



SECP

INSURANCE DIVISION
IslamabadBefore Shaukat Hussain, Commissioner (Insurance)*In the matter of*M/s. Premier Insurance Limited

Show Cause Notice No. and Date : ID/Enf/Premier/2019/434 Dated February 01, 2019

Date of Hearing: April 24, 2019

Attended By: Mr. Rashid Sadiq
Authorized Representative

Date of Order: May 07, 2019

ORDERUnder Section 12(1)(e) read with Section 156 of the Insurance Ordinance, 2000
.....

This Order shall dispose of the proceedings initiated against M/s. Premier Insurance Limited (the "Company"), its Chief Executive and Directors for alleged contravention of Section 12(1)(e) read with Section 156 of the Insurance Ordinance, 2000 (the "Ordinance"). The Company and its Directors shall be referred to as the "Respondents" hereinafter.

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

3. The Commission initiated inspection of the Company vide order dated January 30, 2018 under Section 59A of the Ordinance, which was concluded by the inspection team on October 26, 2018 by submitting the final inspection report. The inspection team observed the following violations of the provisions of the Ordinance:

- i. During the year 2016, employees of the Company were found involved in the embezzlement of the funds amounting to Rs. 22.014 million by routing the payments to agents of the Company. The following accounts were used for this purpose:
 - a) Commission Payable (Rs. 7.3 million);
 - b) Commission expenses (Rs. 9.5 million); and
 - c) Premium due but unpaid (Rs. 5.2 million).



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- ii. The embezzlement was carried out by two officers of the Company namely, Mr. Iftikhar Gaddar (CFO & CS) and Mr. Ghulam Sabir Akbar (VP Finance). They also allegedly committed embezzlement of Rs. 1.5 million from the petty cash account. The aforementioned two officers were custodian of the Company's finances and accounting records. As per the fund disbursement SOPs, they had been given cheque signing authority up to Rs. 500,000/-. These persons misused their positions to violate the SOPs in place and took the money by en-cashing numerous cheques, falsifying the Company's documents and recording illegal transactions in the Company's books of accounts.
- iii. The external auditor's observation regarding 'Embezzlement of funds and Unidentified payment from the petty cash' is reproduced below:

“3.1 Embezzlement of funds

We were informed by the management that during the year, employees of the Company allegedly embezzled a sum of Rs. 22.014 million by routing payments to the agents of the Company and specifically used following account heads for this purpose;

	Rupees in million
Commission payable	7.3
Commission expense	9.5
Premium due but unpaid	5.2

The quantum and breakup mentioned above has been compiled from the report of internal auditor hired by the Board and is believed as being factual and complete and management maintains that this embezzlement incident and its above mentioned impact pertain to the current year only.

In our view, this embezzlement of funds was precipitated due to significant deficiencies in internal controls of the Company e.g. improper segregation of duties whereby the preparing, recording, approval, execution and payment of a transaction rested with one individual.

We recommend the management to reassess its whole internal control environment and after appropriate risk assessment, design and implement effective internal controls in order to avoid any such instances in future.

3.2 Unidentified payment from petty cash

As per approved policy, petty cash limit is Rs.100,000, however, we noted a petty cash payment of Rs. 1.499 million for commission for which no detail or documentary support was available with the management. We recommend the management to strictly follow the petty cash limit and all payments should be appropriately approved and annexed with the required supporting documents and details.”



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iv. The Board of Directors of the Company hired M/s. BDO Ibrahim & Co. as internal auditor to verify the figures as reported by the external auditor in its cover letter for the year 2016. The internal auditor worked upon the evidence gathered in due course, mainly investigating the payment transactions. Mr. Sabir was apprehended by the Police upon his return from being absconder and later on, Mr. Iftikhar was also arrested.

4. In addition, the external auditor pointed out improper segregation of duties as the main reason of the fraudulent transactions whereby the functions of preparing, recording, approval, execution and payment transactions rested with one individual. This improper segregation of duties gave rise to the extraordinary concentration of authority to a single person and led to embezzlement of Rs. 22.014 million from the Company. The aforesaid circumstances *prima facie* showed that the Company did not have proper internal control and risk assessment mechanisms; and highlighted serious concerns about performance of the Board of Directors, senior management and internal audit function and others responsible for running the affairs and maintaining internal control system of the Company. This amounted to violation of Section 12(1)(e) of the Ordinance, which requires maintenance of an adequate systems of control of business and records.

5. In view of the above, it appeared that the Company failed to comply with the provisions of Section 12(1)(e) of the Ordinance, for which the Respondents are liable to be penalized under Section 156 of the Ordinance.

6. Section 12(1)(e) of the Ordinance states that:

“(1) For the purposes of this Ordinance, the following shall, without limitation, be recognised as criteria for sound and prudent management of an insurer or applicant for registration as a person authorised to carry on insurance business:...

(e) the insurer or applicant maintains adequate systems of control of its business and records...”

