



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 32 of 2022

Security General Insurance Company Limited

.... Appellant

Versus

HOD, Adjudication-I Department, SECP

.... Respondent

Date of hearing:

November 07, 2025

Present:

For the Appellant:

Mr. Rashid Sadiq, Authorized Representative

For the Respondent:

1. Mr. Sohail Qadri, HOD/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. 32 of 2022 filed by Security General Insurance Limited (the "Appellant") against the Order dated April 14, 2022 (the "Impugned Order") passed by the HOD, Adjudication Department-I, SECP (the "Respondent") under Rules 4(2) and 8 of Credit & Suretyship (Conduct of Business) Rules, 2018 (the "CS Rules") read with Section 156 of Insurance Ordinance, 2000 (the "Ordinance").
2. The brief facts of the case are that the Appellant is a company licensed under the Ordinance to undertake the business of non-life insurance in Pakistan. During review of the Appellant's Statement of Credit and Suretyship class of business submitted under the CS Rules for the year ended December 31, 2019, it was observed that the Appellant by not procuring collateral in the case of guarantees/bonds policies of an amount equal to at least 80% of the sum insured/amount



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of bond/guarantee less reinsurance, *prima facie*, violated the requirements of Rule 4(2) of the CS Rules. The Appellant failed to provide the necessary collateral for 1,406 guarantee policies out of 1,572 guarantee policies issued in 2019, resulting in a shortfall of Rs. 750.374 million. In view thereof, the Respondent issued a Show Cause Notice (“SCN”) to the Appellant on July 14, 2021 and hearing in the matter was held on October 22, 2021. The Respondent concluded the SCN proceedings and imposed a penalty of Rs. 200,000/- (Rupees two hundred thousand only) for the failure to meet the said requirement of CS Rules.

3. The Appellant filed this Appeal *inter alia* on the grounds that Rule 4(2) of the CS Rules prescribing minimum collateral for guarantees and bonds, is inconsistent with Sections 11 and 41 of the Ordinance, asserting that the Ordinance vests discretion in insurers, not the regulator, to determine adequate reinsurance and solvency arrangements. The Appellant contended that the prescriptive approach adopted by the Securities and Exchange Commission of Pakistan (the “Commission”) renders the CS Rules *ultra vires* of the Ordinance and violates Articles 4 and 10A of the Constitution of Pakistan, 1973 (the “Constitution”) by imposing obligations without legal foundation. It was argued that the Impugned Order unlawfully expands the scope of statutory liability and infringes upon the Appellant’s constitutional right to be treated in accordance with law.
4. In connection with the penal liability, the Appellant submitted that Section 156 of the Ordinance authorizes penalties only for contraventions of the Ordinance or directions of the Commission and does not extend to rules framed thereunder. The Appellant emphasized that reliance on Rule 8 of the CS Rules to link non-compliance with Section 156 of the Ordinance, is legally flawed. The Appellant cited judicial precedents emphasizing that penal provisions must be strictly construed and cannot be extended by implication. Citing the Supreme Court judgment in *State Bank of Pakistan v. SECP (PLD 2018 SC 52)*, the Appellant submitted that Section 156 of the Ordinance does not authorize penalties for non-compliance with rules or the prescription of minimum collateral. The Appellant further argued that the Commission acted beyond its legal authority by creating regulatory liabilities and penalties not envisaged under the Ordinance, thereby contravening established judicial principles regarding the strict interpretation of penal provisions.



