



INSURANCE DIVISION
Islamabad

Before Tahir Mahmood, Commissioner (Insurance)

In the matter of

IGI Life Insurance Limited

Show Cause Notice No. and Issue Date: ID/Enf/IGILife/2018/13377 dated
January 24, 2018

Date of Hearing: July 4, 2018

Attended By:

1. Mr. Nadeem R. Malik
Chief Executive Officer
IGI Life Insurance Limited
2. Dr. Bakht Jamal
Head of Takaful
IGI Life Insurance Limited
3. Syed Fahad Subhan
CFO
IGI Life Insurance Limited
4. Mr. Nasir Qureshi
Company Secretary
IGI Life Insurance Limited

Date of Order: July 30, 2018

ORDER

**Under Regulation 18 of the Bancassurance Regulations, 2015 read with Section 158
of the Insurance Ordinance, 2000**

.....

This Order shall dispose of the proceedings initiated against M/s. IGI Life Insurance Limited (the "Company"), its Chief Executive and Directors for alleged contravention of Regulation 18 of the Bancassurance Regulations, 2015 (the "Regulations"). 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.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 2 -

3. The Commission had initiated thematic review of bancassurance business of insurers in order to check compliance of conduct of business with applicable regulatory provisions by the insurers. Accordingly, call for information notice under Section 61 of the Ordinance dated September 25, 2017 was issued to the Company. The call for information notice as aforementioned, required the Company to provide information as per the Information Seeking Memorandum (the "ISM") and formats provided therein. Response of the Company, against call for information notice, was received through email / letter dated October 16, 2017. Thereafter, series of correspondence was exchanged with the Company based on observations emanating from the review of data.

4. Regulation 18 of the Regulations requires every insurer to prepare and deliver to the Commission, at the expiration of each year, with reference to that year's annual bancassurance business, the bancassurance returns namely the Statement of Premium, Statement of Claims, Statement of Expenses and Statement of Commission Claw-Back and Minimum Surrender Value (both for aggregate bancassurance business and for each bank). The Company had submitted the aforementioned returns through its letter dated May 05, 2017.

5. Point 5 and 6 to the ISM required insurers to submit, bank-wise and cycle-wise statement of expenses with segregation based on product and bancassurance model as per the format given in Annexure B1 to the ISM and bank-wise statement of premium as per the format given in Annexure B2 to the ISM. It was noted that Annexures B1 and B2 submitted by the Company were incomplete, contained calculation errors and also did not correlate with the bancassurance returns filed by the Company for the year 2016.

6. Accordingly, the matter was taken up with the Company in the observation email dated October 24, 2017. The matter of reporting of expenses and premiums in Annexure B1 and B2 respectively, was also taken up in the correspondences exchanged with the Company. Summarizing the findings therein, the Company accepted the reclassification errors between classes of premiums and expenses and incorrect reporting due to system errors etc.

7. Based on the final Annexure B1 and B2 submitted by the Company through email dated December 14, 2017, it was noted that the Company did not provide correct information of premiums and expenses in its bancassurance returns for the year 2016. The following misstatements were observed:

- i) Complete gross premium and expenses recorded by the Company was not disclosed in the bancassurance returns for the year 2016;
- ii) There were significant classification errors between different policy years of premium and commission (i.e. first year, second year renewal, subsequent year renewals etc.); and



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 3 -

iii) Business figures related to Silk Bank were totally excluded from the returns filed.

8. In view of the above, it appeared to the Commission that the Company made misstatements in its bancassurance returns and failed to comply with mandatory requirements under Regulation 18 of the Regulations.

9. Regulation 18 of the Regulations requires that;

“Financial Reporting.- Every Insurer shall at the expiration of each year prepare and deliver to the Commission with reference to that year's annual bancassurance business, the following statement duly audited by an approved auditor:

- (a) Statement of premium (for aggregate bancassurance business);*
- (b) Statement of premium (for each Bank);*
- (c) Statement of expenses (for aggregate bancassurance business);*
- (d) Statement of expenses (for each Bank);*
- (e) Statement of claim (for aggregate bancassurance business);*
- (f) Statement of claim (for each Bank);*
- (g) Statement of Commission Claw-back and Minimum Surrender Value (for aggregate bancassurance business);*
- (h) Statement of Commission Claw-back and Minimum Surrender Value (for each Bank); and*
- (i) Such other statements as may be specified by the Commission”*

10. Accordingly, a Show Cause Notice (SCN) No ID/Enf/IGILife/2018/13377 dated January 24, 2018 was issued to the Respondents, calling upon them to show cause as to why the fine as provided under Section 158 of the Ordinance should not be imposed on them for the aforementioned alleged contraventions of the law.

