.
- (ii) As per the findings of the Inspection Report, duties of Chief Financial Officer and Company Secretary are performed by the same individual which is in non-compliance with the requirements Clause (xx) of the Code. The Company has responded to the observation that due to size of operations of the Company, multiple functions are being performed by the same individual. However, the Company is identifying an appropriate resource to segregate the functions of Chief Financial Officer and Company Secretary,



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in order to comply with requirement of the Code. Thus, the Company, *prima facie*, did not ensure compliance with Clause (xx) of the Code.

- (iii) No approved internal audit plan for the year 2021-22 exists at the Company. In this regard, the Company submitted that it would make concerted efforts to ensure compliance, as required. The Company agreed with the finding of the inspection team and affirmed to comply with the requirements of Clause (lvi)(g) of the the Code of in future. Therefore, the Company, *prima facie*, did not ensure compliance with Clause (lvi)(g) of the Code.
- (iv) While reviewing the compliance report, it has been noted that compliance function of the Company is restricted only to AML/CFT activities. However, Clause (xxix) of the Code requires the insurer to ensure that a compliance program is in place for all relevant laws to be complied with, in letter and spirit, and thus minimizing legal and regulatory risks. In response to the foregoing observation, the Company stated that Compliance function is also looking after other corporate compliances in line with the Code and provided a 'Compliance Tracking Sheet' developed by the Company together with other documentary evidence corroborating the follow ups undertaken by the Compliance Officer and communication with other stakeholders. The Company further added that during the last couple of months, there has been a very high turnover in their compliance function as two of their resources in the compliance function resigned; however, replacement was immediately inducted. The Company is making every possible effort to train and retain best possible resource in the face of multiple challenges. However, it is pertinent to mention that the Company failed to provide any compliance program/plan or the reports prepared by the Compliance Officer other than the matters related to AML/CFT regulatory framework.

In addition, the Compliance Officer was also responsible for ensuring compliance with AML framework in addition to other functions. The Compliance Officer conducted risk assessment of the Company to check its compliance with the AML Laws and the same was shared with the Chief Executive Officer (CEO) for perusal on which the CEO expressed his satisfaction. It would be pertinent to mention here that Clause (xxix) of the Code requires the Head of Compliance to report to the Board of Directors (**Board**) of the insurer through the Risk Management & Compliance Committee on all significant matters. The Company in its response in the matter agreed with the aforesaid finding of the inspection team.

It has been further noted that the Compliance Officer of the Company has been appointed by the CEO. Whereas, Clause (xxix) of the Code requires that the Board has to appoint/designate a suitably qualified and experienced person as compliance officer on a country-wide basis, who may be assisted by other compliance officers down the line.

In view of the above, the Company, *prima facie*, did not ensure compliance with Clause (xxix) of the Code.

- (v) It has been observed that the Company has been carrying out its business without having significant policies, such as product development, underwriting procedures, claims lodging and settlement procedures, reinsurance policy, risk management, investments, etc. as mentioned in Clause (xi)(b) of the Code.

In response to the aforesaid observation, the Company has provided its manuals/policies/ SOPs. However, the Company failed to provide policies in respect of product



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development, policy servicing, reinsurance policy, risk management, human resource management including preparation of a succession plan, procurement of goods & services, write-off of bad/doubtful debts, advances and receivables, agency management (including bancassurance) covering the appointment & payment to agents, acquisition/disposal of fixed assets, determination and delegation of financial powers, level of underwriting as well as administrative expenses and remuneration policy for directors and the senior management, etc. as required under Clause (xi)(b) of the Code. Therefore, the Company, *prima facie*, did not ensure compliance with Clause (xi)(b) of the Code.

3. In view of the aforesaid alleged non-compliances, the punitive provisions of Section 40A of the SECP Act, 1997 are attracted in the matter. Accordingly, SCN was served on the Respondent/ Company calling upon it to show cause in writing as to why penalty may not be imposed on it for contravening the aforesaid provisions of the law.

