



INSURANCE DIVISION
Islamabad

Before Fida Hussain Samoo, Commissioner (Insurance)

In the matter of

East West Life Assurance Company Limited.

Show Cause Notice Number ID/Enf/EWLA/2017/8748 dated March 6, 2017
and Issue Date:

Date of Hearing: March 19, 2017

Attended By: Mr. Imran Ali Dodani
Chief Operating Officer (COO)
M/s. East West Life Assurance Company Limited

Date of Order: May 23, 2017

ORDER

**UNDER SECTION 90(2) READ WITH SECTION 156 OF THE INSURANCE
ORDINANCE, 2000**

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This Order shall dispose of the proceedings initiated against M/s. East West Life Assurance Company Limited (the "Company"), and its Board of Directors for alleged contravention of Section 90(2) of the Insurance Ordinance, 2000 (the "Ordinance"). The Company and its Board of Directors shall be referred to as the "Respondents" hereinafter.

2. A policyholder namely Mr. Javed Masih made a request in writing to the Company to surrender his policy on March 13, 2012. The Company however did not pay the amount equal to surrender value of the policy on the plea that the policyholder did not return the discharge voucher to the Company. On this ground, the Company delayed payment of the surrender value for four and a half years but immediately processed the payment to the policyholder upon receipt of the SECP's investigation order without receiving the said voucher.

3. Another policyholder Ms. Rabian Bibi applied to surrender her policy in October 2013. The Company, however, did not pay the amount against her surrender request despite lapse of more than three years on the basis that the policyholder did not provide attested copy of her new CNIC to the Company. The

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Company delayed the payment to date on the pretext of non-provision of some procedural documents.

4. Mr. Sohail Peter, another policyholder applied to the Company to surrender his policy in April 2012, but he received cheque of the surrender value on August 31, 2016, after a delay of more than four years.

5. In view of the above, it appeared that the Company delayed or withheld payment of surrender value to the policyholders on flimsy grounds.

6. Section 90 of the Ordinance requires that:

Surrender of policy at policyholder's option. - (1) The holder of a relevant policy which has been in force for not less than two years may make, in writing, a request to the insurer to surrender the policy.

(2) Subject to sub-section (3) and sub-section (4), within one month of receiving a request under sub-section (1), such request not having been withdrawn by the policyholder, the insurer shall pay to the policy holder an amount equal to the surrender value of the policy less the amount of any debt owed to the insurer under, or secured by, the policy.

(3) If an insurer, within fifteen days of receiving a request under sub-section (1), communicates in writing with the policy holder to request the policy holder to consider the advantages of maintaining the policy and to seek professional advice if appropriate, the period of one month referred to in sub-section (2) shall be extended by fifteen days so far as concerns that request.

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7. Hence, the Commission initiated proceedings against the Respondents by issuance of a Show Cause Notice (SCN), bearing number ID/Enf/EWLA/2017/8748 dated March 6, 2017, thereby calling upon them to show cause as to why the fine, as provided under Section 156 of the Ordinance should not be imposed for contravention of Section 90(2) of the Ordinance.

8. Thereupon, the Respondents, vide their letter dated March 13, 2017 requested for grant of further 10 days for submission of reply to the said SCN. The extension as requested by the Respondents was granted, vide Commission's letter no. ID/Enf/EWLA/2017/8889 dated March 16, 2017, to submit their reply until March 27, 2017.

9. Subsequently, the Respondents vide letter dated March 25, 2017, made their submissions as follows:

"...The referred Show Cause Notice raises some quires related to completion of minimal documents for settlement of the surrender claims. In case of surrender claim we ask for only two documents i.e. Policy Bond and Verified Copy of Valid



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CNIC. The policy bond is issued by us so the only document we ask from our policyholder is verified and valid copy of CNIC. We understand these requirements are very easy to be furnished and readily available with every policyholder, because it is obvious that every citizen of this country must has a valid CNIC by default. In cases where the policyholder has lost the policy bond or even applied for a CNIC we accept an affidavit stating loss of policy bond and NADRA Slip issued against CNIC application, respectively. The certified copy of CNIC is required to assure that, the respective application is genuine and submitted by actual policyholder. The completed and verified discharge voucher is necessary because, in discharge voucher we produce complete statement of the surrender value for review by the policyholder and some vacant fields for bank account information and signature of the policyholder.

In view thereof, please find our case-wise reply related to three of the surrender cases mentioned in your Show Cause amounting to Rs. 18,030/- in aggregate, as below:

1. In case of Mr. Javed Masih bearing policy number L08105584 amounting to Rs. 3,171 of surrender claim, we had forwarded the discharge voucher to the policyholder during the month of April 2012 by asking him to return the same back duly signed/verified along with the minimal necessary documents. In the same letter we suggested him to reconsider his decision about surrendering and continue his life insurance policy in the better interest of his family and himself. Thereafter, we issued a letter of reminder during the month of July, 2012 to remind him about completion of necessary documentation, enabling us to process the surrender claim accordingly. But he did not furnish the said requirements, which resulted in delay of his surrender claim settlement. However, we settled the claim immediately after completion of necessary documentation from policyholder's side, copies of the same were provided to the investigation team as well.
2. In case of Ms. Raiban Bibi bearing policy number L08105632 amounting to Rs. 6,045 of surrender claim and Rs. 5,200 of refund of premium, we have asked her to submit a valid copy of CNIC, enabling us to process the surrender claim accordingly. But she did not furnish the said requirement as yet.
3. In case of Mr. Sohail Petter bearing policy number L09106575 amounting to Rs. 3,614 of surrender claim, we had forwarded the discharge voucher to the policyholder during the month of May, 2012 by asking him to return the same back duly signed/verified along with the minimal necessary documents. In the same letter we suggested him to reconsider his decision about surrendering and continue his life insurance policy in the better interest of his family and himself. Thereafter, we issued a letter of reminder during the month of July, 2012 to remind him about completion of necessary documentation enabling us to process the surrender claim accordingly. But he did not furnish the missing requirements, which resulted in delay of his surrender claim settlement. However, we settled the claim immediately after completion of necessary



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documentation from policyholder's side, copies of the same were provided to the investigation team as well.

