



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 34 of 2019

Alfalah Insurance Company Limited

..... Appellant

versus

The Commissioner, Insurance, SECP

..... Respondent

Date of Hearing:

January 29, 2026

Present:

For the Appellant:

Mr. Rashid Sadiq (Advocate)

For the Respondent:

1. Mr. Mubbashar Saeed Saddozai, Executive Director, Adjudication Division, SECP
2. Mr. Sohail Qadri, Director/HOD, Adjudication Department-I, SECP
3. Mr. Shafiq-Ur-Rehman, Additional Joint Director, Adjudication Department-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 34 of 2019 filed by Alfalah Insurance Limited (the "Appellant"), against the Order dated April 30, 2019 (the "Impugned Order"), passed by the Commissioner (Insurance), now represented by the Adjudication Department-I, Adjudication Division, SECP (the "Respondent"), under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act") for the contravention of



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Regulations 3, 4, 6, 7, 9, 10, 12, 14 and 20 of the Anti-Money laundering and countering financing of terrorism Regulations, 2018 (the “AML Regulations”)

2. 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 non-life insurance in Pakistan. An onsite inspection of the Appellant was conducted to assess compliance with the AML Regulations and relevant regulatory framework. The inspection revealed that the Appellant had, *prima facie*, committed the following violations of the AML Regulations:

- i. Of 50 sampled policy files, the inspection team did not find the required documentation/information in 42 sample policy files and the remaining 8 files only contained copies of CNIC’s of clients. Therefore, client account opening forms were incomplete, with material particulars missing. The Appellant failed to obtain documents as required under Annexure- I, in violation of Regulation 6(4) of the AML Regulations;
- ii. The inspection team noted that Customer Due Diligence (CDD) measures were not carried out while establishing business relationship with seven (7) customers, in violation of Regulations 3(a), 6(2) and 6(5) of the Regulations;
- iii. The Company did not obtain the source of income/ wealth/ funds from any of the policyholders in violation of Regulation 6(3)(c) of the Regulations. Account opening forms did not have any field to identify the source of income of the clients;
- iv. None of the policy files contained information about identification of customers, their beneficial owners and nature of business in violation of Regulations 6(3) and 7(1) of the Regulations;
- v. The Appellant failed to undertake adequate risk profiling of its clients, thereby exposing itself to heightened risks of money laundering and terrorism financing, as high-risk clients were neither properly identified nor appropriately classified as such. ;
- vi. 180 policies issued to legal persons with politically exposed persons (PEP’s) beneficial owners were neither properly identified nor correctly risk-classified. 15 policies issued to Salim Saifullah Khan and his family were not treated as ‘high-risk’ and no Enhanced Due Diligence (EDD) was conducted.



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- No analysis or internal findings were recorded, in violation of Regulations 10(3), 9(4), and 14(6) of the AML Regulations;
- vii. The Company did not perform EDD in case of policyholders categorized as 'high-risk' in violation of Regulation 9(4) of the Regulations. Total 44 policies were issued to 16 policyholders whereby EDD was not performed as required under Regulation 9(4) of the Regulations in case of any of the 'high-risk' policyholders.
 - viii. The Company relied on CDD carried out by third parties without having agreement(s) in place in violation of Regulation 6(2) read with Regulation 12 of the Regulations; and
 - ix. The Company's AML Policy (which was approved after the inspection order), failed to address key risk factors and Know-Your-Customer (KYC) update mechanisms, in violation of Regulation 3 of the AML Regulations. It also did not implement the required AML/CFT policies, procedure and controls as mandated under Regulations 4. Further, the HR policy lacked employee screening and background check mechanisms, in breach of Regulation 20 of the AML Regulations.
3. In view of the aforesaid observations, the Respondent issued a show-cause notice dated March 29, 2019 (the "SCN") to the Appellant. The Appellant submitted a written reply along with supporting documents on April 19, 2019. Hearing in the matter was held on April 24, 2019. Upon consideration of the material on record, the Respondent not being satisfied with the stance taken by the Appellant, held that sufficient compliance was not carried out at the relevant time. Accordingly, the Respondent concluded that violations of Regulations 3, 4, 6, 7, 9, 10, 12, 14 and 20 of the Regulations, were clearly established, and in exercise of powers as conferred under section 40A of the AML Act, the Respondent imposed a penalty of Rs. 600,000/- (Rupees Six Hundred Thousand) upon the Appellant due to the non-compliances as mentioned above.
4. The Appellant has preferred the instant Appeal on the following grounds, *inter-alia*, that immediately upon issuance of the SCN, it undertook corrective and remedial measures to rectify the identified deficiencies, and the same were duly communicated to the Respondent. It has been emphasized that a strengthened internal compliance mechanism



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has since been instituted, including enhanced monitoring controls and improved AML oversight processes, to ensure strict adherence to the AML Regulations. It was further asserted that the AML Regulations were a new phenomenon for the insurance industry and the Appellant endeavored to be fully compliant with them as well as the ancillary guidance provided by the Securities and Exchange Commission of Pakistan (the “Commission”).