4. In response to the SCN, the Company vide its letter dated September 01, 2023 submitted its reply as under (relevant extract):

(Quote):

**a) Clause (xx) of Code of Corporate Governance for Insurers, 2016 (the Code) - segregation of functions.**

*It is respectfully submitted that the clause (xx) of the Code gives preference to segregation of duties between Chief Financial Officer and Company Secretary. It is further submitted that due to size of operations of the Company, multiple functions are being performed by a single individual. However, Company is identifying an appropriate resource to segregate the functions of Company Secretary and CFO, to comply with non-mandatory requirement of the Code.*

**b) Clause (lvi)(g) of the Code**

*Review of scope and extent of internal audit It is submitted that internal auditors of the Company have carried out audit of its various functions during year 2022 in two phases i.e. Jan-Sep and Oct-Dec. Internal Audit Plan is attached herewith in Annexure A.*

**c) Clause (xxix) of the Code - Compliance Program / Plan**

*It is submitted that Compliance function is also looking after other corporate compliances in line with the Code. We enclose herewith in annexure, Compliance Tracking Sheet (Compliance Program) developed by the Company together with other documentary evidence corroborating the follow ups undertaken by Compliance Officer and communication with other stake holders. We may also be allowed to add that during the last couple of months, there has been a very high turnover in our compliance function as two of our resources in compliance function resigned, however replacement was immediately inducted. Nevertheless, Company is making every possible effort to train and retain best possible resource in the face of multiple challenges together with refining and fine-tuning its Compliance Program.*

**d) Clause (xxix) of the Code - Appointment and reporting of Compliance Officer**

*It is respectfully submitted that Shaheen Insurance being a small company with limited resources is making serious and concerted efforts to strengthen its human resource. It is further submitted that during last couple of months, there has been a very high turnover in our compliance function as two of our resources in this department resigned, however replacement was inducted. Nevertheless, Company is making every possible effort to train and retain best possible resource in the face of multiple challenges.*



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**e) Clause (xi)(b) of the Code - Significant policies**

*We enclose herewith the following policies for your kind consideration;*

- 1- Product Development
- 2- Policy Servicing
- 3- Reinsurance Policy
- 4- Risk Management Policy
- 5- Succession Policy
- 6- Procurement of Goods & Services 7- Marketing Policy
- 8- Credit & Discount to customer's policy
- 9- Premium Collection Policy
- 10-Write Off bad debts Policy
- 11-Agency Management Policy
- 12-Fixed Assets- policies procedures
- 13-Borrowing Policy
- 14-Donations and Charities Policy 15-Delegation of financial powers
- 16-Policy Transactions with Associated Companies & Related Parties 17-Health, Safety & Environment
- 18-Level of Underwriting
- 19-Remuneration policy

**(Unquote)**

5. In order to provide the Respondent/Company 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.

6. 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 3, 2023.

7. The Company submitted its revised reply dated November 10, 2023 in the matter, the relevant extracts of which are reproduced as under:

**a. Clause (xx) of Code of Corporate Governance for Insurers, 2016 (the Code) - segregation of functions**

*As per the clause (xx) of the CCGI-2016;*

***Appointment and Approval.** - It shall be mandatory for the insurer to appoint Chief Financial Officer, Company Secretary and Head of Internal Audit, who shall preferably be different persons. However, the Head of Internal Audit shall not, in any way, be among any of the heads of the other functions / departments, the Company Secretary and the Chief Financial Officer."*

*Whereas SECP in its SCN observed that the duties of Chief Financial officer and Company secretary are being performed by same individual which is non-compliance of the CCGI-2016.*

*Please note that the clause (xx) of the Code states. "It shall be mandatory for the insurer to appoint Chief Financial Officer, Company Secretary and Head of Internal Audit, who shall preferably be different persons." Code stressed for the appointment of these person and gives option for insurers to appoint different persons. It is further submitted*

*that due to size of operations of the Company, the functions of Company Secretary and CFO are being performed by a single individual. However, Company is identifying a mechanism to segregate the functions of Company Secretary and CFO. Hence, we are in compliance with the CCGI-2016 and found no violation of CCGI-2016.*