In the light of the above we would like to submit that, as long as the completed discharge voucher, Valid Copy of CNIC and Original Policy Bond is not received back, we would not be able to verify that, the surrender request was forwarded by the real policyholder. Therefore, in case of surrendering a life insurance policy the validity of application is conditional on completion of the above referred documents, because in many cases it has been witnessed that, the agents themselves submit application to surrender policies of the policyholders which they have sold to buy them another policy with another insurance company only to earn higher commission for first year. For ease of the policyholders the process of claim settlement has also been put on our official website both in Urdu and English medium, on the link http://www.eastwestlifeco.com/claim_procedure.htm. Further, as per our understanding, the minimal requirements are needed to be collected before processing of the claim as per INSURANCE ORDINANCE, 2000 and DIRECTIVE ON THE ANTI-MONEY LAUNDERING INCLUDING CUSTOMER DUE DILIGENCE KNOW YOUR CUSTOMER (CDD KYC) POLICIES AND DESIGNATION OF COMPLIANCE OFFICERS IN THE INSURANCE COMPANIES. However, the period of delay will be counted after completion of minimal required documentation by the policyholder. Therefore, we understand that, in these cases the delay if any, was not from our side but from policyholder's side.

In the light of the above submission we are of the firm opinion that, the delay occurred in processing of the claims is due to late or non submission of the required necessary documents/information from the policyholders, which we understand is not breach of Section 90(2) of the Insurance Ordinance 2000. Further, there is no specific procedure defined for settlement of any kind of claim in the Insurance ordinance, 2000. Hence, there is no violation of any act or rules by the company in settlement of above mentioned cases. Therefore, it is requested to your honor, that the Show Cause Notice under reply may kindly be withdrawn and any action in consequence may be dropped. In case your honor still feels to have further explanation/clarification with regards to our reply to the subject Show Cause Notice, the management request for a personal hearing before the Commission...."

10. The Commission, vide its notice no. ID/Enf/EWLA/2017/9064 dated March 31, 2017, scheduled the hearing for April 19, 2017 at the Head Office of the Commission.

11. The hearing was attended by Mr. Imran Ali Dodani, Chief Operating Officer and Mr. Ajaz Hussain, Head of Actuarial and Individual Operations, for and on behalf of the Respondents, through the video link from SECP's Karachi Office.

12. During the hearing, the Respondents reiterated the submission made vide letter dated March 25, 2017. The Respondents stated that delay to process



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surrender value payments cannot be attributed to them, as the complainants themselves failed to meet the requirements timely. The Respondents explained that before surrendering the policy, the Company writes letter to the policyholder requesting him not to cancel the policy and if the policyholder still insists on surrendering the policy, then policy is surrendered upon provision of necessary documents. The Respondents claimed that the Company sent reminders to the complainants/ policyholders with respect to the deficient information.

13. The Respondents were required to pay to the policyholders amounts equal to the surrender value within one month of receiving the policy surrender requests from the policyholders in compliance with Section 90(2) of the Ordinance. The Respondents failed to comply with said provision of the Ordinance. In fact, the payments were made after lapse of a number of years and in some instances payment were made after start of investigation against the Company. The payments were denied on flimsy ground even though the Company makes payment through cross-cheque to the policyholders. By merely sending one or two reminders to the policyholders, the Company cannot absolve its responsibilities as stated in the Ordinance.

14. It would be pertinent to mention here that the Company is habitual to make delayed payments to its policyholders i.e. surrender value or maturity value etc. The Company was directed vide order dated December 17, 2015 to resolve the complaints within ten (10) days and the matter was referred for an onsite inspection to validate the facts, review the claim settlement procedures and evaluate Grievance Management System. In another case, the Commission penalized the Company, vide order dated May 17, 2016 on receipt of similar complaints against the Company. The said complainants were denied their rights under one pretext or the other. The complaints are usually resolved after intervention of the Commission. The Company has not demonstrated any improvement rather policyholders are still suffering to recover their entitled/rightful amounts.

15. 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 Regulation, the Ordinance and other legal references, I am of the view that the default of Section 90(2) is established. Therefore, the fine as provided under Section 156 of the Ordinance can be imposed onto the Respondents.

16. 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



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case of a continuing default, with an additional fine which may extend to ten thousand rupees for every day during which the default continues."

17. In exercise of the power conferred on me under Section 156 of the Ordinance read with S.R.O. 221(I)/2016 dated February 12, 2016, I, take a lenient view and do not impose fine on Board of Directors of the Company. However, I impose a fine of Rs. 100,000/- on the Company under the said provision of the Ordinance, due to delayed payments to the policyholders, as mentioned hereinabove. Furthermore, the Respondents are hereby warned and directed to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

18. 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.

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 Chief Executive Officer of the Company) in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

Fida Hussain Samoo
Commissioner (Insurance)

