SECP
INSURANCE DIVISION
Islamabad

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Before Tahir Mahmood, Commissioner (Insurance)

In the matter of

EFU Life Assurance Limited

Show Cause Notice No. and Issue Date:	ID/Enf/EFUlife/2018/13355 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 12(1)(a) & (4) 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 12(1)(a) & (4) 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 through 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.

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.

5. The statement of claims and statement of rejected claims, solicited vide point No. 8 and 9 of the ISM as per the format given in Annexures C and D, respectively were

analyzed. It was observed that there was a significant lag between the time claims were intimated and the time claims were settled/ rejected.

6. The claim settlement documents of some of the cases were obtained from the Company, however, complete correspondence was not shared with the Commission, therefore, explanation from the Company was sought regarding delay in settlement of the claims.

7. In respect of the claims highlighted by the Commission, the Company maintained that the claim documents were not provided by the respective claimants, which led to delay in processing of the claims. However, review of the statement of claims revealed that the Company, as a matter of practice, takes significant time in processing of the claims, since most of the cases were settled, or rejected after 100 days of the dates of intimation, while in few cases, the decision of settlement/ rejection took as long as more than 1500 days.

8. The synopsis of the time lags of the claims settled/ rejected is presented hereunder:-

No. of Years	No. of Claims Settled by the Company
3 months - 1 year	6
1 - 2 year	68
2 - 3 year	23
3 - 4 year	6
4 - 5 year	5

No. of Years	No. of Claims Rejected by the Company
3 months - 1 year	1
1 - 2 year	26
2 - 3 year	15
3 - 4 year	2
4 - 5 year	3
5 - 6 year	1

Settled Claim		
Bank name	**Total number of claims**	**Claims with time lag of more than 100 days**
UBL	197	162
SCB	76	25
Bank Alfalah	40	32
Faysal Bank	27	15
Silk Bank	19	15
JS Bank	17	15
ABL	14	9
ASKB	13	12
NIB	08	05
MCB	06	05
BOP	04	04
Barclays Bank	01	01

Rejected Claims		
Bank name	**Total Number of claims**	**Claims with time lag of more than 100 days**
UBL	93	59
SCB	03	01
Bank Alfalah	15	13
Faysal Bank	09	04
Silk Bank	04	03
JS Bank	12	07
ASKB	12	08
ABL	02	02
NIB	04	04
MCB	05	05
BOP	02	01
NBP	01	-

9. The inordinate delay in processing, payment or rejection of the claims causes inconvenience to the policyholders and is not, by any means, reflective of the favorable service or regard to the policyholders' interests.

10. Point 13 of the ISM required insurers to submit product wise persistency table as per the format given in Annexure G. As per the information provided by the Company, persistency levels of the following products of the Company in terms of premium due and premium renewed are provided in the following tables:

Second Year Persistency (takaful)							
Bank	Product	Second Year Premium Due (PKR)		Second Year Premium Renewed (PKR)		Persistency Benchmark (%)	
		HY June 30, 2017	2016	HY June 30, 2017	2016	HY June 30, 2017	2016
AI Baraka	BSE	198,081	457,099	86,344	427,099	43.59%	93.44%
	BSP	14,202,408	7,089,437	7,165,971	3,425,936	50.46%	48.32%
DIB	DTE	1,812,475	3,681,039	433,499	2,370,738	23.92%	64.40%
JS Bank	JTE	1,009,259	20,000	409,459	0	40.57%	0.00%
	JTS	13,371,052	874,500	5,745,949	56,000	42.97%	6.40%

Second Year Persistency (Conventional)							
Bank	Product	Second Year Premium Due (PKR)		Second Year Premium Renewed (PKR)		Persistency Benchmark (%)	
		HY June 30, 2017	2016	HY June 30, 2017	2016	HY June 30, 2017	2016
Faysal	FB2	1,891,744	4,363,231	1,591,744	1,926,143	84.14%	44.14%
FMFB	FSC	75,000	55,316	20,000	25,000	26.67%	45.19%

