



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 19 of 2020

Adamjee Life Assurance Company Limited

...Appellant

Versus

Executive Director - Adjudication-I, SECP

...Respondent

Date of hearing:

May 10, 2024

Present:

For the Appellant:

Mr. Asif Mirza- Head of Compliance
Jalal Uddin Meghani- Deputy Managing Director

For the Respondent:

1. Mr. Shafique Ur Rehman, Additional Joint Director, Adjudication-I, SECP
2. Mr. Mahboob Ahmed Director, Additional Director, Adjudication-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 19 of 2020 filed by Adamjee Life Assurance Company Limited (the "Appellant") through Mr. Jalal Meghani (the "Authorized Representative") under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act") against the Order dated January 30, 2020 (the "Impugned Order") passed by the Executive Director, Adjudication-I, SECP, (the "Respondent") under Section 40A of the SECP Act read with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the "Regulations").



Securities and Exchange Commission of Pakistan

2. The brief facts of the case are that the Appellant is a company registered under the Insurance Ordinance, 2000 (the “Ordinance”) to carry out the business of life insurance in Pakistan. The Securities and Exchange Commission of Pakistan (the “Commission”) conducted an onsite inspection of the Appellant in pursuance of order dated November 12, 2019, in order to assess the compliance of the Appellant with the Regulations. Non-compliances with regulations, 4(a), 6(2), 6(5a)(c), 6(8), 14(6), 15(3) 20(aa), 20(a) and 20(b) of the Regulations were observed during the inspection.
3. In light of the aforementioned violations, a Show-Cause Notice (the “SCN”) dated January 1, 2020 was issued to the Appellant. The Appellant responded on January 10, 2020 and a hearing was scheduled for January 13, 2020 which was attended by the authorized representatives of the company. After examining the submissions and considering the facts, the Respondent, in exercise of powers conferred under Section 40A of the SECP Act, imposed a penalty of Rs. 700,000/- on the Appellant for the violation of regulation 6(2), 6(8), 14(6) and 15(3) of the Regulations for categorizing all the 10 sample bancassurance policies as ‘low risk’ without making proper documentation prior to July 18, 2019 and for also failing to furnish a valid justification for categorizing a specified individual policy holder who surrendered 3 policies with aggregate premium of Rs. 90 million before the expiry of second year and incurring a loss of Rs. 1.75 million.
4. The Appellant has preferred this Appeal, *inter alia*, on the grounds that the Company has always adhered to implement all possible measures to comply with the Regulations and has adopted all necessary measures to ensure that the requirements laid out in AML/CFT laws are met and submitted that at present the Appellant is not materially non-compliant with the prevailing AML/CFT laws. The Appellant stated that with regard to the bancassurance policies, it has duly performed its risk assessment exercise according to the provisions of Regulations 3, 4, 6 and 12 of the Regulations in utmost good faith and that in the past the Appellant relied upon the Bank to conduct ‘Know-Your-Customer’ (KYC) and ‘Customer Due Diligence’ (CDD) of the customer before relationship with such a customer is entered into by the Appellant. The Appellant further stated that considering the Securities and Exchange Commission Pakistan’s (the SECP) inspection team recommendations during previous inspections held in the year 2018 and 2019, the management of the Appellant Company revisited the Risk Assessment Exercise and had revised the criteria of risk profiling of bancassurance customers and effective from July 18, 2019, the Appellant has started performing ‘Enhanced Due Diligence’ (“EDD”) of all new



Securities and Exchange Commission of Pakistan

bancassurance single premium policies where premium is PKR 10 million or more being 'high risk' cases.

5. That the Appellant further stated that with regard to the violation of Regulation 14(6) of the Regulations, the Respondent viewed a transaction as an unusual transaction requiring reporting, wherein a policy holder who surrendered three policies with an aggregate premium of PKR 90 Million before expiry of second year and incurred a loss of PKR 1.75 Million. The Appellant stated that the Standard Operating procedure (the "SOP's") of the Appellant Company are duly placed as required under the law to ensure any suspicious transaction is highlighted and sent to the compliance officer for investigation, and that the current policies did not raise any flags for it to be sent to investigation in accordance with the Appellant Company's SOP's. The Appellant further stated that it was also imperative to mention that Regulation 14 does not specify any time limit/duration or specific cause for a transaction to be marked as suspicious and that it places full reliance on the Regulated persons "*internal appropriate policies procedures and controls for meeting their obligations under the AML Act*". The Appellant emphasized that the Respondent falsely alleged that the Appellant did not have an ongoing monitoring system and contended that it had a complete monitoring system in place. The Appellant, therefore, requested the Bench, to take a lenient view keeping in view the afore-stated circumstances.

6. The Respondent countered the grounds of the Appeal and presented arguments stating that various violations of the Regulations were observed during the inspection. The Respondent stated that the SCN was issued and the Order was passed in the matter after taking into consideration the explanation and supporting documents furnished by the Appellant. The Respondent argued that all the bancassurance policies were being categorized as 'low risk' prior to July 18, 2019 and in terms of Regulation 12(4), the ultimate responsibility rests with the Company. The Respondent further stated that the Appellant admitted that it did not carry out proper due diligence in case of the specific bancassurance customer who purchased three insurance policies with a total premium payment of Rupees 90 million and later on prematurely surrendered those policies. The Appellant assigned 'low risk' rating to the customer merely because the customer was referred through the bancassurance channel and later on failed to raise a 'suspicious transaction report' (STR) upon premature surrender/encashment of the policies without recording adequate justification. The Respondent reiterated that violations of Regulations by the Appellant were observed during the inspection and the same renders the Appellant liable to penalty and the Impugned order should be upheld against the Appellant.



Securities and Exchange Commission of Pakistan

7. The Appellate Bench (the Bench) has heard the arguments of both the parties and perused the record.

The Bench is of the opinion that:

- a) Assigning low-risk rating to all the bancassurance customers is improper. Although, the Appellant has stated that it has revised this policy but the revised policy of assigning low-risk rating to all bancassurance customers with policies where premium is below Rs. 10 million is better than the previous policy but is still improper. An insurance company is required to devise and implement its own independent risk assessment criteria for all customers including the bancassurance customers and simply assigning a low-risk rating to all or a significant portion of bancassurance customers is improper.
- b) The Appellant either did not conduct proper due diligence in case of the customer (who purchased three policies with premium amounting to PKR 90 million and later on prematurely surrendered those policies) or failed to properly record and document the justification for doing so.
- c) The Appellant has, overtime, improved its risk management system for the purpose of AML and CFT. However, there is a need to make it more robust and independent.

8. In view of the Appellant's efforts to improve its risk managements system pertaining to AML & CFT Regulations, the Bench is inclined to take a lenient view with regard to the quantum of penalty and considers it justified to reduce the penalty to Rs. 500,000/-. The Bench further directs the Appellant to implement an independent due diligence system for all bancassurance policies and to record and document reasons in cases where, despite certain red flags, it decides not to raise STRs. The instant Appeal is disposed of on above terms without any order as to costs.

(Abdul Rehman Warraich)
Commissioner

(Mujtaba Ahmad Lodhi)
Commissioner

Announced on: 04 SEP 2024