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5. The Appellant also raised issues regarding the delegation of quasi-judicial powers under Section 10 of the SECP Act, 1997. It was argued that discretionary and adjudicatory powers must be exercised collectively by the Commission and cannot be sub-delegated without express statutory authority, regulations, or procedural safeguards. The Appellant relied on judicial precedents, including the case of Muhammad *Ashraf Tiwana v. Pakistan* (2013 SCMR 1159), to assert that indiscriminate delegation of powers to officers, without limits or conditions, contravenes the statutory scheme and undermines the principles of natural justice.
6. The Appellant further argued that the penalty imposed by the Respondent was arbitrary, disproportionate, and discriminatory, as it was based on a purely technical violation without any substantial finding of guilt. This, it was contended, is contrary to the principles laid down by the Supreme Court in *SECP v. First Capital Securities Corporation Ltd.* (PLD 2011 SC 778). The alleged violations were minor, unintentional, and caused no substantive harm, making the penalties harsh and unjustified. It was further asserted by the Appellant that the Commission had previously condoned various technical violations, issued warnings instead of penalties and treated comparable entities leniently. Despite the prompt rectification of the non-compliance in this case, a penalty of Rs. 200,000/- was imposed, marking a departure from the Commission's prior practice and established judicial principles, thereby violating Articles 4 and 25 of the Constitution concerning equality and fairness before law. Accordingly, the Appellant submitted that in view of the forgoing arguments, the Impugned Order is liable to be set aside.
7. The Respondent rebutted the arguments of the Appellant, asserting that the CS Rules were lawfully promulgated under Sections 83 and 167(2) of the Ordinance after public consultation and stakeholder input, including industry associations and with the approval of the Policy Board. It was further submitted that Rule 4(2) of the CS Rules prescribes a legitimate market conduct requirement mandating insurers to procure collateral equivalent to at least 80% of the sum insured or guarantee amount less reinsurance, thereby complementing Sections 11 and 41 of the Ordinance by ensuring prudent risk management and maintenance of adequate arrangements. The Respondent emphasized that the minimum collateral requirement is mandatory, not discretionary, and is necessary to ensure solvency and protection of policyholders, consistent with the objectives of the Ordinance and in line with the requirements of Part XI (Market Conduct) of the Ordinance.



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8. Regarding penal applicability, the Respondent submitted that Rule 8 of the CS Rules explicitly provides that “*Any contravention with the requirement of these rules shall be punishable in accordance with the provisions of the Ordinance.*” This expressly brings contraventions of the CS Rules within the penal framework of the Ordinance, therefore, application of Section 156 of the Ordinance is lawful. The Respondent further contended that the Appellant’s reliance on strict interpretation principles is misplaced, as liability arises from an explicit statutory rule rather than judicial extension of the law.
9. With respect to allegations of discriminatory treatment, the Respondent submitted that most precedents cited by the Appellant precede the CS Rules and are therefore not squarely comparable. The Respondent submitted that it acknowledges the subsequent rectification by the Appellant but still considered the violation of Rule 4(2) of CS Rules as grave, beyond merely a technicality, and therefore imposed a nominal penalty of Rs. 200,000/-, for lapse on account of non-procurement of collateral of a significant amount.
10. Further, regarding the delegation of powers, the Respondent submitted that the Adjudicating Officer exercised powers validly delegated under Section 10 of the SECP Act, 1997 and acted strictly within the scope of such authority. It was emphasized that the proceedings were conducted in full conformity with the principles of natural justice, as the Appellant was duly served with a SCN, provided an opportunity to submit written replies, and granted a fair hearing. The Respondent asserted that no procedural irregularity or misuse of delegated authority occurred at any stage. Accordingly, it was contended that the Appellant’s constitutional rights to due process and fair treatment were fully observed and not infringed in any manner. The Respondent therefore prayed that, in the interest of justice and fairness, the Impugned Order being lawful, reasoned, and passed in accordance with due process be upheld.
11. The Appellate Bench (the “Bench”) has heard the parties at length and carefully examined the record. The Bench observes that the issues arising for determination are:
- (i) the consistency of Rule 4(2) of the CS Rules with the scheme of the Ordinance;
 - (ii) whether contravention of the CS Rules can validly attract penal consequences under Section 156 of the Ordinance; and



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(iii) whether the penalty imposed is proportionate in light of the magnitude of the violation and the Appellant's regulatory history.