Third Year Persistency (Conventional)							
Bank	Product	Third Year Premium Due(PKR)		Third Year Premium Renewed(PKR)		Persistency Level (%)	
		HY June 30, 2017	2016	HY June 30, 2017	2016	HY June 30, 2017	2016
Askari	AFP	0	12,499	0	4,167	0.00%	33.34%
JS Bank	JRP	226,750	386,306	101,750	252,331	44.87%	65.32%
	JWP	80,000	260,557	0	235,557	0.00%	90.41%
Silk	SK	16,609,702	25,047,641	8,080,435	17,380,812	48.65%	69.39%
Bank of Punjab	BPE	2,520,289	375,000	1,135,765	375,000	45.06%	100.00%
	BPR	140,300	0	20,000	0	14.26%	0.00%
	BPS	5,738,802	50,000	1,806,942	0	31.49%	0.00%

11. It was inferred from the analysis of above tables that second and third year persistency levels in terms of premium due and premium renewed for multiple products were very low, particularly, 3rd year persistency of BPS product (conventional) with Bank of Punjab was only 31% and 2nd year persistency of Takaful product DTE with Dubai Islami Bank only was 23%.

12. The data presented above revealed that a majority of the bancassurance policyholders of the Company lost their policies and the Company did not give due consideration to the interests of its policyholders by reviving their policies. Resultantly, it appeared that the Company was not undertaking its bancassurance business in case of aforementioned products with due regard to the interests of its policyholders.

13. In view of the above, it appeared that the Company was not undertaking its business in sound and prudent manner, in violation of Section 12(1) (a) & (4) of the Ordinance.

14. Section 12(1)(a) & (4) of the Ordinance requires that;

> *"**12. Criteria for sound and prudent management.-** (1) For the purposes of this Ordinance, the following shall, without limitation, be recognized as criteria for sound and prudent management of an insurer or applicant for registration as a person authorized to carry on insurance business:*
>
> *(a) the business of the insurer or applicant is carried on with integrity, due care and the professional skills appropriate to the nature and scale of its activities;*
>
> .....
>
> *(4) The insurer or applicant shall not be regarded as conducting its business in a sound and prudent manner if it fails to conduct its business with due regard to the interests of policy holders and potential policy holders"*

15. Accordingly, a Show Cause Notice (SCN) No. ID/Enf/EFUlife/2018/13355 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.

16. The Company vide letter dated February 3, 2018 sought one week extension 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.

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

"…..

3. *Firstly, in relation to the 'Statement of Settled Claims' and 'Statement of Rejected Claims' solicited vide point no. 8 and 9 of the ISM as per the format given in Annexures C and D, it is pertinent to highlight and clarify that this information included the timelines of the date of claim intimation to the date of claim decision signifying that the information was at no point solicited from the date of completion of claim requirements to the date of claim decision; thereby falling outside the ambit of section 118 of the Ordinance and hence. As per section 118 of the Ordinance, the threshold of completion within a period of ninety (90) days' timeline for claim settlement is not from the date of claim intimation, it is from the date of completion of claim requirements by the claimant……*

Therefore, simply focusing on the time lag or time interval reflecting under the ISM without accounting for the above provision would be out of context and not present an accurate picture. Having established that the above provision is to read from the date of completion of claim requirements to claim decision, consequently, the correct synopsis of timelines of the claims settled would be as follows:

SETTLED CLAIMS

Bank Name	*Total Number of Claims*	*Within 90 Days*	*After 90 Days*
UBL	*197*	*156*	*41*
SCB	*76*	*72*	*04*
Bank Alfalah	*40*	*29*	*11*
Faysal Bank	*27*	*23*	*04*
Silk Bank	*19*	*18*	*01*
JS Bank	*17*	*14*	*03*
ABL	*14*	*11*	*03*
ASKB	*13*	*10*	*03*
NIB	*08*	*07*	*01*
MCB	*06*	*06*	*0*
BOP	*04*	*03*	*01*
Barclays Bank	*01*	*01*	*0*
Total	***422***	***350***	***72***

That a bare perusal of the above table clearly shows that 350 (i.e. 82%) claims were settled within 90 days of the last requirements as provided under section 118 of the Insurance Ordinance 2000, whereas, the table provided in paragraph 8 of the notice only shows 122 claims (i.e. 28.90%) within 90 days, which reflects stark difference in numbers. The difference in numbers is merely because the claim data was solicited from the date of claim intimation to the decision date rather than from the date of receiving complete requirements and hence it is misconceived that only 28% claims were settled within prescribed time period

.....