7. Accordingly, a Show Cause Notice (SCN) No. ID/Enf/Premier/2019/434 dated February 01, 2019 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.

8. Thereafter, the Respondents vide letter dated March 04, 2019 submitted the reply in respect of the aforesaid SCN through its Authorized Representative, which is summarized below:

“

2. ... it has been stated that the inspection by the SECP observed that two officers embezzled a sum of PKR 22.014 million during 2016. This issue was



investigated as mentioned hereinabove and both officers were arrested. The same was disclosed in the audited financials of the Company which were also filed with SECP. The Company however, disagrees that there was improper segregation of duties.

3. It has been alleged in paragraph 4 of the Notice that the improper segregation of duties give rise to the extraordinary concentration of authority to a single person and lead to embezzlement of PKR 22.014 million from the Company. The conclusion of the SECP that the Company did not have proper internal control and risk management mechanism is not agreed as fraudulent activities are not an unheard phenomenon. The most important factor to consider here is whether the individuals were blamed for this or the institutions and its directors. Institutions and its directors can be blamed only where they had any established irrefutable direct involvement by purpose and were direct beneficiaries. The Company also do not agree with the concern of the SECP regarding the Board of Directors, senior management and internal audit function and other responsible for running the affairs and maintaining internal control system of the Company. The Company has adequate system of internal control and the collusion of some persons were resulted into fraud and the Board of Directors had timely acted against the responsible officers as mentioned hereinabove. The Company has, however, further strengthened the internal control system by increasing the frequency of bank reconciliation, its review by more senior and experienced staff, reduction in number of bank accounts and authorized signatories.
4. ... that the Company has prima facie failed to comply with Sections 12(1)(f) of the Ordinance and is, therefore, liable to be penalized in accordance with Section 156 of the Ordinance. In light of the submissions above we submit that no prima facie case for violation of the said provisions is made out and therefore, any penalty sought to be imposed on the Company would be entirely unjustified..."

9. Subsequently, the Commission vide letter dated April 16, 2019 scheduled the hearing on April 23, 2019 at the Head Office of the Commission in Islamabad, however the said hearing was rescheduled to April 25, 2019 and the Company was informed regarding the same vide the Commission's letter dated April 19, 2019. The Authorized Representative of the Company while attending the other hearings in respect of different show cause notices against the Company requested to hold the hearing on April 24, 2019 and the said request was acceded to.

10. The hearing of April 24, 2019 was attended by the Authorized Representative of the Respondents namely, Mr. Rashid Sadiq in person, for and on behalf of the Respondents, at the Commission's Head Office.

11. During the hearing, the Authorized Representative reiterated his comments submitted vide letter dated March 04, 2019 and maintained that the issue pertaining to embezzlement of funds amounting to Rs. 22.014 million by the two employees of the Company has been resolved and the culprits were arrested and amount recovered from them. He emphasized that the said wrongdoings were



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done by the aforesaid employees of the Company and the Company and/or its Board of Directors were in no way the beneficiaries of funds embezzled by the said employees, therefore, they should not be held responsible for the activities performed by others. The Authorized Representative of the Company also stated that the Company has undertaken various steps to uplift the internal control mechanism in order to rule out any such uncalled for event in future and thus requested the Commission to take a lenient view in the matter.

12. In a nutshell, the Company was required to maintain adequate systems of control of its business and records, in order to comply with Section 12(1)(e) of the Ordinance; however, the Company failed to maintain such adequate systems of internal controls, as specified in the law. Further, it is pertinent to mention here that concentration of powers to a single individual escalates the probability of misuse of such powers by the said individual, therefore it is the responsibility of the Board of Directors of the Company to devise such policies that ensure appropriate delegation of powers to the officials of the Company, thereby mitigating the risk of such events to take place in future.

13. 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 there has been an established default of Section 12(1)(e) of the Ordinance, for which the Respondents may be penalized in terms of Section 156 of the Ordinance. However, the Respondents through their Authorized Representative have assured that the officers responsible for fraud have already been removed from the service and dealt with in the court of law and the embezzled money amounting to Rs. 22.014 million has been recovered. Further, it has also been assured that the Company has strengthened its systems, policies and procedures for effective internal control.

14. Section 156 of the Ordinance provides 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."

15. In exercise of the power conferred on me, I instead of imposing any penalty under Section 156 of the Ordinance, take a lenient view, and thus condone the Respondents for the reasons and circumstances as mentioned in the foregoing paras hereof. However, the Respondents are hereby strictly warned and directed to ensure effective implementation regarding maintenance of adequate systems of

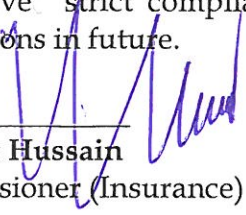


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control of its business and records in order to safeguard its own as well as policyholders' interests in future. Moreover, the Respondents are hereby directed to observe strict compliance with the provisions of the Ordinance, Rules and Regulations in future.


Shaukat Hussain
Commissioner (Insurance)