12. The Bench observes that the CS Rules were framed under Section 83 read with Section 167(2) of the Ordinance with the approval of the Policy Board. Section 167(2) of the Ordinance is reproduced hereinunder for ease of reference:

"167. Power to make rules and regulations. —...

(2) The power of the Federal Government to make rules in respect of matters expressly required in this Ordinance to be prescribed by the Commission, shall be deemed to have been hereby delegated to the Commission, who may, subject to the condition of previous publication by notification in the official Gazette, and subject to the condition of previous approval by the Board, make rules in respect of such matters and in respect of any other matters which are required to be or may be prescribed under this Ordinance, which the Federal Government may, in exercise of the power hereby conferred, in writing, published in the Gazette, delegate to the Commission."

A plain reading of Section 167(2) of the Ordinance demonstrates that the legislature has expressly delegated substantive rule-making authority to the Commission, not only for matters specifically required to be prescribed by it, but also for "any other matters which are required to be or may be prescribed under this Ordinance," subject to publication and Board approval. The provision thus reflects a broad and purposive delegation of regulatory competence to the Commission to frame prudential and market-conduct rules in furtherance of the statutory scheme. Further, Part XI (Market Conduct) of the Ordinance addresses fair dealing, the duty of utmost good faith, responsible underwriting practices, consumer protection, and the overall prudential discipline expected from insurers. Suretyship guarantees being instruments that inherently carry underwriting risk, create exposure for insurers, affect solvency, and influence the security available to beneficiaries fall squarely within these prudential and market-conduct concerns. It is, therefore, consistent with the statutory framework that the Commission, acting under the authority delegated by Section 167(2) of the Ordinance, would prescribe rules



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governing the prudence, collateralization, and risk-mitigation necessary for the sound issuance of suretyship guarantees.

13. Furthermore, the requirement contained in Rule 4(2) of the CS Rules, mandating insurers to obtain adequate collateral before issuing guarantees, directly operationalizes the duties set out in Sections 11 and 41 of the Ordinance. These provisions obligate insurers to adhere to prudent underwriting standards, maintain solvency, and protect policyholders. The requirement under Rule 4(2) of the CS Rules that insurers must obtain adequate collateral is thus entirely consistent with, and indeed gives operational effect to the statutory duties enshrined in Sections 11 and 41 of the Ordinance, which mandate prudent underwriting, maintain solvency and prudential discipline and protection of policyholders. The Bench accordingly finds no conflict between the CS Rules and the parent statute; rather, the Rules reinforce and implement the prudential safeguards integral to the Ordinance.

14. The Bench is further not persuaded by the Appellant's contention that contravention of the CS Rules falls outside the penal ambit of Section 156 of the Ordinance. The Bench is of the view that secondary legislations are made to achieve the purpose of primary legislation, therefore, CS Rules being a secondary legislation serve the same purpose under the primary legislation i.e. the Ordinance. Rule 8 of the CS Rules expressly makes contraventions of the Rules punishable in accordance with the Ordinance, while Section 83(2) of the Ordinance provides that all requirements prescribed in the Rules shall be deemed to constitute a condition of guarantee contracts executed after the commencement of CS Rules. This statutory incorporation elevates compliance with the Rules to a legal obligation arising under the Ordinance itself. Acceptance of the contrary interpretation would nullify Rule 8 of the CS Rules, defeat the spirit of Section 83(2) of the Ordinance, undermine the very purpose of Part XI, and render the rule-making framework provided under various provisions of the Ordinance wholly ineffective. Reliance is made on 2025 CLD 288 where it was held by the Bench that:

“secondary legislations are made to achieve the purpose of primary legislation, therefore, Takaful Rules being a secondary legislation serve the same purpose under the primary legislation i.e. the Ordinance.”



