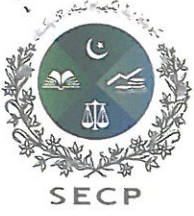


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SECP
INSURANCE DIVISION
Islamabad

Before Hasnat Ahmad, Director (Enforcement)

In the matter of

M/s. Premier Insurance Limited

Show Cause Notice No. and Date : ID/Enf/Premier/2019/385 Dated February 01, 2019

Date of Hearing: April 23, 2019

Attended By: 1. Mr. Rashid Sadiq
Authorized Representative
2. Mr. Zeeshan Sattar
Authorized Representative & Company Secretary
Premier Insurance Limited

Date of Order: May 10, 2019

ORDER

Under Section 45(1) and Section 45(3) 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 45(1) and Section 45(3) 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 non-life / 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:

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- i. The internal auditor, M/s. BDO Ebrahim & Co., in its internal audit report for the quarter ended September 30, 2016 as well as the external auditor, M/s. Deloitte Yousuf Adil, Chartered Accountants, in its cover letter for the year 2016 reported reversal of certain policies by the Company due to non-receipt of premium in marine class of insurance business. The Company reversed ten (10) policies issued in the year 2016 to M/s. Al Hamd Petrochemicals, M/s. Al Hamd Bulk Storage, M/s. Karachi Bulk Storage, M/s. Jamia Lubricants and M/s. Al Rahim Trading Co. (Pvt.) Limited with premium amounting to Rs. 44 million. Similarly, six (06) policies issued in the year 2015 to M/s. Al Hamd Petrochemicals and M/s. National Foods worth premium of Rs. 101.7 million were reversed. It was noted that these policies were neither ceded to any reinsurer nor any commission was recorded against them.
- ii. Due to cancellation of the policies as mentioned above, the Company *prima facie* failed to demonstrate that it had conducted proper risk assessment and credit worthiness of the customers before underwriting these policies.
- iii. In addition to the above, the Company made provision of Rs. 167.7 million and Rs. 19.9 million on account of premium due but unpaid and amounts due from other insurers/ reinsurers, respectively. However, the Company failed to provide party-wise breakup of the provisions made.
- iv. The Company wrote off Rs. 177.9 million against amounts due from other insurers/ reinsurers. However, the Company did not provide details of respective insurers/ reinsurers to the inspection team.
- v. An amount of Rs. 160 million (38 percent of the net premium due but unpaid) was receivable from related parties as per annual accounts for the year ended December 31, 2017. The Company, however, failed to make serious efforts to recover the outstanding amount from the related parties.
- vi. An aggregate amount of Rs. 538.25 million was receivable on account of premium due but unpaid and Rs. 264.5 million on account of amounts due from other insurers/ reinsurers as per audited accounts of the Company for the year ended December 31, 2017. The Company, however, failed to provide reasons for carrying such receivables on its books and detail of the efforts to recover the long outstanding amounts. Party wise ageing of premium due but unpaid register for 2017 is given below:

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Insurance Division

Continuation Sheet 2

| Client Name | | | | | | | Grand Total |
|---------------------------------------|--------------|-----------|------------|------------|--------------|------------|-------------|
| | 2012 & prior | 2013 | 2014 | 2015 | 2016 | 2017 | |
| CRESCENT BAHUMAN LIMITED | 48,452,374 | 302,519 | 1,326,721 | 13,736,840 | 13,479,945 | 13,301,246 | 90,599,645 |
| ACRO SPINNING AND WEAVING MILLS LTD | 23,581,902 | 6,584,279 | 12,092,288 | 344,924 | | | 42,603,393 |
| CRESCENT FIBRES LTD. | (1,351,908) | | 655,442 | 1,983,713 | 13,107,072 | 7,008,199 | 21,402,518 |
| SURAJ COTTON MILLS LIMITED | (1,755,348) | | | | 1,136,236 | 19,777,005 | 19,157,893 |
| ACRO TEXTILE MILLS LTD. | 13,384,683 | 2,122,893 | 3,548,290 | 55,127 | | | 19,110,993 |
| DEWAN CEMENT LIMITED. | (487,597) | | | | | 17,862,232 | 17,374,635 |
| MOBILE SALES & DISTRIBUTION PVT LTD | (106,376) | | 3,395 | | 15,611,099 | 1,852,837 | 17,360,955 |
| ASHRAF SUGAR MILLS LIMITED | 2,881,173 | 1,988,217 | 2,771,267 | 4,411,415 | 3,392,194 | 106,769 | 15,551,035 |
| THE CRESCENT TEXTILE MILLS LIMITED. | (167,967) | | | | 104,878 | 12,860,627 | 12,797,538 |
| MULLER & PHIPPS PAKISTAN PVT LTD | (7,688,965) | | 2,555 | | 19,732,923 | - | 12,046,513 |
| HUSEIN SUGAR MILLS LIMITED | - | | 1,028,146 | 1,468,110 | 4,374,390 | 3,955,379 | 10,826,025 |
| SARGOOHA SPINNING MILLS LIMITED. | 4,013,261 | 186,199 | 2,504,405 | 2,150,613 | | | 8,894,478 |
| SADAQAT LIMITED | - | | | 122,744 | 5,959,368 | 2,692,567 | 8,774,679 |
| THE BANK OF PUNJAB | (315,345) | | | (592,873) | 1,999,334 | 7,641,876 | 8,732,992 |
| FATIMA ENTERPRISES LIMITED. | 8,389,370 | 274,060 | 25,808 | 6,006 | | | 8,695,244 |
| AIR INDUS (PVT) LTD | - | | 31,564 | 52,057,170 | (43,594,118) | | 8,494,616 |
| CRESCENT COTTON MILLS LIMITED | (35,591) | | 2,035 | | 1,207,740 | 6,009,476 | 7,183,660 |
| FATIMA ENTERPRISES LTD (TEXTILE UNIT) | 6,416,109 | | | | | | 6,416,109 |
| VIRTUAL UNIVERSITY OF PAKISTAN | - | | | | 803,400 | 5,302,816 | 6,106,216 |
| DATANET | - | | | | 667,333 | 5,411,147 | 6,078,480 |
| SHAKARGANJ LIMITED | | | | 195,374 | 59,261 | 5,685,604 | 5,940,239 |
| IMPERIALTEXTILE MILLS LTD. | 1,683,221 | | 533,291 | 2,074,300 | 1,632,166 | 226 | 5,923,204 |
| DEWAN SUGAR MILLS LTD | - | | | 2,336,917 | 269,359 | 3,074,288 | 5,680,564 |
| MOL PAKISTAN OIL & GAS CD.B.V. | - | 532,227 | 3,522,891 | 1,331,599 | | | 5,386,716 |
| GALAXY TEXTILE MILLS LIMITED | - | | 18,369 | 5,357,798 | | | 5,376,167 |
| ZHDNGKING TELECOM PAK (PVT) LTD. | 3,249 | 3,381,389 | 1,831,495 | | | | 5,216,133 |
| AIR LINK COMMUNICATION | - | | | | 5,096,460 | - | 5,096,460 |
| DEWAN TEXTILE MILLS LIMITED | (157,518) | | | | 3,921,135 | 856,124 | 4,619,741 |
| SHAHZAD TEXTILE MILLS LTD. | (17) | 5 | | | 12 | 4 | 4,529,829 |
| MCB BANK LIMITED (Formerly NIB BANK | - | | | | 6 | 4,360,476 | 4,360,482 |

- vii. The Company failed to provide party-wise breakup of provisions and written off amounts in violation of Section 45 of the Ordinance, which requires that every insurer will maintain proper books and records in respect of all insurance business transacted by it.
4. Therefore, the Company *prima facie* contravened the provisions of Section 45(1) & 45(3) of the Ordinance, for which the Respondents are liable to be penalized under Section 156 of the Ordinance.
5. Section 45(1) & 45(3) of the Ordinance state that:

"Books and records.- (1) Every insurer, in respect of all insurance business transacted by him, and in the case of an insurer incorporated in a jurisdiction outside Pakistan in respect of the insurance business transacted by the insurer in Pakistan, shall maintain proper books and records.



(3) For the purposes of this Ordinance, proper books and records shall include without limitation:

(a) a register or record of policies, in which shall be entered, in respect of every policy issued by the insurer, the name and address of the policy holder, the date when the policy was effected and a record of any transfer, assignment or nomination of which the insurer has notice;

(b) a register or record of claims, in which shall be entered every claim made together with the date of the claim, the name and address of the claimant and the date on which the claim was discharged, or, in the case of a claim which is rejected, the date of rejection and the grounds therefor; and

(c) such other books and records as may from time to time be prescribed."

