



INSURANCE DIVISION
Islamabad

Before Tahir Mahmood, Commissioner (Insurance)

In the matter of

EFU Life Assurance Limited

Show Cause Notice No. and Issue Date: ID/Enf/EFUlife/2018/13357
Dated January 22, 2018

Date of Hearing: March 7, 2018

Attended By:

1. Mr. Tanveer Ahmed Shaikh
Partner of Hyder Bhimjee & Co
2. Mr. Arshad Iqbal
M/s. EFU Life Assurance Limited
3. Mr. Shahid Abbas
M/s. EFU Life Assurance Limited
4. Sajjad Hussain Khan
M/s. EFU Life Assurance Limited

Date of Order: March 14, 2018

ORDER

Under Section 93 read with Section 156 of the Insurance Ordinance, 2000

.....

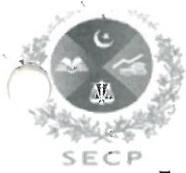
This Order shall dispose of the proceedings initiated against M/s. EFU Life Assurance Limited (the "Company"), its Chief Executive and Directors for alleged contravention of Section 93 of the Insurance Ordinance, 2000 (the "Ordinance"). The Company and its Directors shall be collectively referred to as the "Respondents" hereinafter.

2. The Company is registered under the Ordinance to carry on life insurance business in Pakistan.

3. The Commission vide letter dated September 25, 017 advised the Company to provide information as per the Information Seeking Memorandum (the "ISM") under Section 61 of the Ordinance.

4. The first response of the Company, against the call for information notice, was received through email dated October 16, 2017 and through subsequent emails from time to time.

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5. The statement of policies in respect of which notices under Section 93 of the Ordinance were issued as per format given in Annexure F to the ISM was analyzed. It was observed that the Company sent delayed notices to the policyholder in many instances. The synopsis of timelines during which the Company sent notices under Section 93 of the Ordinance during the period January 1, 2016 to June 30, 2017 is given as follows:

Number of days	Numbers of policies to which notices were sent
within 90 days	101,120
90 to 180 days	26
180 to 270	17
270 to 360	03
360 to 540	34,107
540 to 720	145
720 to 900	16
900 to 1260	01
1260 to 1620	01
1620 to 1980	01
Total number of policies to which notices were sent	135,437
Number of policies to which notice were sent later than 90 days	34,317

6. The aforementioned non-compliance was shared with the Company during the meeting held on October 26, 2017, however, the Company did not provide any clarification/ argument in this regard.

7. In view of the above, it appeared to the Commission that the Company has contravened the mandatory provisions as given under Section 93 of the Ordinance.

8. Section 93 of the Ordinance requires that;

"Non-forfeiture.- (1) A relevant policy is not liable to be forfeited only because of the non-payment of a premium (the "overdue premium") if -

(a) the policy has been in force for at least two years; and

(b) the surrender value of the policy exceeds the total of:

(i) the amount of the overdue premium; and

(ii) the total of any other amounts owed to the insurer under, or secured by, the policy.

(2) For the purposes of clause (b) of sub-section (1), the surrender value of the policy shall be calculated as at the day on which the overdue premium falls due and shall be calculated as though the premium has been paid.



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(3) When the holder of a policy to which this section applies fails to pay a premium due under that policy, the insurer shall, before the expiry of three months from the date on which that premium in respect was payable but not paid, give notice to the policy holder informing him of the options available to him.

(4) Notwithstanding anything to the contrary in the policy, the options available to the policy holder under this section shall include without limitation two of the following, namely :-

(a) the policy shall be paid up in accordance with this Part;

(b) the surrender value of the policy shall be applied to the payment of the premium due until the surrender value is exhausted;

(c) the policy shall be surrendered in accordance with this Part; and

(d) the policy shall be surrendered, and the company shall issue to the policy holder a contract for term life insurance for a term to be specified by the policy holder and a sum insured determined on the basis of the surrender value of the policy surrendered less the amount of any debt owed to the company under, or secured by, the policy.

(5) Notwithstanding anything to the contrary in the policy, the action taken by the insurer with respect to the policy shall be -

(a) if a course of action not stated in the notice issued under sub-section (3) is agreed in writing between the insurer and the policy holder, after the policy holder has received the notice, that course of action;

(b) if the policy holder agrees in writing to an option contained in the notice issued under sub-section (3), that course of action;

(c) if the policy holder does not respond to the notice issued under sub-section (3), and after making reasonable efforts the insurer is unable to contact the policy holder:

(i) if the policy holder has elected in writing, either at the time of taking the policy or at any time thereafter before the cessation of the payment of premium, that a course of action should be taken; that course of action; otherwise

(ii) if a course of action (not being the course of action set out in clause (b) of sub-section (4)) is stated in the policy, that course of action; otherwise

(iii) the course of action set out in clause (a) of sub-section (4).