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15. The Bench observes that penal provisions must indeed be strictly construed, yet such strictness cannot justify an interpretation that renders any part of the Ordinance or the Rules nugatory. As affirmed by the Hon'ble Islamabad High Court in *CM Pak Limited v. PTA (PLD 2018 Islamabad 243)*, "redundancy cannot be attributed to the legislature, and every word of a statute must be given effect". Likewise, the Sindh High Court in *Syed Farukh Mazhar v. SGS Headquarters (PLD 2018 Sindh 327)* held that "a construction reducing a statute to futility must be avoided". In this context, the Ordinance expressly delegates rule-making powers to the Commission under various Sections, and the Rules framed thereunder constitute an essential part of the regulatory framework governing prudential conduct, solvency, consumer protection, and market discipline. To accept the Appellant's contention that penalties cannot be imposed for contravention of the Rules merely because Section 156 of the Ordinance does not expressly refer to them would undermine the entire rule-making scheme, disrupt the regulatory architecture, and defeat the very purpose for which the Rules were promulgated. The contention of the Appellant that Section 156 of the Ordinance is confined to violations of the Ordinance alone disregards the integrated legislative framework which empowers the Commission to frame rules and render their contraventions punishable under the parent statute. A harmonious and purposive reading of the Ordinance therefore compels the conclusion that contraventions of the CS Rules fall squarely within the penal consequences prescribed under Section 156 of the Ordinance.

16. The Bench further observes that the Appellant's reliance on judicial pronouncements pertaining to the strict interpretation of penal provisions is misconceived in the present context. The plea of discriminatory or non-uniform treatment is equally untenable, as the CS Rules came into effect on 01 June 2018, while the precedents cited by the Appellant pertain to violations of other regulatory frameworks and, in most instances, to periods preceding the promulgation of the CS Rules. Consequently, such references bear no significant relevance to the present proceedings.

17. The Bench further notes that the Appellant's failure to procure collateral for 1,406 out of 1,572 policies, amounting to a shortfall of Rs. 750.374 million for the year ended December 31, 2019, constitutes a significant and systemic lapse that cannot be dismissed as a mere technical irregularity. The requirement to obtain adequate collateral under the CS Rules is a fundamental

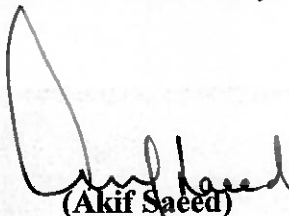


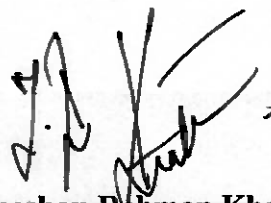
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prudential safeguard designed to ensure the financial soundness and solvency of insurers, protect policyholders, and maintain market discipline. Non-compliance with such provisions undermines these core regulatory objectives and exposes the insurance sector to elevated credit and liquidity risks. While the Bench acknowledges that the Appellant subsequently rectified the non-compliance, such *post-facto* correction does not extinguish liability for the initial breach. The imposition of a nominal penalty of Rs. 200,000/-, in view of the magnitude of the shortfall, demonstrates both proportionality and fairness, serving the dual purpose of deterrence and regulatory compliance enforcement.

18. With regard to the delegation of adjudicatory powers, the Bench observes that the Adjudicating Officer acted within the authority duly delegated under Section 10 of the SECP Act, 1997. The proceedings were conducted after issuance of a proper SCN, submission of a written reply, and provision of an opportunity of hearing on October 22, 2021. The Impugned Order reflects due consideration of the Appellant's submissions and the Bench is satisfied that the proceedings were in conformity with the principles of natural justice. Therefore, the Bench finds no merit in the Appellant's plea that its constitutional rights under Articles 4 and 10A of the Constitution were infringed in the instant proceedings.

19. Accordingly, the Bench finds no basis to interfere with the Impugned Order, and the Appeal is dismissed without any order as to cost.


(Akif Saeed)
Chairman


(Zeeshan Rehman Khattak)
Commissioner

Announced on:

04 DEC 2025