5. It was further submitted by the Appellant that the AML Regulations, purportedly framed under Section 40 of the SECP Act, have been enacted in violation of the mandatory procedure prescribed under Section 40(2) thereof. The said provision requires prior publication of the draft regulations in two newspapers of wide circulation for eliciting public opinion for a period of not less than thirty days, which constitutes a substantive statutory safeguard ensuring transparency and public participation in the exercise of delegated legislative power. The Appellant contended that the AML Regulations were not promulgated in accordance with this mandatory requirement; consequently, such non-compliance vitiates the impugned regulations and renders them liable to be set aside.

6. The Appellant further contended that the power to undertake onsite inspection under Section 59A of the Ordinance vests solely with the Commission and has not been substantively delegated. It was asserted that while the Executive Director (Insurance Division) was authorized under S.R.O. 750(I)/2017 (the “Delegation SRO”) to appoint inspectors and call for information, the actual power to conduct inspections was never delegated. Consequently, the Inspection Order dated December 7, 2018, issued by the Executive Director, amounts to an impermissible sub-delegation. Further, the inspectors, particularly Ms. Asma Niaz, unlawfully exercised powers (such as calling for information) that were delegated only to the Executive Director. Therefore, the inspection proceedings are without lawful authority and liable to be declared *void ab initio*, while asserting that a delegate cannot further sub-delegate unless the parent statute expressly permits such sub-delegation.

7. The Appellant submitted that the SCN and Impugned Order unlawfully apply the AML Regulations retrospectively by penalizing alleged non-compliances relating to client accounts and transactions that predate their promulgation, in violation of Article 12 of the



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Constitution of Pakistan, 1973. It was contended that penal provisions cannot operate retrospectively in the absence of express legislative intent, and the AML Regulations neither provide for retrospective application nor prescribe any transitional mechanism for pre-existing relationships. Accordingly, the Appellant asserted that the impugned penal action is without lawful basis and liable to be set aside. Without prejudice, the Appellant affirmed its compliance with the AML Regulations post-promulgation.

8. The Appellant further asserted that in view of the subsequent voluntary compliance, absence of malafide intent, and demonstrable efforts to regularize and fortify its internal compliance structure. Accordingly, the Appellant seeks a waiver or, in the alternative, a substantial reduction of the penalty, in the interest of fairness and proportionality, consistent with the principle of parity as reflected in decisions rendered in similar matters. Reliance was placed on *Ghulam Murtaza v. The State*, reported as *PLD 2009 Lahore 362*, wherein the Court stressed that justice must be dispensed according to codified and predictable standards, and that uniformity in judicial response to similar situations is essential to prevent arbitrariness.
9. In response to the submissions advanced by the Appellant, the Respondent, *inter alia*, submitted that although the Appellant had subsequently rectified the contraventions identified during the course of the inspection, such subsequent rectification does not cure, condone, or absolve the illegality and non-compliances that were committed during the relevant period under review. The Respondent contended that regulatory compliance is required to be maintained at all times by regulated entities and that any subsequent corrective measures undertaken after the detection of violations cannot negate the fact that the contraventions had already occurred.
10. The Respondent submitted that the AML Regulations were specified on the recommendation of the Financial Monitoring Unit under Section 6 of the Anti-Money Laundering Act, 2010 (the "AML Act"), and in exercise of powers conferred under Section 40 of the SECP Act. The Appellant's contention that Section 40(2) of the SECP Act imposes a rigid and inflexible precondition is misconceived, as the requirement of prior publication is intended to ensure stakeholder consultation and transparency, rather than strict procedural formality. The Respondent asserted that the draft Regulations were duly



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disseminated through the Commission's official website and were also published in the official Gazette vide SRO 557(I)/2018 dated April 26, 2018, thereby effectively inviting comments and feedback from stakeholders and the general public. Thus, the objective and spirit of Section 40(2) of the SECP Act stood substantially fulfilled. Reliance was placed on *Shoaib Mushtaq v. Muhammad Qasim* reported as *2013 CLC 487 Lahore*, wherein it was held that procedural requirements are meant to advance justice and that substantial compliance is sufficient. Accordingly, the Appellant's contention is without merit and liable to be rejected. It was further asserted that in the preamble of the AML Regulations, it has been clearly stated that the draft Regulations were previously published in the official Gazette vide S.R.O. 557(I)/2018 dated April 26, 2018 as required under sub-section (2) of Section 40 of the SECP Act.

11. The Respondent further asserted that the Appellant's interpretation of Section 59A of the Ordinance is misconceived, as the statutory framework clearly contemplates that inspections are to be conducted through duly appointed inspectors, whose authority inherently includes seeking information and documents. The Inspection Order dated December 7, 2018 was therefore a lawful exercise of delegated authority under the Delegation SRO, and the appointed officers validly acted within the scope of Section 59A of the Ordinance. It is contended that no impermissible sub-delegation occurred, as the Executive Director merely performed an administrative function of appointing inspectors in accordance with the statute. The principle of *delegatus non potest delegare* is inapplicable since Section 59A expressly envisages further delegation to inspectors, including conferral of necessary inspection powers under Section 59A(4) of the Ordinance. The Respondent submitted that the delegation was properly made under Section 10(1) of the SECP Act and explicitly authorized by the Delegation SRO, accordingly, the inspectors acted within lawful authority, and the Inspection Order and ensuing proceedings are valid, lawful, and within jurisdiction. It was further stated that the inspection powers are supervisory and regulatory in nature rather than adjudicatory or punitive deeming the delegation valid and legally sustainable.

