Securities and Exchange Commission of Pakistan

SECP

BEFORE THE APPELLATE BENCH

In the matter or

Appeal No. 31 of 2023

State Life Insurance Corporation of Pakistan

... Appellant

Versus

Director/HOD, Adjudication – I

... Respondent

Date of Hearing: May 30, 2025

Present:

For the Appellant:

i. Raja Abdul Waheed, Authorized Representative
ii. Waqas Sheikh (Advocate)

For the Respondent:

i. Mubasher Saeed Saddozai, Executive Director, Adjudication Division Adjudication-I, SECP
ii. Shafiq ur Rehman, Additional Joint Director, Adjudication-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 31 of 2023 filed by State Life Insurance Corporation of Pakistan (the "Appellant"), against the order dated May 21, 2022 (the "Impugned Order"), passed by the Director/HOD, Adjudication-I, SECP (the "Respondent"), under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997. (the "Act").

2. Brief facts of the case are that an onsite inspection of the Appellant was conducted pursuant to Inspection Order dated December 03, 2021, under Section 59A of the Insurance

Ordinance, 2000, (the "Ordinance") to assess the Appellant's compliance with the Corporate Insurance Agents Regulations, 2020 ("CIA Regulations"). The inspection revealed that policyholders who had obtained insurance policies through a Bank (the "Bank") acting as a corporate insurance agent of the Appellant were provided benefit illustrations reflecting profit rates of 10%, 12%, and 14%, whereas the prescribed rates of return for the year 2021, as notified by the Securities and Exchange Commission of Pakistan (the "Commission") vide Circular No. 1 of 2021 dated January 11, 2021 (the "Circular"), were 8%, 10%, and 12%. The inspection further recorded that the relevant policies were issued during the months of September, October, and November 2021, well after the issuance of the said Circular. The Appellant *prima facie* failed to produce any evidence indicating that the correct prescribed illustrations were shared with the Bank for onward communication to prospective policyholders.

3. Consequent to the inspection findings, the Respondent issued a Show-Cause Notice dated April 12, 2022, (the "SCN"), requiring the Appellant to show-cause as to why penal action should not be initiated for the alleged non-compliance. In response, the Appellant submitted a written reply vide letter dated May 11, 2022. Hearing in the matter was also conducted on May 11, 2022, which was attended by the authorized representatives of the Appellant. The Appellant submitted during the said hearing that the Circular was circulated to all its insurance agents, including the said Bank, and attributed the lapse to a misunderstanding on the part of the said Bank. The Appellant further stated that the discrepancy was rectified upon its detection. However, it admitted that no monitoring or verification mechanism was implemented to ensure compliance by its agents with the prescribed rates of return. The Respondent concluded the hearing and not being satisfied with the stance of the Appellant, imposed a penalty of Rs. 200,000/- (Rupees Two Hundred Thousand Only) under Section 40A of the Act for violation of Regulation 18(g) of the CIA Regulations read with the Circular.

4. The Appellant has preferred this Appeal, *inter-alia*, on the grounds that it had duly complied with the requirements of the CIA Regulations and the Circular. It was contended that the prescribed illustrations reflecting the correct rates of return were promptly circulated to all corporate insurance agents, including the said Bank, immediately upon receipt of the Circular, as evidenced by the Appellant's letter dated January 22, 2021. The Appellant further argued that the non-compliance observed during the inspection was

attributable solely to the Banks's inadvertent failure to incorporate the correct illustrations into its system due to unforeseeable reasons and not a result of any deliberate or willful default on part of the Appellant. It was argued that the moment the discrepancy came to the Appellant's notice, the matter was taken up with the Bank and promptly rectified. The Appellant also submitted that the letter of findings issued by the Inspection team of the Commission clearly recorded that all other corporate insurance agents of the Appellant were fully compliant with the Circular, and therefore the lapse, if any, was isolated and specific to one agent, for which the Appellant ought not to be penalized unilaterally.

5. The Appellant argued that under Regulation 18(g) of the CIA Regulations, the obligation to provide prescribed illustrations rests jointly upon the insurer and the corporate insurance agent, and as such, exclusive liability could not be imposed upon the Appellant. It was further contended that the issuance of the SCN and the imposition of penalty solely upon the Appellant was unjustified and unfair, particularly in light of the Appellant's demonstrated intent and efforts to ensure compliance. The Appellant submitted that the principles of natural justice and proportionality were violated, as there was no evidence of *mens rea* or any guilty mind on part of the Appellant, which is a necessary precondition for imposition of penal consequences under Section 40A of the Act. The Appellant further stated that the Impugned Order, was passed without due consideration of the factual submissions and documentary evidence placed on record, resulting in non-reading and misreading of the material evidence. It was asserted that the Impugned Order suffered from material illegality and procedural irregularity, having been passed in a hasty manner and without properly appreciating the applicable legal framework, and was thus liable to be set aside.