The attached letters clearly show that the claims were settled within prescribed period of 90 days under section 118 of the Insurance Ordinance 2000; therefore, the provided data was mostly misconceived and have read from the date of claim intimation. As for the list of the correct synopsis of timelines of the rejected claims, the same is as follows:

REJECTED CLAIMS

Bank Name	*Total Number of Claims*	*Within 90 Days*	*After 90 Days*
UBL	*93*	*65*	*28*
SCB	*03*	*03*	*0*
Bank Alfalah	*15*	*09*	*06*
FaysalBank	*09*	*06*	*03*
Silk Bank	*04*	*03*	*01*
JS Bank	*12*	*10*	*02*
ABL	*02*	*02*	*0*
ASKB	*12*	*10*	*02*
NIB	*04*	*03*	*01*
MCB	*05*	*03*	*02*
BOP	*02*	*02*	*0*
NBP	*01*	*01*	*0*
Total	*162*	*117*	*45*

That the above table clearly shows that the number of rejected claims are a total of 162 out of which 117 have been timely decided which comprises of the total of 72.2%, meaning which a significant bulk were settled in a timely manner. The above table too indicates that the provided data of rejected claims under paragraph 8 of the Notice is incorrect and this too has been taken from date of intimation, not from the date of completion of requirements as provided under section 118 of the Ordinance.

.....

It is clearly established from the attached letters and the above two tables of settled and rejected claims, that the Company efficiently dealt with the claims and decided a major chunk of the claims within prescribed time period; therefore, has no committed any contravention or breach of the Insurance Ordinance or the Regulations.

However, we understand that there are some claims, which were decided after the provided time but delay for the main reason of circumstances being beyond the control of the Company qualifying as an exception under section 118 of the Ordinance. In the first case, i.e. settled claims, where the table shows that 72 claims were settled after the provided period of 90 days but there is plausible explanation of such delays. For example, out of these 72 case, 46 cases are those, where in some cases like, about 20 claims were initially rejected but later settled on ex-gratia grounds on the advice of Federal Insurance Ombudsman, or reconsidered on the humanitarian grounds on request of the claimants. There are 5 claims, where claims were decided within 90 days but since the matters pertaining to legal successors were pending in the courts; consequently, the claim were paid in the courts for disbursement. In the remaining cases, the claimants' inability in providing essential requirements was the main hindrance and hence the Company had to retrieve claim requirements through its own representatives to decide the claims on their merits. Since all those claim, where requirements have retrieved through the representatives, the claims were decided without any additional communication; but settled within prescribed period, and hence the same cannot be considered as delayed

settlement. However, any pendency of intimated claims for want of requirements which the claimants had failed to provide but the Company did its own inquiry resulted in some time lapse in taking the decisions, which cannot be attributed as unwarranted delay in claim settlement.

....

The attached exemplary letters and the Orders show that the decisions were timely taken but the claim were settled on ex-gratia grounds after intervention of the Hon'ble Federal Insurance Ombudsman; therefore, these decisions cannot be treated as contravention of section 118 of the Ordinance.

