



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 31 of 2024

M/s. Crescent Star Insurance Limited

Versus

...Appellant

Additional Director Adjudication - 1

...Respondent

Date of hearing:

August 28, 2025

Present:

For the Appellant:

1. Mr. Saadat Ali Saeed, Legal Counsel
2. Mr. Tanveer Ahmed, Resident Director

For the Respondent:

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

ORDER

1. This Order shall dispose of Appeal No. 31 of 2024 filed by Crescent Star Insurance Limited (the "Appellant") against the Order dated February 28, 2024 (the "Impugned Order") passed by the Additional Director (Adjudication-I), Securities and Exchange Commission of Pakistan



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(the “Respondent”) under the provisions of the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (the “AML/CFT Regulations”) read with the Anti-Money Laundering Act, 2010 (the “AML Act”) and the Anti-Money Laundering Rules, 2008 (the “AML Rules”).

2. The brief facts of the case are that the Appellant, a licensed insurer under the Insurance Ordinance, 2000, was subject to an onsite inspection (the “Inspection”) conducted by the Securities and Exchange Commission of Pakistan (“SECP”) to assess compliance with the requirements of the AML/CFT regulatory framework. The Inspection revealed multiple deficiencies in the Appellant’s compliance system, including failure to timely conduct screening of its customers, beneficial owners, and associated persons against the proscribed persons lists maintained by the National Counter Terrorism Authority (“NACTA”) and the United Nations Security Council (“UNSC”). It was further observed that the Appellant did not maintain adequate Customer Due Diligence (“CDD”) and Know Your Customer (“KYC”) documentation for a number of policies, and lacked evidence of proper Enhanced Due Diligence (“EDD”) in high-risk cases. Additionally, the Appellant failed to demonstrate effective implementation of ongoing monitoring mechanisms and internal controls, and did not timely notify the SECP of a Suspicious Transaction Report (“STR”) submitted to the Financial Monitoring Unit (“FMU”) as required under Clause (C) of S.R.O. 920(I)/2020. In view of these lapses, which constituted apparent violations of Regulations 9, 10, 11, 12, 13, 25, 26 and 31 of the AML/CFT Regulations, Rule 4(1)(a) of the AML Rules, and Section 6A(2)(h) of the AML Act, a Show Cause Notice (the “SCN”) was issued to the Appellant. After considering the Appellant’s written and oral submissions, the Respondent concluded that contraventions were established and imposed a monetary penalty of Rs. 1200,000, along with a direction to ensure strict future compliance with the applicable AML/CFT framework.

3. The Appellant submitted that the Impugned Order is illegal, arbitrary, and violative of the Appellant’s constitutional and statutory rights. He contended that the proceedings culminating in the Impugned Order were conducted in contravention of Articles 4 and 10-A of the Constitution of the Islamic Republic of Pakistan, 1973, which guarantee the right to due process and fair trial. The Appellant argued that the SCN dated August 11, 2023, was issued prior to the issuance and service of the final inspection report dated June 23, 2023, thereby depriving the Appellant of an opportunity to review and respond to the final findings before initiation of adjudicatory proceedings. Such premature issuance of the SCN, it was urged, rendered the entire proceedings void *ab initio* being in violation of the fundamental principles of natural justice.

4. It was further argued that the Impugned Order is non-speaking and suffers from the vice of arbitrariness as envisaged under Section 24-A of the General Clauses Act, 1897 and that the Adjudicating Officer failed to consider or discuss the preliminary objections and legal submissions raised by the Appellant in its detailed reply dated October 10, 2023. It was submitted that the Adjudicating Officer was under a statutory duty to address each contention raised in the response; however, the Impugned Order summarily rejected the same without any cogent reasoning.



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5. The Appellant further contended that the interpretation adopted in the Impugned Order with respect to Regulation 23(1) of the AML/CFT Regulations, is erroneous and beyond jurisdiction. It was argued that the Appellant, having conducted its own risk assessment in accordance with its internal AML/CFT policy and the National Risk Assessment (August 2023) issued by SECP's Anti-Money Laundering Department, was lawfully entitled to apply Simplified Due Diligence ("SDD") for customers classified as low risk and the Impugned Order, by reading the requirement of CDD into Regulation 23(1), effectively rewrote the provision, which neither the text of the Regulation nor the intent of its framers warrants.

6. It was also submitted by the Appellant that the finding in the Impugned Order regarding alleged non-compliance of Regulation 27(1)(a) of the AML/CFT Regulations was misconceived. He contended that the Regulation merely requires the appointment of a managerial-level compliance officer and it does not prohibit such officer from concurrently discharging other departmental responsibilities. The Appellant contended that they had appointed a qualified officer in compliance with this requirement, and the finding to the contrary in the Impugned Order goes beyond the scope of the SCN. The Appellant further argued that the conclusion drawn by the Adjudicating Officer with respect to Regulation 27(1)(d) is equally unsustainable. He submitted that the Regulation only requires that the internal auditors test the compliance function but does not impose an obligation to maintain or submit specific documentation evidencing such testing. Additionally, it was submitted that the Impugned Order erroneously penalized the Appellant for not producing records that are neither mandated under the Regulations nor required under any statutory provision.

7. The Appellant also maintained that the Adjudicating Officer failed to appreciate that the revised AML/CFT Policy, approved by the Board on August 28, 2023, had been implemented in spirit prior to its formal approval and was duly communicated to SECP vide email dated November 24, 2023. He submitted that substantive deficiency or inconsistency between the earlier and revised policies was identified in the SCN and therefore, imposition of a penalty on this account was unjustified and therefore in view of the foregoing, the Appellant requested that the Impugned Order, as well as the SCN, be set aside, being contrary to law, facts, and principles of natural justice, and that any consequential relief deemed appropriate may also be granted.

