



SECP

INSURANCE DIVISION
Islamabad

Before Fida Hussain Samoo, Commissioner (Insurance)

In the matter of

Risk Management Services (Pvt.) Limited

Show Cause Notice No. and Date : ID/Enf/Broker-RMS/2017/10276 Dated July 14, 2017

Date of Hearing: August 16, 2017

Attended By: 1. Mr. Nabil J. Usman
Director
Risk Management Services (Pvt.) Limited

2. Mr. Abdur Rahim
Director Operations
Risk Management Services (Pvt.) Limited

Date of Order: September 5, 2017

ORDER

Under Section 109 of the Insurance Ordinance, 2000 and Rule 50 of the Insurance Rules, 2017 read with Section 102(6) and Section 158 of the Insurance Ordinance, 2000

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This Order shall dispose of the proceedings initiated against M/s. Risk Management Services (Pvt.) Limited (the "Company"), for alleged contravention of Section 109 of the Insurance Ordinance, 2000 (the "Ordinance") and Rule 50 of the Insurance Rules, 2017¹ (the "Rules"). The Company, its Directors including the Chief Executive Officer shall be referred to as the "Respondents" hereinafter.

2. The Company is registered with the Securities and Exchange Commission of Pakistan (the "the Commission") under the Ordinance to carry on the business of direct insurance broking in Pakistan.

3. All licensed insurance brokers are required to submit the requisite report / accounts / financial statements to the Commission within four months of the close

¹ Rule 27 of the Securities and Exchange Commission (Insurance) Rules, 2002



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of the financial year in terms of Section 109 of the Ordinance and Rule 50 of the Rules. In this regard, the provisions of Section 109 of the Ordinance state that:

“Insurance brokers to report annually to Commission. - A licensed insurance broker shall make an annual report to the Commission. Such report shall include audited accounts of the insurance broking business and such other information and statements as may be prescribed, each in such format as may be prescribed.”

4. The provisions of Rule 50 of the Rules state that:

“Reporting by insurance brokers.- (1) Each year an insurance broker shall be required to provide to the Commission, as at the preceding 31st December, or in respect of the year then ended -

(a) a balance sheet of the company;

(b) a profit and loss account of the company;

(c) a certificate from the auditors of the insurance broker certifying the amount of net equity maintained by the insurance broker as on the reporting date;

(d) a statement of the insurance premium written through the broker, distinguishing between premium in respect of which the broker had an agency agreement with the insurer, subdivided by classes of insurance business, and premium in respect of which the broker did not have an agency agreement with the insurer; subdivided by classes of insurance business; and

(e) a statement of the commission or brokerage, by whatever name called, receivable by the broker, subdivided by classes of insurance business, distinguishing between commission earned on premium in respect of which the broker had an agency agreement with the insurer, and commission earned on premium in respect of which the broker did not have an agency agreement with the insurer.

(2) The Commission may, on the application of a broker, approve a date other than the 31st December, for the date as at which the statements shall be required to be made up for the purposes of sub-rule (1)

(3) The statements referred to in this rule shall be provided to the Commission not later than four months after the date to which they are made up.”

5. It was observed that the Company changed its financial year from 31st December to 30th June. In this regard, the Company was required to obtain approval of the Commission to change the financial year to a date other than 31st December in terms of Rule 50 of the Rules.

6. In this regard a warning letter was issued to the Company dated December 7, 2016 whereby the Company was directed to change its accounting year from 30th June to 31st December, prepare the accounts along with other prescribed statements for the year ending December 31, 2016 and submit the same to the Commission

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within the prescribed time i.e. April 30, 2017 to ensure compliance with the statutory provisions.

7. The Company failed to submit the Financial Statements for the year ended December 31, 2016. The Company was advised/reminded through letter dated June 2, 2017 to submit "Audited Financial Statements" for year ended December 31, 2016 without any further delay. The Company vide letter dated June 7, 2017 responded as under:

"I would like to inform you date our audit for the year ended December 31,2016 is under process. We will submit the Audited Accounts as soon as possible once it is approved and signed by the Auditor. "

8. The Company failed to file its annual audited accounts and financial statements within the stipulated time i.e. within four months from the end of accounting periods in violation of Rule 50 of the Rules and Section 109 of the Ordinance.

9. Hence, a Show Cause Notice bearing number ID/Enf/Broker-RMS/2017/10276 Dated July 14, 2017 was issued to the Respondents, thereby calling upon them to show cause as to why punitive action may not be taken against them in terms of Sections 102(6) and 158 of the Ordinance for contravening the provisions as aforesaid.

10. The Company vide letter dated July 20, 2017 requested to provide opportunity of hearing to present stance of the Respondents.

11. Thereafter, the Commission, vide hearing notice no. ID/Enf/Broker-RMS/2017/10354 dated July 24, 2017, scheduled hearing for August 9, 2017 at 03:00 p.m. However, the Company vide letter dated August 8, 2017 requested to reschedule the aforesaid hearing to another date. Request of the Company was acceded to and the hearing was rescheduled on August 16, 2017 at 12:00 pm.

12. Meanwhile, the Company vide letter dated August 11, 2017 (received on August 15, 2017) provided the following;

- a. A balance sheet of the Company;
- b. A profit and loss account of the Company;
- c. A certificate from auditor certifying net equity;
- d. Statement of insurance premium written;
- e. Statement of commission or brokerage.