**b. Clause (1vi)(g) of the Code**

*Review of scope and extent of internal audit the terms of reference of the Audit Committee shall also include the following: -*

*"Review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the insurer."*

*Please note that approved audit plan is not required as per the Clause (1 vi) (g) of the Code. However, the audit committee in its meetings appropriately discussed and reviewed the scope of the internal audit functions as required by the aforementioned clause. The Company have carried out audit of its various functions during year 2021-2022 & during 2023 and placed internal audit reports to the audit committee; e.g. January -September 2022 and October-December 2022, and onwards doing accordingly. Similarly, in the past, Internal Audit functions has worked with the guidance and plan provided by the Internal Audit committee.*

*However, an appropriate audit plan exists and attached herewith in Annexure A for your ready reference.*

**c. Clause (xxix) of the Code - Compliance Program/ Plan**

*Please note that the company has a complete compliance program in place, that has been prepared in line with the requirements of;*

- j. Insurance Ordinance, 2000 and the Rules and Regulations made thereunder;*
- k. (b) Companies Act, 2017 and the Rules and Regulations made thereunder;*
- l. (c) Listing Regulations, as applicable listed insurers; and*
- m. (d) Anti-money laundering laws, Rules and Regulations, and related Directives.*

*Please note that our compliance team is looking after all compliances in line with the Code. Our compliance also responsible to monitor and examine a tracking sheet to adhere the compliance and timely application of the same. We enclose herewith in annexure B, Compliance Tracking Sheet (Compliance Program) developed by the Company together with other documentary evidence corroborating the follow ups undertaken by Compliance Officer and communication with other stake holders. We may also be allowed to add that during the last couple of months, there has been a very high turnover in our compliance function as two of our resources in compliance function resigned, however replacement was immediately inducted. Nevertheless, Company is making every possible effort to train and retain best possible resource in the face of multiple challenges together with refining and fine-tuning its Compliance Program. We assure the Commission that we will follow the compliance program in letter and spirit.*

**d. Clause (xxix) of the Code - Appointment and reporting of Compliance Officer**

*It is respectfully submitted that Shaheen Insurance being a small company with limited resources is making serious and concerted efforts to strengthen its human resource. It is further submitted that during last couple of months, there has been a very high*



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*turnover in our compliance function as two of our resources in this department resigned, however replacement was inducted. Nevertheless, Company is making every possible effort to train and retain best possible resource in the face of multiple challenges. Now new head of compliance /compliance officer has been appointed/designated by the Board on dated October 09, 2023 who will look after the issues related to compliance and will report to the Board through Risk Management and Compliance committee on all major issues and on other such other non-major matters and at such frequency as deemed necessary.*

**e. Clause (xi)(b) of the Code - Significant policies**

*Please note that all significant policies are in place, we enclose herewith the following policies for record and understanding;*

- 1- Product Development 2- Policy Servicing*
- 3- Reinsurance Policy*
- 4- Risk Management Policy 5- Succession Policy*
- 6- Procurement of Goods & Services 7- Marketing Policy*
- 8- Credit & Discount to customer's policy 9- Premium Collection Policy*
- 10-Write Off bad debts Policy*
- 11-Agency Management Policy*
- 12-Fixed Assets- policies procedures 13-Borrowing Policy*
- 14-Donations and Charities Policy 15-Delegation of financial powers*
- 16-Policy Transactions with Associated Companies & Related Parties 17-Health, Safety & Environment*
- 18-Level of Underwriting*
- 19-Remuneration policy*

*In view of the aforesaid submissions, it transpires that the Company is making every effort to follow the all requirements with full zeal and enthusiasm and we are also committed to increase our compliance level and manage in a best way that will not only satisfy the regulators, but also increase our level of compliance and decrease level of risks associated with the transactions etc. SECP being the apex regulator of the corporate sector always support its regulate for further growth and maintain transparency and our goal is to maintain transparency and increase the compliance level and we are continuously striving hard to achieve the best.*

*We assure the Commission that we will follow all Laws, rules, regulations and directives in future as well with letter and spirit. At this stage we request the Commission to take a lenient view a pass order without any financial effect on to the Company.*

**(Unquote)**

8. In order to provide the Respondent/Company another opportunity of being heard, final hearing in the matter was fixed for November 23, 2023. The said hearing was attended by Mr. Rizwan Akhtar (CEO), Mr. Nisar Ahmed Almani (CFO), Mr. Kashif Naeem (Compliance Officer) and Mr. Tariq Husain (Counsel for the Respondent) 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 November 10, 2023.