6. In response to the submissions of the Appellant, the Respondent, *inter alia*, contended that the Appellant failed to produce any credible evidence to demonstrate that the prescribed illustrations reflecting the correct rates of return were ever provided to its insurance agent, as required under the Circular. The Respondent asserted that the insurance policies in question were issued during September to November 2021, well after the issuance of the said Circular, and yet the illustrations reflected incorrect profit rates of 10%, 12%, and 14%, instead of the prescribed rates of 8%, 10%, and 12%. It was specifically denied that the Appellant had fulfilled its obligations under Regulation 18(g) of the CIA Regulations, as no documentation was submitted evidencing that the Appellant had supervised or

monitored the compliance of the Circular by its insurance agents. The Respondent emphasized that the Appellant failed to raise any objection to the incorrect illustrations at the underwriting stage as well, which reinforces the conclusion that the Appellant neglected its statutory responsibility. Citing Section 95 of the Ordinance, the Respondent argued that the Appellant, as an insurer, remained vicariously liable for the acts and omissions of its insurance agent, and thus cannot be absolved of legal responsibility.

7. The Respondent further contended that the Appellant's attempt to shift blame solely onto the Bank is misconceived and untenable in law. It was submitted that the Appellant not only failed to ensure compliance but also failed to exercise even a minimal level of oversight upon receipt of the policy documents from the Bank. The Respondent denied the Appellant's claim that the violation was unintentional, and instead asserted that the default was committed knowingly and wilfully, or at the very least, recklessly. Reliance was placed on the case titled *City Equitable Fire Insurance Co. Ltd Re, 1925 Ch. 407*, as discussed in *Shaikh Jalaluddin, FCA v. Commissioner (Enforcement & Monitoring), SECP (2005 CLD 333)*, wherein it was held that *"even a default arising from reckless carelessness can amount to a wilful breach"*. The Respondent also denied the Appellant's allegations of procedural irregularity, and maintained that the Impugned Order, was a reasoned and lawful determination, passed after full consideration of the written and oral submissions, as well as the evidence presented. The Respondent prayed that the appeal be dismissed and the Impugned Order be upheld in the interest of justice and regulatory integrity.

8. The Appellate Bench (the Bench) has heard the both the parties at length and perused the record. Upon careful examination of the record and submissions of both the parties, the Bench is of the view that the Appellant failed to discharge its statutory obligations under Regulation 18(g) of CIA Regulations read with the Circular. While the Appellant claimed to have issued instructions to all its corporate insurance agents, including the Bank, it did not produce any cogent evidence to demonstrate that effective supervisory or monitoring mechanisms were in place to ensure implementation of the Circular's directives. The lapse in compliance was not proactively identified by the Appellant rather, it was brought to light during the regulatory inspection, indicating a failure of oversight on part of the Appellant. The contention that the default was unintentional or caused by a third-party agent does not absolve the Appellant of liability, especially in view of Section 95 of the Ordinance, which explicitly holds an insurer vicariously liable for the acts and omissions of its insurance

agents. The failure to identify and rectify the incorrect illustrations at the underwriting stage further reinforces the conclusion that the Appellant failed to exercise reasonable diligence in meeting its regulatory obligations.

9. The Bench is of the view that the argument advanced by the Appellant that penal consequences require the presence of *mens rea* is misplaced in the context of regulatory compliance, as the standard of liability under financial and regulatory statutes does not equate to the strict threshold of criminal intent applicable under criminal laws. In such matters, liability may arise from failure to observe statutory obligations, even in the absence of deliberate intent, particularly where regulatory oversight and consumer protection are at stake. The duty imposed under Regulation 18(g) of the CIA Regulations, is a continuing obligation, and the Appellant's failure to implement any meaningful supervisory or monitoring mechanism to ensure compliance by its insurance agents with the Circular constitutes a material default. The Appellant, being legally responsible for the conduct of its agents under Section 95 of the Ordinance, cannot absolve itself of liability by merely shifting blame to the said Bank. The contention that the Impugned Order was passed in haste or without due consideration is equally unfounded, as the record clearly demonstrates that the Appellant was afforded a fair opportunity of hearing, and all submissions and evidence were duly considered by the Respondent. The Impugned Order is reasoned, lawful, and based on a proper appreciation of facts and law and as such does not require reconsideration by the Bench.

10. In view of the foregoing, the appeal is **dismissed** being devoid of any merit with no order as to costs.

(Abdul Rehman Warraich)
Commissioner

(Muzzafar Ahmed Mirza)
Commissioner

Announced on: **31 OCT 2025**