4. *In light of the above, it is misconceived and unwarranted to point out that the delay in processing, payment or rejection of the claims is an 'inordinate delay' as mentioned in paragraph no. 9 of the Notice. The delay in essence is only a small fraction of the total number of settled/rejected claims and that too for reasons beyond the control of the Company as stipulated herein above. Therefore, calling the above delay into question while disregarding the significant number of timely decided claims would be highly unjust, unreasonable and unwarranted. Although we fully understand and appreciate that such delay causes inconvenience to the claimants and is not by any means reflective of favorable service and most importantly, is contrary to the Company's values of providing excellence in service. However, these delays have been for reasons which were outside the Company's control and while fully acknowledging that strict measures should be taken to avoid such circumstances, the Company in the instant circumstances was unable to avoid such delays. Therefore, in view of the aforesaid, it is submitted that no action contemplated by section 156 of the Insurance Ordinance, 2000 or any other adverse action can be taken against the Company as the Company has not committed the contraventions.*

5. *That in relation to point 13 of ISM wherein the Company was required to submit product-wise persistency table as per the format given in Annexure G. Before elaborating on the product wise persistency, it is imperative to mention the provisions mandating levels of persistency for bancassurance business, specifically regulations 5(5) and 13 (2) of the Bancassurance Regulatlons, 2015* ***("Regulations"):***

....., it is pertinent to mention that the law only mandates the levels of persistency to be maintained for each bank in line with the abovementioned provisions which prescribe a certain high percentage of persistency on the overall bank's insurance business. It does not, however, mandate each product to maintain the benchmark of persistency given under tables A2 and A4. This means that focusing on the persistency of each product individually is accounted for misreading of law as the relevant law does not mandate minimum persistency benchmarks for specific products but only covers persistency levels of an individual bank's business in general which in the instant case, already meets the criteria for the banks mentioned in the Notice. Even otherwise, specifically in relation to certain products pertaining to the Bank of Punjab and Dubai Islamic Bank wherein the persistency levels in second and third years dropped down, it is due to justified reasons. It is important to highlight that the products mentioned in the Notice are only a small fraction of the total portfolio of innumerous products and these are the ones with lowest sale turnovers. Resultantly, the factors involved in the drop of persistency, inter alia, included majorly the lack of sufficient funds in the bank accounts of the customers/policyholders as a consequence of which the renewal premiums in second and

third years could not be deducted and the same was also intimated to the customers in order for them to provide the premiums on time but to no avail. Other factors include: -

insufficient balances which do not cover the whole premium amount,
dormancy of the accounts etc. and
such factors are not the fault of the Company or the banks but simply of circumstances beyond the Company's reasonable control.

Besides; some of the banks are not currently active with the Company, which results in limited access to the policyholders for collection of renewals and consequently in low persistency zone. like, the Bank AI- Falah, Dubai Islamic Bank, First Micro Finance Bank, etc., as it can be seen that Bank AI-Falah's product 'AFP' (which is wrongly mention in the table against Askri Bank) had no due premium, hence no persistency ratio has shown against such product.

6. *We understand that in order to uphold our agenda of striving for excellency, close monitoring of the persistency levels is required and in pursuance of the same, we are in a development phase and expanding our measures for closer scrutiny of persistency. In general, it is of utmost importance to explain the background mechanism for checking persistency levels of each bank within the Company, which has a very robust 'Client Advisory Department' section created exclusively for the purpose of scrutinizing the conduct of banks and to check the progress and persistency in a timely manner. Hence, each year every bank's progress in relation to overall and product wise persistency is monitored and persistency bonuses are paid accordingly based on minimum persistency level achieved as per Table A 2 in Schedule of the Regulations. Also, in compliance of Regulations, the Company has split 4th year and onward commission rates into upfront commission and targeted persistency levels. Besides; we facilitate banks for timely premium deductions by providing advance renewal data and share lapsed policies' data on fortnightly/monthly basis and communicate to clients about their due premiums by sending renewals notices, reminders, SMS, all in an effort to ensure that the policyholders continue their relationship with the Company to get the maximum benefits. The creation of this department within the Company is a significant step in achieving the milestones of persistency and to ensure that the interests of the policyholders are not compromised. As a consequence, the low persistency has been covered to a large extent and now, we would like to apprise the Hon'ble Commission that the takaful products of Dubai Islamic Bank's persistency in second year has improved significantly. Its two products, "DTS & DTE" with a ratio of 94% (DTS) & 6% (DTE) and hence the second year's persistency is 65.25% in which "DTS & DTE" products have 66.08% and 38.75% respectively. Specifically, in relation to BPS product (conventional) of Bank of Punjab, it is incorrectly mentioned in paragraph no. 11 that the persistency level in third year is only 31 %. Firstly, it is important to clarify that this was the percentage for second year and not third year; secondly, the revised tables reflecting the accurate persistency after June 30th, 2017 has reached to 75.24% in second year which is a now reached to a reasonably acceptable percentage.*

