



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 10 of 2024

Crescent Star Insurance Limited

...Appellant

Versus

Director/HOD, Adjudication-I, SECP

...Respondent

Date of Hearing:

August 28, 2025

Present:

For the Appellant:

1. Mr. Saadat Ali Saeed (Legal Counsel)
2. Mr. Tanveer Ahmed (Resident Director of CSIL)

For the Respondent:

1. Mr. Sohail Qadri, Director, Adjudication-I Department, SECP
2. Mr. Shafiq Ur Rehman, Additional Joint Director, Adjudication-I Department, SECP

ORDER

1. This Order shall dispose of Appeal No. 10 of 2024 filed by Crescent Star Insurance Limited (the "Appellant") under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act") against the order dated January 11, 2024 (the "Impugned Order") passed by Director/Head of Department, Adjudication Department-I, SECP, (the "Respondent") under Section 40A of the SECP Act.



Securities and Exchange Commission of Pakistan

2. Brief facts of the case are that the Appellant is a company registered under the provisions of the Insurance Ordinance, 2000 (the "Ordinance") to undertake non-life Insurance business in Pakistan. An Onsite Inspection of the Appellant was conducted in order to assess its compliance with the applicable Insurance regulatory framework, under Section 59A of the Ordinance and Section 6A(2)(f) of the Anti-Money Laundering Act, 2010 (the "AML Act"). The Inspection report revealed various non-compliances of the Code of Corporate Governance for Insurers, 2016 (the "Code"), which included:
- (i) There was no risk management system in place. The Appellant had not formulated its risk management policy, which, *prima facie*, constituted a violation of Clause (lxix) of the Code;
 - (ii) The Appellant had neither maintained a formal risk register nor prepared formal risk reports on a periodical basis. Moreover, no risk management strategy duly approved by the Board existed. In the absence of such relevant documentation, no risk management function/department existed, which, *prima facie*, constituted a violation of Clause (lxx) of the Code;
 - (iii) No documentary evidence was available to confirm that the tasks assigned to the risk management function were being performed, which constituted non-compliance with Clause (lxxi) of the Code;
 - (iv) The Appellant had not provided evidence of its rating from a credit rating agency, which, *prima facie*, constituted a violation of Clause (lxxii) of the Code;
 - (v) No compliance program existed, which, *prima facie*, was in contravention of the requirements of Clause (xxix) of the Code;
 - (vi) Neither the grievance function existed nor was any evidence of reporting of the grievances of policyholders to the Securities and Exchange Commission of Pakistan (the "Commission") provided. Therefore, the Appellant, *prima facie*, had not ensured compliance with Clauses (lxxiv) and (lxxv) of the Code;
 - (vii) The Appellant had carried out its business without having significant policies such as product development, reinsurance policy, risk management, investments, etc., as mentioned in Clause (xi)(b) of the Code. The policies shared with the inspection team were found to be either outdated, undated, or without the details of the approving authority. Therefore, the Appellant, *prima facie*, had not ensured compliance with Clause (xi)(b) of the Code.
3. Consequently, the Respondent issued a Show-Cause Notice dated August 11, 2023 (the "SCN") to the Appellant. Written response to the SCN was submitted by the Appellant vide letter dated October 10, 2023. A hearing in the matter was held on October 12, 2023, which



Securities and Exchange Commission of Pakistan

was attended by the authorized representatives of the Appellant. The Respondent concluded the SCN proceedings and imposed a penalty of Rs. 300,000/- (Rupees Three Hundred Thousand only) upon the Appellant Company for the contravention/non-compliances Clauses xi(b), xxix, lxxix, lxx, lxxi, lxxii, lxxiv and lxxv of the Code.

4. The Appellant has preferred this appeal, *inter alia*, on the following grounds:
- i. The Impugned Order is in breach of Articles 4 and 10-A of the Constitution of the Islamic Republic of Pakistan (the "Constitution"), as it violated the fundamental right to due process and fair trial. While a show-cause notice serves as a formal communication affording an opportunity to respond to allegations, the principles of fairness require that the party be provided with access to all relevant evidence and adequate time to respond. The Appellant argued that such safeguards were denied, rendering the adjudication process procedurally defective.
 - ii. The SCN emanated directly from the inspection conducted by the Commission; however, the same was issued prior to the sharing of the final Inspection Report with the Appellant, contrary to procedural fairness and the intended purpose of inspection. It was asserted that the issuance of the SCN before completion of the inspection process constituted a violation of the Appellant's right to fair treatment and due process. This procedural irregularity alone rendered the Impugned Order void being in violation of Section 24-A of the General Clauses Act, 1897, as the Respondent failed to provide a reasoned and speaking order.
 - iii. The Impugned Order had misconstrued Clauses (lxxix), (lxx), and (lxxi) of the Code, by incorrectly concluding that the absence of a formal risk management department constituted non-compliance. It was argued that the Code left the discretion with the Board of Directors to determine a suitable and proportionate risk management system according to the scale and nature of the insurer's business. The Appellant maintained that the Code did not prescribe any minimum composition, structure, or qualifications for the department, and therefore, the conclusion of non-existence of such a department was based on presumptions and was legally untenable.
 - iv. The Impugned Order had erroneously interpreted Clause (lxxi) by implying that maintenance of a "formal risk register" and "formal risk reports" was a mandatory requirement. It was contended that the said clause merely required insurers to document their internal risk model in general terms and did not specifically require the preparation of formalized records. The Appellant argued that the Commission's interpretation amounted to reading into the provision what was not expressly contained in the Code, thereby resulting in an incorrect application of law.
 - v. The finding of violation of Clause (lxxii) of the Code was factually incorrect, as the Appellant had already been assigned a credit rating by the Pakistan Credit Rating Agency ("PACRA"), and the relevant rating report had been duly provided to the Commission. It was argued that the allegation of failure to obtain a credit rating was, therefore, wholly misplaced and unsupported by record.