8. The Respondent opposed the submissions of the Appellant and submitted that the Appeal is not maintainable being barred by limitation, as the Impugned Order dated February 28, 2024, was assailed before this Hon'ble Appellate Bench on April 19, 2024, with a delay of 19 days beyond the statutory period of 30 days prescribed under Section 33 of the SECP Act, 1997. It was argued that such delay renders the Appeal incompetent and liable to be dismissed on this ground alone.

9. On merits, the Respondent submitted that the Inspection of the Appellant Company was conducted pursuant to the Inspection Order dated January 11, 2023, issued under Section 59A of the Insurance Ordinance, 2000 read with Section 6A(2)(f) of the Anti-Money Laundering Act, 2010. It was submitted that upon completion of the Inspection, the findings were shared



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with the Appellant through a Letter of Findings dated May 12, 2023 (“LOF”), to which the Appellant responded vide letter dated June 15, 2023. It was further submitted that the submissions of the Appellant had been duly considered prior to finalizing the Inspection Report dated June 23, 2023 (the Inspection Report”). The Inspection Report, according to the respondent, identified multiple contraventions of the AML/CFT Regulations, including Regulations 5(a), 8(3), 9(b), 12, 13, 14, 23(3)(a), 25(1)(a), and 27(1), on the basis of which the SCN was issued. It was argued that, following the issuance of the SCN and completion of the due process, the Adjudicating Officer rightly proceeded to pass the Impugned Order.

10. It was further submitted that all procedural requirements and principles of natural justice were duly observed during the proceedings. The Respondent maintained that the Appellant was provided ample opportunity to respond to the allegations, both through written submissions and oral hearing. The Appellant’s reply to the LOF, written response to the SCN and subsequent representations were thoroughly examined and considered while concluding the adjudication proceedings. Hence, the contention that the Appellant’s right to fair trial or due process under Articles 4 and 10-A of the Constitution was violated is misconceived and factually incorrect.

11. The Respondent further submitted that the issuance of the SCN prior to the formal sharing of the final Inspection Report did not prejudice the Appellant in any manner, since the LOF containing the same findings and observations, was shared well before the SCN, thereby sufficiently apprising the Appellant of the alleged violations. The Appellant’s claim of procedural irregularity, therefore, has no legal basis. It was also contended that the Impugned Order is a well-reasoned and speaking order, duly compliant with the mandate of Section 24-A of the General Clauses Act, 1897 and that the Impugned Order sets out in clear terms the reasons, legal provisions, and evidentiary basis underpinning the findings and penalty imposed. Accordingly, the Respondent argued that the Appellant’s assertion that the Order is arbitrary or non-speaking is misconceived and devoid of merit.

12. Regarding the Appellant’s argument on Regulation 8(3), the Respondent clarified that risk categorization of customers under the AML/CFT Regulations must be based on the outcome of CDD and SDD may only be applied once a customer is determined to be low risk after adequate CDD measures. The Appellant failed to provide any documentary evidence during Inspection, or even at the adjudication stage, to demonstrate that such CDD processes were duly undertaken prior to applying SDD. Thus, the finding of non-compliance with Regulation 8(3) was rightly recorded.

13. The Respondent further argued that the Appellant’s reliance on the National Risk Assessment (NRA) to justify a reduced level of AML/CFT obligations is misconceived, as the NRA merely indicates that the non-life insurance sector is relatively less vulnerable compared to others and does not exempt any regulated person from ensuring full compliance with the AML/CFT framework. With respect to the contraventions under Regulations 27(1)(a) and 27(1)(d), the Respondent maintained that the Appellant’s compliance function was neither independent nor effective, given that the designated compliance officer was concurrently



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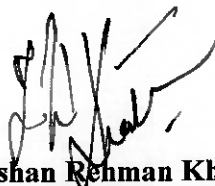
performing the claims function, thereby undermining the independence required for the role. The Respondent also submitted that the Appellant failed to produce any records or audit reports evidencing that its internal audit function was testing the AML/CFT compliance system as mandated by Regulation 27(1)(d). Accordingly, the Respondent asserted that the Appellant's claims of compliance on these counts are unfounded.

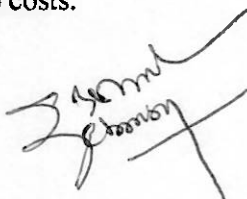
14. The Respondent also denied the Appellant's contention regarding the implementation of its revised AML/CFT Policy. It was asserted that the revised policy was approved by the Board on August 28, 2023, after the deficiencies were identified, and that there was no evidence that the revised policy had been implemented prior to its formal approval, hence, the finding of non-compliance under Regulation 5(a) was duly established. The Respondent concluded that the penalty imposed through the Impugned Order was proportionate, justified, and imposed only after observance of due process. The Respondent prayed that, the appeal being devoid of merit, be dismissed and the Impugned Order, be upheld in its entirety.

15. The Bench, after examining the record and submissions, finds that the contraventions relating to deficiencies in the Appellant's AML/CFT controls stand established. However, the lapses appear procedural and not deliberate, with no indication of mala fide intent or facilitation of any suspicious activity.

16. Considering the Company's subsequent corrective actions, including revision of its AML/CFT Policy, strengthening of screening mechanisms, and appointment of a dedicated compliance officer, as well as the minor procedural irregularity in the issuance of the SCN, the Bench finds the penalty of Rs. 1,200,000 to be excessive. Accordingly, while upholding the findings of non-compliance, the penalty is reduced to Rs. 500,000, which is considered fair and proportionate.

17. Consequently, the appeal is hereby dismissed, with no order as to costs.


(Zeeshan Rehman Khattak)
Commissioner


(Abdul Rehman Warraich)
Commissioner

Announced on:

04 DEC 2025