(6) No commission shall be payable to any person in respect of the following, namely:-



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(a) the application of the surrender value to the payment of premiums in accordance with clause (b) of sub-section (4); and

(b) the issue of a contract of term insurance under clause (d) of sub-section (4).

9. In terms of Section 93 of the Ordinance, the Company was required to send notice to the policyholders who did not pay premium in respect of their policies within the due date, informing them about the options available to them regarding non-forfeiture, within three months of premium due date. These notices were required to be sent in respect of policies which had remained in force for more than two years and surrender value of which was higher than the amount of overdue premium. However, information provided by the Company to the Commission, revealed that Company sent delayed notices in many instances in violation of Section 93 of the Ordinance.

10. Accordingly, a Show Cause Notice (SCN) No. ID/Enf/EFULife/2018/13357 Dated January 22, 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.

11. The Company vide letter dated February 3, 2018 sought an extension of further one week to submit reply to the aforesaid Show Cause Notice. The request of the Company was acceded to and extension was granted until February 12, 2018.

12. Thereafter, the Respondents submitted their reply vide letter dated February 9, 2018, which is reproduced hereunder:

".....it is of utmost importance to explain the background mechanism for sending notices to the customers within the Company, which has very robust Renewals and Communication sections, reporting to head of Life Operations, created exclusively for the purpose of reaching out the clients in a timely manner. It is pertinent to mention here that all the letters/notices to the policyholders are system generated and hence the same are issued automatically as per timelines set up in the system; therefore, there is almost impossible that Company sent delayed notices as mentioned in paragraph No 6 of the Notice.

4. It is also important to mention here that our internal software in the system automatically generates the reminder for sending out the notices within the prescribed time line as stipulated under law. It may not be out of place to mention here that under those policies which have been running for two years or more, the Company's standard practice is to send four notices to the customer in the following manner:

(a) **Renewal Notice (First Notice):** When a policy's renewal due date is coming up, the Company sends a notice, one-month prior to that due date intimating therein that the policy is coming up for renewal after one month with specific due date mentioned therein.



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- (b) **Reminder Notice (Second Notice):** That when a policy is due for its annual renewal premium and the payment has not been made, then the customer is reminded on 15th and 22nd day after the due date that payment needs to be made.
- (c) **Auto Non-Forfeiture ("ANF") Notice:** That if a customer fails to pay the due premium, despite the abovementioned two notices, the Company then sends a third auto-generated notice after expiry of grace period in strict compliance of section 93(3) of the Insurance Ordinance, 2000 ("Ordinance") and the policy's provisions and conditions explaining the options available to him.
- (d) **Paid-Up Notice (Fourth Notice):** That in the event that a customer fails to pay the premium on the next due date after the policy has turned into ANF Status, another notice is sent to the customer intimating therein that the policy has been converted into paid-up status.

.....
The attached letters, reminders, ANF and Paid-Up notices under the policies [taken from the data already provided to the Hon'ble Commission] clearly shows that; firstly, the Company vigilantly send system-generated notices in compliance of Section 93 of the Ordinance and; secondly, the data provided to the Hon'ble Commission is mixed of ANF and Paid-Up letters. It is clearly evident from the attached letters that, under all those policies, which were due in January, February, March & April 2016, initially ANF notices were sent within 90 days of their respective renewal dates and right after a year Paid-Up letters were also issued. And while providing data in Annexure F of the Information Seeking Memorandum ("ISM"), the last letters' dates (i.e. Paid-Up letters' dates) were mistakenly communicated to the Hon'ble Commission and since no physical evidence/letters were provided; therefore, the entire data was considered as ANF data, which is not the fact.