Securities and Exchange Commission of Pakistan

- vi. The Impugned Order had misapplied Clauses (xxix), (lxxiv), and (lxxv) of the Code. It was argued that Clause (xxix) did not prescribe any qualification requirements for appointment of a Compliance Officer, nor did it impose a post-appointment justification obligation on the insurer. It was further submitted that the Respondent's observation regarding the non-existence of a grievance function was hypothetical, as the Code only required insurers to resolve complaints and report unresolved matters to the Commission, but did not mandate any formal documentation of such processes. The Impugned Order, therefore, was claimed to be based on conjecture, misinterpretation, and absence of evidentiary appreciation.
 - vii. In view of the foregoing submissions, the Appellant prayed that the Impugned Order be set aside.
5. The Respondent rebutted the submissions of the Appellant on the following grounds:
- i. The Appellant's contention regarding violation of Articles 4 and 10-A of the Constitution is misconceived and untenable. Findings of the inspection were duly communicated to the Appellant through the Letter of Findings ("LOF") prior to initiation of show cause proceedings. The Appellant submitted a written reply dated June 15, 2023, and was subsequently afforded ample opportunity of personal hearing and to present supporting documents. Hence, the right to fair trial and due process was fully observed, and the order was passed after examining all relevant facts and legal provisions.
 - ii. The Order contained detailed discussion of each contravention, examining relevant facts, applicable clauses of the Code, and reasoning for each finding. Therefore, the order was well-reasoned, speaking, and passed strictly in accordance with law.
 - iii. Clause (lxx) of the Code explicitly requires insurers to establish a dedicated risk management department for implementation of the Board's strategies and policies. It was argued that the Appellant's own admission that the same individual supervised both underwriting and risk functions confirmed non-existence of a separate risk management department. Furthermore, the policy submitted by the Appellant pertained only to underwriting risk and failed to cover other critical risk areas as required under Clause (lxix).
 - iv. Clauses (lxix), (lxx), and (lxxi) of the Code did not vest any discretion in the Board regarding the establishment of a risk management system. Instead, they impose binding responsibilities and obligations. It was submitted that the Appellant's interpretation of these provisions as discretionary was legally incorrect and contrary to the intent of the Code.
 - v. The Respondent argued that under Clause (lxxi), the insurer was required to design and document an internal model for comprehensive assessment of risks and to



Securities and Exchange Commission of Pakistan

maintain a risk register and periodic risk reports. These documents are necessary for identification, categorization, and mitigation of risks. Since the Appellant failed to provide evidence of maintaining such documents, it could not be considered compliant with Clause (lxxi).

- vi. The Respondent submitted that the Appellant's claim regarding its PACRA rating was unsupported by any evidence. Although the Appellant had asserted in its reply that it had been rated, no documentary proof of the PACRA rating was furnished with the response.
 - vii. It was argued that the Appellant had casually assigned the Compliance Officer's role as an additional charge to its Head of Claims, creating a conflict of interest and failing to substantiate suitability for the position. Further, no evidence of a functioning compliance program or grievance mechanism was provided. The Respondent contended that the absence of supporting documentation confirmed non-existence of these functions. Consequently, it was prayed that the appeal be dismissed being devoid of merit.
6. The Appellate Bench (the "Bench") has heard the parties and perused the record. The Bench observes that the record reflects no procedural infirmity or violation of due process in the proceedings conducted by the Respondent. The Appellant was duly served with a SCN, provided opportunity to submit a written reply, and afforded a personal hearing. Hence, the requirements of fair trial and natural justice under Articles 4 and 10-A of the Constitution stood duly complied with, and the contention alleging procedural irregularity is without merit.
 7. Upon evaluation of the inspection findings and appreciation of the material placed on record, the Bench finds that the non-compliances relating to the absence of a risk management policy, non-maintenance of a formal risk register and risk reports, lack of a separate risk management department, non-existence of a compliance program, absence of a grievance function, and failure to formulate or update key policies stand established. The Appellant did not furnish any substantive evidence to rebut these observations. However, the Bench notes that the Appellant had been assigned a credit rating by PACRA during the inspection period. Accordingly, the finding of violation of Clause (lxxii) of the Code is not sustainable.
 8. The Bench holds that except for the observation under Clause (lxxii), the remaining findings in the Impugned Order are well-founded and supported by record. Nevertheless, considering the factual clarification regarding the credit rating and the Appellant's stated commitment to improve its governance framework, the Bench finds it appropriate to extend limited relief with regard to the quantum of penalty.



Securities and Exchange Commission of Pakistan

9. Accordingly, the penalty imposed is reduced from Rs. 300,000/- (Rupees Three Hundred Thousand only) to Rs. 200,000/- (Rupees Two Hundred Thousand only).
10. The Appeal is disposed of in the above terms with no further order as to costs.

(Abdul Rehman Warraich)
Commissioner

(Zeeshan Rehman Khattak)
Commissioner

Announced on:

28 OCT 2025