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9. 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. The Respondent also intimated the date of appointment/designation of existing Compliance Officer as October 9, 2023 along with his profile. In addition, a copy of the compliance program for the year 2022 was also attached with the said letter.

10. Before reviewing the instant case, I revert back to the relevant provisions of the law, which are reproduced as under:

**Clause (xx) of the the Code:**

*It shall be mandatory for the insurer to appoint Chief Financial Officer, Company Secretary and Head of Internal Audit, who shall preferably be different persons. However, the Head of Internal Audit shall not, in any way, be among any of the heads of the other functions / departments, the Company Secretary and the Chief Financial Officer.*

**Clause (lvi)(g) of the the Code:**

*The Board of Directors of the insurer shall determine the terms of reference of the Audit Committee. The Audit Committee shall, among other things, be responsible for recommending to the Board of Directors the appointment of external auditors by the insurer's shareholders and shall consider any question of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the insurer in addition to audit of its financial statements. In the absence of strong grounds to proceed otherwise, the Board of Directors shall act in accordance with the recommendations of the Audit Committee in all these matters.*

(g) review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the insurer.

**Clause (xxix) of the Code:**

*Every insurer shall put in place a Compliance Program to ensure that all relevant laws are complied with, in letter and spirit, and, thus, minimize legal and regulatory risks. For this purpose, the Board of Directors shall appoint/designate a suitably qualified and experienced person as Compliance Officer on a countrywide basis, who may be assisted by other compliance officers down the line.*

*The Head of Compliance will report to the Board of Directors of the insurer through the Risk Management & Compliance Committee on all major issues and on such other non-major matters and at such frequency as the Board may determine, however, in all other routine matters, the Compliance Officer will report to the Chief Executive Officer. The Compliance Officer will primarily be responsible for insurer's effective compliance relating to:*

- a) Insurance Ordinance, 2000 and the Rules and Regulations made thereunder;
- b) Companies Ordinance, 1984 and the Rules and Regulations made thereunder;
- c) Listing Regulations, in case of listed insurers; and
- d) Anti-money laundering laws, Rules and Regulations, and related Directives.

**Clause (xi)(b) of the Code:**

*The insurer shall ensure that:*

(b) *The Board of Directors adopts a vision/mission statement and overall corporate strategy for the insurer and also formulate significant policies, having regard to the level of materiality, as may be determined by it.*

**Section 40A of the SECP Act:**

*"Any person who contravenes or fails to comply with any provision of rule made under section 39 or regulation made under section 40 or directive or notification issued under this Act shall be liable to pay by way of penalty a sum which may extend to ten million rupees and where the*



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*contravention is a continuing one, with a further penalty which may extend to one hundred thousand rupees for every day after the first during which such contravention continues.*

*(2) a penalty under sub-section (1) shall be imposed by the Commission after providing a reasonable opportunity of being heard to the party."*

11. I have examined the facts of the case in light of the applicable provisions of the law and the written as well as verbal submissions and arguments of the Respondent and its Representatives and have observed as under:

**(a) Segregation of Functions of Company Secretary and Chief Financial Officer:**

The Company has stated that in terms of the requirement of Clause xx of the Code, appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit is mandatory for an insurer, and they will be preferably be different persons. It was added that the Code stressed on the appointment of these personnel but it gives option to an insurer to appoint different persons. It was further submitted that due to size of operations of the Company, the functions of Company Secretary and CFO are being performed by the same individual. However, Company is identifying a mechanism to segregate the functions of Company Secretary and CFO.