That in light of the foregoing, the assertions in paragraph no. 12 of the Notice, that the company has not given any due consideration to the interest of policyholders is not justified. The Company has made every plausible effort, in light of the measures highlighted in preceding paragraphs to conduct its business in a sound and prudent

manner paying highest regard to the interests of its policyholders at large. Further 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 business of the Company will further closely and regularly be monitored by the management of the Company.

7. *In view of the above stated facts, it is respectfully submitted that the Show Cause Notice under reply may be withdrawn as the Company is fully compliant with all insurance laws, rules and regulations and taking due care of its policyholders or potential policyholders with a dedicated, trained and focused team of employees and agents. The Company also pledges to adhere to the statutory obligations as enunciated in the Insurance Ordinance 2000, and insurance rules and regulations and directives of the Securities and Exchange Commission of Pakistan.*
....."

18. In the interest of justice and to provide another opportunity 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.

19. 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.

20. During the hearing, the Representatives stated that the claim data was solicited from the date of claim intimation to the decision date rather than from the date of receiving complete requirements. They maintained that as per Section 118 of the Ordinance, the threshold of payment of claims within a period of ninety (90) days is not from the date of claim intimation, rather it is from the date of completion of claim requirements by the claimant. The Representatives were advised to apprise the Commission of measures taken by the Company to improve the claim handling process. With regards to low persistency, the Representatives while admitting that persistency is low for certain banks and products, explained that overall persistency is more than 75%. They assured that the Company is taking all measures to improve its persistency.

21. In terms of Section 12(4) of the Ordinance, the Company shall not be regarded as conducting its business in a sound and prudent manner if it fails to conduct its business with due regard to the interests of policy holders and potential policy holders.

22. The Respondents have argued that the Commission has calculated the time lag of claims settlement/rejection from the date of intimation and not from the date of completion of claim requirements. Furthermore, Respondents insisted that Section 118 of the Ordinance provides a threshold of payment of claims within a period of ninety (90) days from the date of completion of claim requirements by the claimant.

23. The Company has placed the onus of delay for completion of documents on the claimants However, it is remain to be seen whether the claimants were put under a burden of unnecessary documents, which are cumbersome to collect and provide to the Company. It is also pertinent to mention here that the Commission did not initiate the instant proceedings under Section 118, which also suggest that liquidity damages be paid to the claimants in cases where the Company has failed to settle the claims within 90 days despite completion of the documents.

24. Needless to say, the Commission initiated the proceeding under Section 12(4) of the Ordinance as it observed in general that the excessive delay in processing of claims leads to gross inconvenience at the end of policyholders, which is by no means, reflective of the favorable service or regard to the policyholders' interests.

25. In addition to this, it is also apparent from the data presented above, the Company has low persistency as majority of the bancassurance policyholders of the Company in certain banks/products have lost their policies. Whereas the Company apprised the Commission that these low persistency products are small fraction of the total portfolio of products and these are the ones with lowest sale turnovers. The Respondents have assured that the management of the Company shall closely and regularly monitor its business to improve the persistency.

26. 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 12(1)(a) & (4) of the Ordinance are clearly established, for which the Respondents may be penalized in terms of Section 156 of the Ordinance and/or direction to cease entering into new contracts of insurance may be issued.

27. 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."*

28. In exercise of the power conferred on me under Section 156 of the Ordinance read with S.R.O. 750(I)/2017 dated August 2, 2017, I, instead of imposing a fine as provided under the said provision, take a lenient view, and hereby issue a stern warning to improve its governance and service to the policyholders and in case of similar non-compliance in future, action against the Respondents will be taken.

29. 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)