13. The hearing was held at Head Office of the Commission in Islamabad on the scheduled date i.e. August 16, 2017 and was attended by Mr. Nabil J. Usman and Mr. Abdur Rahim, Directors of the Company, as Authorized Representatives for and behalf of the Respondents.



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14. Brief proceeding of hearing of August 16, 2017 are summarized as under:
- i. The Authorized Representatives stated that the Company has regularly filed returns with the Commission in the past.
 - ii. They maintained that the Company received direction to change accounting year from 30th June to 31st December. The Authorized Representatives regretted the delay in submission of accounts due to unavoidable circumstances.
 - iii. The Authorized Representatives further stated that permission to change the year-end for tax purposes was also sought from the Federal Board of Revenue (FBR), therefore audited accounts could not be prepared within the prescribed time.
 - iv. The Authorized Representatives requested that since the audited accounts have been submitted to the Commission, a lenient view in the matter may be taken.
 - v. The Authorized Representatives were clarified that Financial Statements for the year ended December 31, 2016 submitted vide letter dated August 11, 2017 did not contain audit report, notes to the financial statements and Directors' Report under Section 236 of the Companies Ordinance, 1984.
 - vi. The Authorized Representatives assured to provide deficient information and submitted written response to the SCN for consideration of the Commission.
15. The written response dated August 11, 2017 submitted by the Authorized Representatives during the hearing is reproduced hereunder:

"Reference to your show cause notice number ID/Enf/Broker-RMS/2017/10276 dated July 14, 2017.

RMS accounting year was till last year June 30th. The following information under rule 50 was already provided to SECP:

- a) *Balance sheet of the company*
- b) *Profit & loss account of the company*
- c) *Statement of the insurance premium written through the broker*
- d) *Statement of the insurance commission/brokerage*

With reference to your letter dated December 07, 2016 the director instructed us to change the financial year form June 30th to December 31st. On these instructions we have submitted application seeking necessary permission to allow us to change financial year and conduct interim audit for six months.

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The permission to change the financial year from June to December was received by us on April 25th 2017. The audit process commenced after this approval was obtained. Hence the delay for complying within 04 months was due to extra ordinary circumstances and beyond our reasonable control. The audit is now complete and we are pleased to submit the following documents:

- a) Balance sheet of the company
- b) Profit & loss account of the company
- c) Certificate from the auditors of Net Equity
- d) Statement of the insurance premium written through the broker
- e) Statement of the insurance commission/brokerage

In view of the above circumstances we would request you to kindly withdraw the show cause notice and as per previous practice we commit to strictly follow the commission requirement under Insurance Rules.
...."

16. In terms of Rule 50 (3) of the Rules, the Respondents were required to file Company's annual audited accounts and financial statements within the stipulated time i.e. within four months from the end of accounting periods. The annual audited accounts and financial statements should have been submitted by April 30, 2017, which the Respondents failed to comply with. The Respondents have admitted the default and presented the reason as given above. The annual report of the Company for the year ended December 31, 2016 was filed late i.e. on August 11, 2016, in contravention of Section 109 of the Ordinance and Rule 50(1) & (3) of the Rules. The deficient information in annual accounts of the Company as pointed out during the hearing was received on August 21, 2017.

17. However, it is pertinent to mention that the Company along with its application for renewal of license dated November 23, 2016 provided a declaration / undertaking to Commission which read as follows:

"The Company undertake to comply with the Ordinance and the Rules made there under concerning the conduct of an Insurance Broker"

...

18. Nevertheless, the Company violated the provisions of the Ordinance and did not submit the accounts within four months of the close of the financial year i.e. April 30, 2017 and hence misstated.

19. In view of the above, the Respondents have contravened the provisions of Section 109 of the Ordinance and Rules 50(1) & (3) of the Rules, on account of which the Commission may cancel the insurance broking license or refuse to renew the broking license under Sections 102(6) of the Ordinance.

20. Section 102 (6) of the Ordinance states that:



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“(6) The Commission may cancel or refuse to issue or renew a broking license, where the Commission believes on reasonable grounds that the broker has contravened a provision of the Ordinance, including without limitation that the broker has failed to maintain prescribed minimum levels of paid-up capital, statutory deposit or professional indemnity insurance.”

21. Furthermore, the Respondents can be penalized under Section 158 of the Ordinance:

“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.”

22. I have carefully examined and given due consideration to the submissions made by the Respondents, and have also referred to the provisions of the Ordinance and other legal references (i.e. the Rules), I am of the view that the element of default of Section 109 of the Ordinance and Rule 50(1) & (3) of the Rules is there, for which the broking license may be cancelled in terms of Sections 102(6) of the Ordinance. However, the Respondents have assured to comply with the rules and regulations in future. Therefore, I take a lenient view and impose a fine of Rs. 50,000/- under Section 158 of the Ordinance on to the Company.

23. 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.

24. Furthermore, the Company is strictly warned to comply with all the Rules and Regulations in future.

25. 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 or directors of the Company) in accordance with the law on matters including those subsequently investigated or otherwise brought to the knowledge of the Commission.

Fida Hussain Samoo
Commissioner (Insurance)