6. Accordingly, a Show Cause Notice (SCN) No. ID/Enf/Premier/2019/385 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.

7. Thereafter, the Company vide letter dated March 04, 2019 submitted the reply in respect of the aforesaid SCN, which is summarized below:

"

- i. With regards to paragraph 3(i), it is submitted that this issue was scrutinized in the board meeting and specially inquired upon by the then Chairman. The response presented by the then CEO was that it was a mistake resulted from misunderstanding the client's intention during a verbal discussion. The remedial actions were taken at once and without delay despite consequential financial losses reported therefrom.
- ii. With regard to paragraph 3(ii), it is submitted that the Company does carry out necessary KYC and risk assessment of clients/underwriting and this reversal was not due to reason that we later found out that these clients are non-worthy of a credit or unfit for insurance related relationship. This was a one-off event and it is quite evident that audit report for that year was unqualified further assuring the fact that an error was corrected as it was discovered and reported with all financial impacts taken. It is also noteworthy that our company is not in a habit of reversing insurance policies so there should be no doubt on stated figures over the prior years and following to 2016. The Company maintains without any doubt that all receivables are representing genuine legally binding insurance transactions while collectability is subject to commercial norms of the industry.
- iii. With regards to paragraph 3(iii), it is submitted that the provisions have been made as per bad debt policy of the Company which is aligned to the practice of the insurance industry.

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Insurance Division

Continuation Sheet 4

- iv. With regards to paragraph 3(iv), it is respectfully submitted that during the Audit of 2015, it was prudently provided by the company that state of our accounts receivables needs more critical analysis and as a result, an amount of Rs. 288M was provided for doubtful debts. The said amount was lump sum in nature as a %age of aged receivables and historic trend was used as a basis. This resulted in a massive exercise for knocking out policy wise/client wise knock off. Out of the stated amount of Rs. 111M being direct business, was party wise allocated as the availability of relevant facts and documents was easy. The mentioned amount of Rs. 177.9M is still in the phase of party wise knock-off but the other lead businesses and its consequential effects on commissions, re-insurance, claims payables etc., with counterparties needs to be clearly relational. During 2017 and 2018, the management's drive to collect old dues resulted in collection of aged receivables, which were earlier thought to be doubtful. This includes filing of lawsuits against some clients. The success in this regard lead the company to re-think the degree of doubtfulness earlier estimated and this exercise was halted in hope that the scenario may come out in company's favor. The detail of insurers and re-insurers is attached hereto.
- v. With regards to paragraph 3(v), it is submitted that the company strictly practices an arm's length transaction methodology/treatment with all of its related parties and non-related parties alike. For the case mentioned in the SCN namely Crescent Bahuman, facts and figures show a clearly declining pattern in receivables from 140M to 90M in a couple of years. Just like any other business, our company extends the time for collection of dues if any client is going through a temporary financial turmoil provided the client's intention and ability to pay-off dues remains intact. We maintain that the Crescent Bahuman's case is handled like any other client in the given circumstances and serious efforts are being made for collection and it is hoped that the amounts will be duly recovered.
- vi. With regard to paragraph 3(vi), it is submitted that the Company regularly follows up with the clients for payment of outstanding dues. For the recovery of outstanding premium, we have approached the court and most mentionable among them are Acro Spinning and Weaving Mills Ltd., Acro Textile Mills Ltd., Sargodha Spinning Mills Ltd., Three Star Hosiery. In the case of Sargodha Spinning Mills Ltd., the company is able to recover its outstanding premium based on these measures.
- vii. With regards to paragraph 3(vii), it is respectfully submitted that the company is maintaining proper books of accounts as per the requirements of Section 45 of the Ordinance. As mentioned earlier, the provision of bad debts is based on the overall portfolio as per the normal insurance industry practice..."

8. The Commission vide letter dated April 08, 2019 scheduled the hearing on April 18, 2019; however, the Company vide its email dated April 15, 2018 requested to adjourn the hearing to April 23, 2019. The request of the Respondents was acceded to and the Commission vide letter dated April 16, 2019 bearing no.



ID/Enf/Premier/2019/469 re-scheduled the hearing on April 23, 2019 at the Head Office of the Commission in Islamabad.