12. The Respondent further denied any retrospective application of the AML Regulations, contending that the Impugned Order is based solely on post-promulgation and continuing non-compliances identified during inspection. It is submitted that the AML Regulations



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were effective from June 13, 2018, impose ongoing obligations, including in respect of existing customers and legacy accounts under Regulations 6 and 13 of the AML Regulations. Accordingly, the Respondent asserted that the Appellant's assertion is misconceived, as the proceedings relate to persistent breaches of continuing regulatory requirements rather than any retrospective enforcement.

13. The Respondent respectfully contended that the Appellant has failed to establish any case on merits, as the instances of non-compliance were duly identified during the inspection and expressly conceded by the Appellant itself. Such admitted violations unequivocally substantiate the findings recorded in the Impugned Order. It is further submitted that subsequent or prospective compliance cannot operate to cure, condone, or extinguish prior breaches of the applicable regulatory framework. In these circumstances, and in view of the cogent findings arising from the inspection, there exists no legal or equitable basis for the grant of any reduction or waiver of the penalty imposed under the Impugned Order.
14. After having considered the submissions of the parties, the material available on record, and the applicable legal framework, the Appellate Bench (the "Bench") is of the view that the technical objections raised by the Appellant are without merit. The arguments advanced by the Respondent on the validity of the AML Regulations, the legal standing of the inspection proceedings under Section 59A of the Ordinance, and the scope of delegation under the Delegation SRO are found to be well-founded, legally sustainable, and are accordingly accepted.
15. With respect to the merits of the case, the Bench notes that the Appellant has, subsequent to the findings of the inspection findings and the issuance of the SCN, undertaken corrective and remedial measures in the form of a strengthened internal compliance mechanism and enhanced monitoring controls, to address the identified deficiencies. These ongoing efforts towards strengthening the AML/CFT compliance framework are acknowledged and appreciated.
16. The Bench further observes that the AML Regulations were at a nascent stage of implementation within the insurance sector at the relevant time, and the regulated entities were in the process of adapting to the evolving compliance requirements. This factor is



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taken into consideration as a mitigating circumstance in determining the appropriate quantum of penalty.

17. However, it is also noted that the regulatory framework was duly in force and binding upon the Appellant, and the obligations therein were required to be complied with in letter and spirit. The existence of a developing compliance environment does not absolve the Appellant from its statutory responsibilities during the relevant period.
18. The Bench is of the view that while subsequent rectification of deficiencies does not absolve a regulated entity from liability for past non-compliances, such corrective actions and efforts to strengthen internal controls may nonetheless be considered while determining the quantum of penalty. The Bench is of the view that where defaults have subsequently been rectified, a lenient approach may be adopted. In this regard, reference is made to case titled "*Kashf Foundation v. Executive Director, Adjudication-I, Adjudication Division, SECP*" reported as *2026 CLD 49*, wherein the Appellant had demonstrated good faith by taking corrective actions in a timely manner which highlighted a genuine commitment to compliance so the violation was not intentional or willful and did not pose a significant risk and accordingly a lenient view was taken and penalty was reduced.
19. The Bench has further noted that the Appellant had admitted to several of the identified deficiencies and stated that the same had been rectified subsequent to the Inspection. The Bench notes that while such *post facto* compliance is a mitigating factor, it does not negate the non-compliance of the said provisions at the relevant time. Compliance with the AML/CFT Regulations must have been demonstrable during the Inspection, and subsequent compliance cannot absolve the Appellant from liability arising from established non-compliance. However, there is nothing on record to suggest that the violations were deliberate, repetitive in nature, or carried out with any intent to circumvent the regulatory framework. Nonetheless, it is also well settled that, in matters concerning regulatory compliance under corporate law, the establishment of intent is not a prerequisite for holding a party liable for non-compliance.



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20. In view of the foregoing, while affirming the findings of non-compliance recorded in the Impugned Order and dismissing the technical objections raised by the Appellant, the Bench is of the considered opinion that the quantum of penalty merits partial modification, having regard to the ongoing compliance efforts and remedial actions, and to maintain uniformity with decisions previously rendered by the Bench.

21. Accordingly, the Appeal is partly allowed to the extent that the penalty of Rs. 600,000/- (Rupees Six Hundred Thousand) imposed upon the Appellant through the Impugned Order is reduced to Rs. 300,000/- (Rupees Three Hundred Thousand). Accordingly, the Appeal stands disposed of.

(Zeeshan Rehman Khattak)
Commissioner

(Muzzafar Ahmed Mirza)
Commissioner

Announced on: **12 MAY 2026**