



SECP

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/2018/13375 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. Nasir Qureshi
Company Secretary
IGI Life Insurance Limited

Date of Order: July 30, 2018

ORDER

**Regulation 2(1)(b) of the Regulations read with Section 96(2) & (3) and Section 156
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 2(1)(b) of the Bancassurance Regulation, 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 initiated thematic review of bancassurance business of insurers in order to check compliance of conduct of business with applicable regulatory provisions. 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.

4. Response of the Company against call for information notice was received through email and letter dated October 16, 2017. Thereafter, series of correspondence was exchanged with the Company based on observations emanating from the review of data.

5. Point 11 to the ISM required the Company to submit the statement of cycle-wise issuance of insurance policies for each Bank as per the format given in Annexure E to the ISM. Perusal of Annexure E submitted by the Company revealed that in the case of Asasah Plan with Summit Bank, commission at the rate of 50% was paid to the Bank, whereas, the product was based on Referral Model, under which the maximum commission rate under the Regulations was 40%. Clarification regarding excess payment of commission was sought from the Company through email dated October 24, 2017. The Company provided the following response through email dated October 30, 2017:-

"In case of Summit which 'No Commission paid' incorporates adjustment of additional commissions generated as the bank was moving from Referral to Direct Model during the last quarter of 2016. This did not materialize and the excess commission of 10% (50% vs. 40%) was later adjusted through commissions."

6. From perusal of the reply provided by the Company, it appeared that no formal agreement for Direct Sales Model was signed by the Company with Summit Bank, instead the Bancassurance agreement in existence was under Referral Model. It was found that the Bancassurance agency agreement for Asasah Plan was based on Referral Model. An addendum to the agreement with Summit Bank was filed before this office through letter dated May 10, 2016, which was also based on Referral Model. Thereafter, no addendum to the agreement or a new agreement was found in the records of this office, which the Company could have submitted in compliance with Regulation 9(6) of the Regulations to prove that the Company had Direct Sales Model agreement with the Summit Bank.

7. Generation of commission as per the limits of Direct Sales Model without any written agreement of Direct Sales Model with the Bank, *prima-facie* proved that the Company and the Bank undertook the business of insurance sales without having a contract in writing.

8. Section 96(2) of the Ordinance declares it unlawful for any person to act as an agent in respect of an insurer except under a contract in writing. Furthermore, Regulation 2(1)(b) of the Regulations defines Bancassurance as an arrangement of



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 3 -

insurance sales under a Bancassurance agency agreement between the insurer and the Bank.

9. In view of the above, it appeared to the Commission that the Company contravened the provisions of Regulation 2(1)(b) of the Regulations read with Section 96(2) and Section 96(3) of the Ordinance by undertaking Bancassurance sales without a written agreement on Direct Sales Model.

10. Regulation 2(1)(b) of the Regulations provides that:

“ Definitions.- (1) In these Regulations, unless there is anything repugnant in the subject or context,-

(b) "Bancassurance" means the offering, advertising, distributing, selling and/or marketing of insurance products by a Bank licensed by State Bank of Pakistan to their account holders /customers /general public through their sales and distribution channels including but not limited to branches, telemarketing centres, websites etc. by virtue of Bancassurance Agency Agreement(s) between the Insurer and the Bank;”

11. Section 96 (2) and 96 (3) of the Ordinance states that:

“Persons acting as agents.-

(2) It shall be unlawful for any person to act as an agent in respect of an insurer except under a contract in writing.

(3) Any person who acts as agent in breach of this section, and any insurer who knowingly permits him to act as agent, shall be guilty of an offence.”

12. Accordingly, a Show Cause Notice (SCN) No ID/Enf/IGILife/2018/13375 dated January 24, 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.

13. 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.

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

“.....

It is respectfully submitted that Summit Bank had decided to switch from the 'Referral Model' to 'Direct Sales Model' and the same was intimated to us in writing in the month of May, 2016. Attached please find the email dated May 31,2016 marked as Annexure A/I. In this regard, IGI Life had revised its commission structure to 'Direct Sales Model' on the existing products being marketed through Summit Bank already approved by SECP. An addendum to the already in force Bancassurance Agreement dated October,



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 4 -

2009 was sent to Summit Bank for signing in the month of July, 2016 so that the same could subsequently be submitted to the SECP.

Later within the same calendar year, the Bank decided to move back to the previous 'Referral Model'. Upon realization of the fact that the commissions was paid as per 'Direct Sales Model', the Company had started to adjust the excess amount from the Bank. Therefore, the excess 10% commission generated during this period amounting to PKR 403,476 was adjusted to the extent of PKR 350,826.

The remaining amount of PKR 52,650 is being adjusted from the renewal commissions payable to Summit Bank. It is also pertinent to note that due to merger of Summit Bank into Sindh Bank, the new business was discontinued from May 2017. The policy-wise detail where excess commission was generated is given in Annexure A/2.

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....."

15. The Commission, vide its notice no. ID/Enf/IGILife/2018/15432 dated June 25, 2018, scheduled the hearing for July 4, 2018 at the Company Registration Office Karachi.

16. 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.

17. During the hearing, the Representatives reiterated their written comments by stating that the excess commission was paid as Summit bank moved from Referral Model to Direct Sales Model. They maintained that the agreement between Summit bank and IGI Life could not be materialized and hence the bank switched to the Referral Model again. The Representatives apprised the Commission that excess commission paid by the Company was subsequently recovered and adjusted. They further requested the Commission to take lenient view in the matter.

18. Section 96(2) of the Ordinance explicitly states that it shall be unlawful for any person to act as an agent in respect of an insurer except under a contract in writing. Moreover, Section 96(3) of the Ordinance stipulates that any insurer, who knowingly permits any person to act as an agent without a contract in writing, shall be guilty of an offence. In the instant case, the Company authorized Summit Bank to carry Direct Sales business without having any Bancassurance Agency Agreement on Direct Sales Model between the Company and the Bank.

19. The contravention is evident from the fact that the Company paid commission in accordance with the limits of Direct Sales Model (not within the Referral model) without any written agreement of Direct Sales Model with the Bank. It transpires that the Company and the Bank undertook the business of insurance sales without having a contract in writing in contravention with Section 96(2) of the Ordinance.



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

Continuation Sheet - 5 -

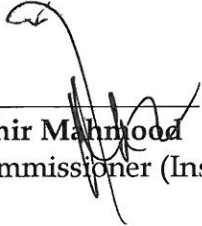
20. The Company in its written response as well as during the hearing admitted that that no formal agreement on Direct Sales Model agreement between the bank and insurer existed as the process to switch to the Direct Sales Model through written contract could not be materialized. Therefore, the agreement could not be submitted to the Commission. In addition, the Representatives also admitted excess payment of commission i.e. 10% to the Summit Bank, which was subsequently recovered. The Representative apprised that the remaining amount would be adjusted from the renewal commissions payable to Summit Bank.

21. 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 2(1)(b) of the Regulations read with Section 96(2) and Section 96(3) of the Ordinance for which the Respondents may be penalized under Section 156 of the Ordinance. Section 156 of the Ordinance states 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."

22. 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 violation of Regulation 2(1)(b) of the Regulations read with Section 96(2) and Section 96(3) of the Ordinance is established, however, I take a lenient view and instead of imposing a fine, I warn the Respondents to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

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)