9. The hearing of April 23, 2019 was attended by Authorized Representatives of the Respondents namely, Mr. Rashid Sadiq and Mr. Zeeshan Sattar (Company Secretary) at the Commission's Head Office.

10. During the hearing, the Authorized Representatives reiterated their comments submitted vide letter dated March 04, 2019 and apprised that the issues relating to reversal of policies issued to certain policyholders have been dealt with and renewal of policies has been discontinued as per the requirements prescribed under Insurance Rules, 2017 (the "Rules"). Moreover, they also apprised that the Company is fully complying with Rule 58 of the Rules in terms of underwriting new insurance business and no policy is issued until receipt of the premium amount. The Authorized Representatives submitted that in a drive to streamline the issues relating to reversal of policies due to non-payment of premium by certain policyholders, the Company has filed lawsuits against such policyholders.

11. With regards to issues pertaining to making provisions, the Authorized Representatives submitted that such provisions are made only against receivables, which is a normal industry practice. As regards the writing-off of Rs. 177.9 million by the Company, the Authorized Representatives informed that the said amount, which had been written off earlier has now been recovered. Moreover, the Authorized Representatives maintained that the Company maintains an arm's length approach with all of its related as well as non-related parties and there has been a decline in receivables from Rs. 140 million to Rs. 90 million due from M/s. Crescent Bahuman, a related party of the Company.

12. While discussing the matter related to high volume of outstanding receivables due from policyholders, the Authorized Representatives insisted that these receivables belonged to previously issued policies and all the possible measures for recovery of these due premiums have been made by the Company, which involves filing of lawsuits against some of the policyholders. They also explained that the current practice of the Company does not allow issuance of policy to a policyholder unless the premium against the said policy is received. The matter of non-provision of data to the inspection team was also taken up during the hearing, to which the Authorized Representatives asserted that the Company is maintaining proper books and records in compliance with the provisions of Section 45 of the Ordinance and the requisite data was shared with the inspection team as and when demanded.

13. As per the inspection report, the Company did not provide any documentary evidence in respect of the remedial actions taken to rectify the mistakes resulted from misunderstanding the client's intention to purchase a policy. It neither presented the minutes of the Board meeting nor any evidence of its discussion with the clients as referred to above to the inspection team. The Company also did not explain to the inspection team as to what intentions of the



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client were misunderstood by it and what they actually were. Further, it is also a matter of concern as to why the Company did not cede the aforesaid policies amounting to Rs. 145.7 million to any of its reinsurers and also did not record any commission against the said policies.

14. In addition, the Company in respect of recovery of outstanding premiums stated as "Our team is regularly follow-up with clients. Every month outstanding statement is also sent for recovery of outstanding dues. Evidence of letters can be provided upon request." However, upon asking for details about carrying high quantum of receivables, the Company failed to provide the said details to the inspection team. The Company also admitted the observation of the inspection team in its comments regarding non-availability of the party wise break-up of provision amounts by stating as "Part wise provision breakup is not made usually..."

15. With regards to write-off of amounts due from its clients, the Company in its comments stated as follows:

"... as a result an amount of Rs 288 million was provided for doubtful debts. The said amount was lump sum in nature as %age of collection of aged receivable, as per historic trend was used as basis. This resulted in a massive exercise in for knocking out policy wise/ client wise knock off. Out of the stated amount of Rs 111 million being direct business was party wise allocated as availability of relevant facts and documents was easy. The mentioned amount of Rs. 177.9 million is still in the phase of party wise knock-off..."

16. However, the Company failed to provide any data of the aforementioned exercise which it claimed to be still in progress since 2015. Had the Company have any data with it, as claimed, the same could have been provided to the inspection team to validate its statements. Therefore, it is clearly evident that the Company either did not have such data with it or it did not produce the same to the inspection team for reasons known to it.

17. 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 violations of Section 45(1) and Section 45(3) of the Ordinance, are clearly established, for which the Respondents may be penalized in terms of Section 156 of the Ordinance.

18. 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,

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Insurance Division

Continuation Sheet 7

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."

19. In exercise of the power conferred on me under Section 156 of the Ordinance, I, take a lenient view and do not impose fine on Board of Directors of the Company. However, I impose a fine of Rs. 50,000/- (Rupees Fifty Thousand only) on the Company under the said provision of the Ordinance, due to the non-compliances, 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.

20. 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.

21. 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.

Hasnat Ahmad
Director/ HoD (Enforcement)