5. That as far as the point raised in paragraph No 7 of the Notice, it is pertinent to mention here that no data of delayed notices was specifically provided during the meeting for clarification, however, general queries were asked which were replied accordingly. It was agreed that any query regarding these matters will be shared through email but the delayed notices explanation was neither called during the meeting or through email, Therefore, it is denied that the Company failed to offer any justification about the delayed notices as it is evident from the above stated fact that all ANF notices have sent in time but the data was misconceived due to mix data of ANF and Paid-Up letters.
6. Having detailed the sophisticated chain that binds the Company to send automated notices in compliance with section 93 of the Insurance Ordinance 2000, it would now serve the purpose to highlight that the Company's affairs have been managed in strict accordance with the Ordinance. Specifically, in relation to the contents of paragraph nos. 5, 6 and 7 of the Notice under reply, we understand that the data provided by the Company under the format given in Annexure F of the Information Seeking Memorandum ("ISM") reflected certain episodes of delayed intimation to customers regarding the ANF Status. After receipt of the Notice, we have cross checked the information provided to the Hon'ble Commission and noticed that the information was called for a specific period i.e, from January 01,2016 to June 30, 2017 and the same was provided. However, some unsolicited data of paid-up policy reflecting as 34,317 was sent



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being last communication with the policyholders during January 01 ,2016 to June 30, 2017.

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The attached letters clearly show that the ANF notice under section 93 of the Ordinance were issued in timely manner as the due dates are of prior to the 01.12.2015, which do not come under the ambit of) the said section as , these all policies were Paid-Up.

7. *The time lag has been measured from the due date of the policies to the last letters' date which are mixed as ANF notices, Paid-up letters etc.; therefore, the provided number 34,317 are the policies where paid-up notice date or date of any other letters was the last communication done during the period of 01.01.2016 to 30.06.2017. The provided data to the Hon'ble Commission was mix data of both ANF (under section 93 of the Ordinance) and Paid up policies, hence the same was unwarranted and consequently have been misconceived and made bases of this Notice.*

8. *That in light of the foregoing, the delayed number has been misconceived and it can be established with evidence that the Company sent timely notices under section 93 of the Ordinance in those 34,317 policies. It is; therefore, requested that the Notice may be withdrawn as no contravention and/or breach of section 93 of the Ordinance has been committed by the Company. In fact, we would like to assure you that compliance of laws holds top priority for the Company in its race for excellence. Nonetheless, without prejudice to anything contained herein above, as a result of your instant Notice, we hereby assure you that the timely intimation through notices under section 93 of the Ordinance shall be closely and regularly monitored by the management of the Company in order to avoid/prevent any such delays from occurring in the future.*

....."

13. In the interest of justice and to provide an opportunity of hearing to the Respondents, the Commission vide letter dated March 2, 2018, bearing no. ID/Enf/EFUlife/2018/13874 scheduled the hearing on March 7, 2018.

14. The hearing of March 7, 2017 was held at the Company Registration Office of the Commission at Karachi, which was attended by the authorized representatives of the Respondents namely Mr. Tanveer Ahmed Shaikh, Mr. Arshad Iqbal, Mr. Shahid Abbas, and Mr. Sajjad Hussain representing the Respondents before the Commission in the instant matter.

15. During the hearing, the Representatives stated that all letters/notices to the policyholders are system generated and hence the same are issued automatically as per timelines set up in the system; therefore, the Company sent the notices to the policyholders without any delay. The Representatives admitted that while providing data in Annexure F to the Information Seeking Memorandum, the last letters' dates (i.e. Paid-Up letters' dates) were mistakenly communicated to the Commission and since no physical evidence/letters were provided; therefore, the entire data was considered as ANF data, which was not the fact. The Representative maintained that the Company did not contravene the provisions of Section 93 of the Ordinance.



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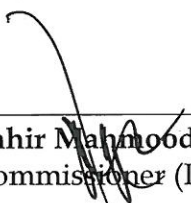
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16. The Company in response to the SCN has denied that any breach of Section 93 of the Ordinance has occurred. The Respondents have apprised the Commission that the Company has an automated system, through which notices are automatically issued as per the timelines set up in the system in compliance with Section 93 of the Ordinance. The Respondents have reiterated that all ANF notices were sent in time but the data was misconceived, as the dates of Paid-Up letters were mistakenly communicated to the Commission as dates of ANF letters. Thus, the entire data was considered as ANF data.

17. The arguments, documents and evidences which have been submitted by the Respondents so far have been found to be evidencing the fact that the Company has not contravened the provisions of Section 93 of the Ordinance. While, the Respondents have admitted the mistake in reporting data to the Commission, it may be appropriate to consider the submission of the Company to conclude the proceedings.

18. 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 Section 93 are not established, however, the Respondents should have been careful in reporting data to the Commission, and therefore, the Respondents are hereby warned to be careful in future.

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


Tahir Mahmood
Commissioner (Insurance)

