



INSURANCE DIVISION
Islamabad

Before Fida Hussain Samoo, Commissioner (Insurance)

In the matter of

Chubb Insurance Pakistan Limited

Show Cause Notice No and SCN NO. ID/Enf/Chubb/2017/8800 Dated March
Issue Date: 10, 2017

Date of Hearing: April 13, 2017

Attended By: Mr. Humzah Chaudhri
CFO
M/s. Chubb Insurance Pakistan Limited

Mr. Kamal Ahmed
Director
M/s. Chubb Insurance Pakistan Limited

Date of Order: May 15, 2017

ORDER

Under Rule 13 of the Securities and Exchange Commission (Insurance) Rules, 2002
read with Section 11(1)(c), Section 36 and Section 156 of the Insurance Ordinance,
2000

.....

This Order shall dispose of the proceedings initiated against M/s. Chubb Insurance Pakistan Limited (the "Company") and the Chief Executive and Directors for alleged contravention of Rule 13 of the Securities and Exchange Commission (Insurance) Rules, 2002 (the "Rules") read with Section 11(1)(c), Section 36 of the Insurance Ordinance, 2000 (the "Ordinance"). The Company, its Chief Executive and Directors shall be collectively referred to as the "Respondents" hereinafter.

2. It is pertinent to mention here that an insurer registered under the Ordinance is required to have at all times admissible assets in excess of its liabilities in Pakistan of an amount greater than or equal to the minimum solvency requirement.



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Insurance Division

Continuation Sheet 1

27

3. The minimum solvency requirement (i.e. excess of admissible assets over liabilities) for the Company is Rs. 150 million.

4. As per the 'Statement of Assets for Solvency Purposes' for the quarter ended September 30, 2016, admissible assets of the Company were in excess of the Company's liabilities by an amount of Rs. 26.937 million. Hence, the Company's solvency margin vis-à-vis the minimum solvency requirements was short by an amount of Rs. 123.063 million as calculated below:

METHOD	HEAD/ACCOUNT	Sept. 2016
Method A	Section 36 (3a)	
	As Prescribed By The Commission	150,000,000
Method B	Section 36 (3b)	
	Gross Earned Premium	353,598,700
	Less - Reinsurance Expense (Upto 50%)	176,799,350
	Earned Premium	176,799,350
	20% of Earned Premium	35,359,870
Method C	Section 36 (3c)	
	Provision For Unearned Premium (UC)	182,644,712
	Provision For Outstanding Claims (OC)	363,718,866
	Sub-total Provisions	546,363,578
	Less Prepaid Reinsurance Premium (Upto 50%)	73,498,781
	Less Reinsurance Recoveries Against OC (Upto 50%)	181,859,433
	Less - Sub-total	255,358,214
	Total Unearned Premium & Outstanding Claims (T UC&OC)	291,005,364
	20% of Total UC&OC	58,201,073
Solvency Calculations		
	Admissible Assets As Per Auditor's Regulatory Return	713,745,976
	Liabilities As Per Annual Accounts	686,808,844
	Excess Assets Over Liabilities	26,937,132
Solvency Requirement		
	Solvency Requirement (Greatest of Method A, B & C)	150,000,000
	Excess Solvency Margin Over Minimum Requirement	(123,062,868)
	Solvency Ratio	0.18
	Solvent (Yes/No)	No

5. It appeared that the Company had failed to meet the mandatory requirements relating to the minimum solvency as given under Rule 13 of the Rules read with Section 11(1)(c) and Section 36 of the Ordinance.

6. Therefore, a Show Cause Notice (SCN) bearing No. ID/Enf/Chubb/2017/8800 dated March 10, 2017 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.

7. Subsequently, the Respondents vide their letter dated March 14, 2017, submitted their comments as under:

"....You are aware that in response to our submission, your esteemed office has issued a declaration granting admissibility of related party assets for solvency

[Handwritten signature]



calculation. With this inclusion the factual position is that the Company is meeting the minimum solvency requirement as at September 30, 2016.

We wish to clarify that as a matter of internal procedure, in order to provide a comprehensive analysis to the Board, we present 2 solvency statements to them, one which illustrates the position of solvency whilst including Related Party Assets as admissible and another one which excludes these as admissible. On receipt of your subject notice, upon review we found that while uploading the solvency statement on SECP's on-line filing website we inadvertently uploaded the statement meant for our internal review i.e. which showed the solvency position excluding related party assets as admissible, thus showing an incorrect position in respect of our solvency.

We regret this electronic filing error on our part, and shall be uploading the correct solvency statement on the SECP online filing website as soon as your good offices authorise a resubmission and enable the relevant link. Meantime attached is the correct Solvency statement, wherein you will note that the Company meets the minimum solvency requirements as at 30th September 2016...."

8. Thereafter, the Commission vide letter no. ID/Enf/Chubb/2017/9089 dated April 3, 2017, scheduled a hearing for April 13, 2017 at 03:00 p.m. at the Head Office of the Commission in Islamabad to provide an opportunity of being heard to the Respondents. The hearing was attended by Chief Financial Officer and Director of the Company namely Mr. Humzah Chaudhri and Mr. Kamal Ahmed respectively, for and behalf of all Respondents. The Respondents appeared for the hearing via video link from the Commission's Karachi Office.

9. During the hearing of April 13, 2017, the Respondents reiterated the response submitted vide letter dated March 14, 2017. The Respondents maintained that for internal reporting purpose, the Company prepares solvency position with and without related party assets. However, the Company inadvertently uploaded the file excluding related party assets. Due to this mistake, the Company was reported as insolvent and hence Show Cause Notice was issued for alleged violation of Section 36 of the Ordinance. The Respondents stated that they would submit the correct statement online.

10. The Respondents were required to ensure compliance with the mandatory provisions of Rule 13 of the Rules, Section 11(1)(c) and Section 36 of the Ordinance. The Company admitted that it filed wrong Statement of Assets for Solvency Purposes by treating the related party assets as inadmissible. However, the Commission had already granted the Company to include related party assets as admissible. During the course of regulatory proceedings, the Company produced the revised Statement of Assets for Solvency Purposes, whereby net admissible assets were in excess of the minimum solvency requirement by Rs. 214.788 million. Therefore, the Company was solvent as on September 30, 2016.

11. 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



29

the Ordinance, the Rules made thereunder and/or other legal references, I am of the view that the default of Rule 13 of the Rules, Section 11(1)(c) and Section 36 of the Ordinance is not established, as the contents of the SCN have adequately been addressed. However, the Company is hereby warned to be careful in future while filing/submitted returns online.

12. 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)