11. The Company vide letter dated January 30, 2018 sought an extension of 10 days to submit reply to the aforesaid Show Cause Notice. The request of the Company was acceded to and the Company was allowed extension until February 10, 2018.

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

“.....

“Please refer to your letter No. ID/Enf/IGILife/2018/13377 dated January 24, 2018 regarding the captioned subject, pertaining to the following issues in Bancassurance return for the year 2016 filed by IGI Life Insurance Ltd. (“IGI Life”).

- Complete gross premium and expense recorded by IGI Life was not disclosed in the said returns.*
- There were significant classification errors between different policy years of premium and commission: and*
- Business figures related to Silk Bank Ltd (“Silk Bank”) were totally excluded from the said returns.*



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 4 -

It is respectfully submitted that the Bancassurance returns filed with SECP under Section 18 of the Bancassurance Regulations, 2015 had classification and calculation errors due to limitation of IGI Life's current policy administration system, which requires manual intervention.

Further, the system is unable to capture 'Group premiums without cash value' policies, which has inadvertently resulted in exclusion of business figures of Silk Bank in the said audited return. The effect of exclusion of Silk Bank business figures resulted in difference in gross premiums. Also, IGI Life is in the process of revamping its policy administration system and will ensure that the regulatory framework is accurately incorporated therein.

We would also like to apprise the Commission that IGI Life has initiated the change-over process of the core policy administration system. The system will be available by June 2018 with the complete transfer of policies into the new system expected in the following year.

We respectfully submit that IGI Life had provided all business figures on its own accord which was overlooked in the audited Bancassurance return submitted earlier. This in itself is reflective of the fact that there was no intention of willfully falsifying any material particulars on part of IGI Life.

IGI Life is continuously strengthening the internal control systems and processes with a view to ensure full compliance with the regulatory requirements. We also request for a personal hearing in order for us to further elaborate our position on the observations made by SECP."....."

13. The Commission, vide its notice no. ID/Enf/IGILife/2018/15429 dated June 25, 2018, scheduled the hearing for July 4, 2018 at the Company Registration Office Karachi.

14. The hearing was attended by Mr. Nadeem R. Malik, Deputy CEO of the Company along with other authorized representatives namely Dr. Bakth Jamal, Syed Fahad Subhan, and Mr. Yasir Qureshi representing all the Respondents before the Commission in the instant matter.

15. During the hearing, the Representatives admitted that incorrect data under the Regulations was reported to the Commission due to system limitation. They maintained that the Company identified the issues in the system at the time of thematic review as number of anomalies were observed. The Representatives further stated that the information was missed out while filing of the returns to the Commission. The Representatives were of the view that misstatement in the data was not material, therefore requested the Commission to take lenient view in this matter.

16. In terms of Regulation 18 of the Regulations every insurer shall at the expiration of each year prepare and deliver to the Commission with reference to that year's annual bancassurance business, Statement of premium, Statement of expenses, Statement of claim, Statement of Commission Claw-back and Minimum Surrender Value for each bank and for aggregate bancassurance business, duly audited by an approved auditor.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 5 -

17. However, in the instant case the information of premiums and expenses in bancassurance returns of the Company for the year 2016 filed with the Commission under Regulation 18 of the Regulations was incorrect and contained misstatements. The aforesaid bancassurance returns did not contain complete gross premium and expenses recorded by the Company. There were substantial classification errors between different policy years of premium and commission. Moreover, the business figures related to Silk Bank were entirely omitted from the returns filed with the Commission.

18. The Respondents admitted that bancassurance returns filed with the Commission had classification and calculation errors due to limitation of the Company's current policy administration system, which according to them required manual intervention. The Respondents apprised that the Company is in the process of revamping its policy administration system to ensure compliance with the regulatory requirements. The Respondents, however, maintained that misstatement was not willful; therefore, the Commission may take a lenient view in the matter.

19. 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 failed to comply with requirements of Regulation 18 of the Regulations. The impact of the misstatement / classification errors was also material.

20. Nevertheless, the Company has made misstatements in its bancassurance returns filed under Regulation 18 of the Regulations for which fine under Section 158 of the Ordinance can be imposed on to the Respondents. Section 158 of the Ordinance provides that:

"Penalty for false statement in document.- Except as otherwise provided in this Ordinance, whoever, in any return, report, certificate, balance-sheet or other document, required by or for the purposes of any of the provisions of this Ordinance, wilfully makes a statement false in any material particular, knowing it to be false, shall be punishable by the Commission with fine which may extend to one million rupees."

21. 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 the maximum fine as provided under the said provision, impose a fine of Rs. 100,000/- (Rupees Hundred Thousand Only) on the Company due to the default of Regulation 18 of the Regulations as mentioned in the above paras hereof. Furthermore, the Respondents are hereby warned and directed to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

22. 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.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 6 -

23. 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)