In this regard, it needs to be appreciated that keeping in view the international best practices and considering the objective that duties and functions of Company Secretary and those of CFO should be discharged in an effective and efficient manner, the Code has stipulated that they should be performed preferably by different individuals. Though the Company has not complied with the requirements of Clause (xx) of the Code so far, no penalty is imposed in view of the fact that the requirement is not mandatory.

**(b) Absence of Internal Audit Program/Plan:**

The Company is of the view that approved audit plan is not required as per the Clause (lvi)(g) of the Code. It was added in reply of the Company that the audit committee in its meetings appropriately discussed and reviewed the scope of the internal audit functions as required by the aforementioned clause. The Company has carried out audit of its various functions during years 2021 to 2023 and placed internal audit reports to the audit committee.

In this regard, it has been noted that there was no audit plan/program available with the Company at the time of inspection to confirm that scope and extent of internal audit has been reviewed by the Audit Committee in accordance with the terms of reference. In the absence of such evidence in respect of the review period i.e. Jan-Sep, 2022, the Company cannot be considered as compliant with the requirements of Clause (lvi)(g) of the Code.

**(c) Non-existence of Compliance Function on matters other than AML framework:**

Regarding the observation that compliance function of the Company is restricted only to the extent of AML/CFT activities, the Company has replied that its compliance function is also looking after other corporate compliances in line with Code and provided a Compliance Tracking Sheet developed by the Company. It was added in the reply that during the last couple of months, there has been a very high turnover in their compliance function as two of their resources in compliance function resigned, however, replacement was immediately inducted. The Company is making every possible effort to train and retain best possible resource in the face of multiple challenges.

In this regard, it has been noted that no evidence of existence of compliance program/plan or the compliance reports in relation to other applicable corporate laws except AML/CFT regulatory framework for the review period was provided to the inspection





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team. Moreover, the Compliance Officer of the Company was appointed by the CEO instead of the Board, who is required to appoint/designate a suitably qualified and experienced person as Compliance Officer on a countrywide basis. The Company has stated that new head of compliance /compliance officer has subsequently been appointed/designated by the Board on October 09, 2023 who will look after the issues related to compliance and will report to the Board through Risk Management & Compliance Committee on all major issues. However, during the review period, the Company has been non-compliant with the requirements of Clause (xxix) of the Code.

**(d) Business of the Company Conducted without Having Significant Policies:**

Although the Company has stated in its reply that various significant policies are in place but no evidence of approval of these policies by the Board was furnished. Therefore, no evidence of the Board's approval is available on the record in respect of significant policies, which include Product development, Policy servicing, Reinsurance policy, Risk management policy, Human resource management including preparation of a succession plan, Procurement of goods and services, Write off of bad/doubtful debts, advances and receivables, Agency management (including bancassurance) covering the appointment & payment to agents, Acquisition/disposal of fixed assets, Determination and delegation of financial powers, Level of underwriting as well as administrative expenses and Remuneration policy for the directors and the senior management, etc. as required under Clause (xi)(b) of the CCGI, 2016.. In view of the foregoing, the Company did not ensure compliance with the requirements of **Clause xi(b) of the Code.**

12. Keeping in view the aforesaid contraventions/ non-compliances of Clauses xx, lvi(g), xxix & (xi)(b) of the Code, I, in exercise of the powers conferred under Section 40A of the SECP Act and other enabling provisions of the law, hereby impose an aggregate penalty of **Rs. 200,000/- (Rupees Two Hundred Thousand Only)** on the Company. Further the Company is advised to ensure meticulous compliance with all the mandatory clauses of the Code.

13. The Company is hereby directed to deposit the aforesaid penalty in the designated Bank Account maintained in the name of the Securities and Exchange Commission of Pakistan with MCB Bank Limited or United Bank Limited within thirty (30) days of the date of this Order and furnish receipted voucher evidencing payment of the same.

14. 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.

**Shahzad Afzal Khan**  
Director/Head of Department  
(Adjudication Department-I)

**Announced:**  
January 29, 2024  
Islamabad