



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter or

Appeal No. 83 of 2024

Pak Qatar Family Takaful Limited

..... Appellant

Versus

Director/HOD, Adjudication - I

..... Respondent

Date of Hearing:

August 06, 2025

Present:

For the Appellant:

1. Mr. Atir Aqeel Ansari (Authorized Representative through Zoom)
2. Mr. Muhammad Ajmal Khan (through Zoom)
3. Mr. Faraz Hussain (through Zoom)

For the Respondent:

1. Mr. Sohail Qadri, Director/HOD, Adjudication-I, SECP
2. Mr. Shafiq ur Rehman, Additional Joint Director, Adjudication-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 83 of 2024 filed by Pak Qatar Family Takaful Limited (the "Appellant"), against order dated October 11, 2024 (the "Impugned Order"), passed by Director/HOD, Adjudication-I, SECP (the "Respondent"), under Section 156 of the Insurance Ordinance, 2000 (the "Ordinance"), read with Section 41(1) and Section 11(1)(d) of the Ordinance.
2. Brief facts of the case are that during the examination of the Appellant's annual audited accounts and regulatory returns for the year ended December 31, 2022, it was observed that the Appellant had not obtained reinsurance arrangements for its *Group Health Takaful Fund* in respect of aggregate losses arising out of individual events. This omission, *prima facie*, constituted a contravention of Section 41(1) read with Section 11(1)(d) of the Ordinance,



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which requires insurers to maintain adequate reinsurance arrangements to ensure continuing compliance with solvency requirements. The appointed actuary also pointed out the absence of such arrangements in the Financial Condition Report for Financial Year 2022. Consequently, the Securities and Exchange Commission of Pakistan (the "Commission"), vide letter dated February 07, 2024, sought clarification, to which the Appellant responded on March 07, 2024, stating that it had sufficient capital to meet solvency requirements without reinsurance, and that reinsurance would increase costs for customers. Upon review, it was noted that as on December 31, 2022, the Appellant had taken inadmissible assets amounting to Rs. 4.286 billion as admissible, comprising: (i) investment in shares of Pak-Qatar Asset Management Limited from the *Shareholders' Fund*: Rs. 4,203,000,000 (inadmissible), (ii) investment in Pak-Qatar Tasdeeq (Private) Limited from the *Shareholders' Fund*: Rs. 66,172,000 (inadmissible), and (iii) investment in shares of Pak-Qatar Asset Management Limited from the *Individual Family Takaful Fund*: Rs. 17,430,000 (inadmissible). After excluding these amounts, the Company was insolvent by Rs. 3.184 billion on an aggregate basis, which included a deficit of Rs. 312.187 million in the *Group Health Takaful Fund*. Additionally, in the *Group Health Takaful Fund*, Rs. 686.240 million was recorded as "Contribution Due but Unpaid" beyond three months which is inadmissible under Section 32(2)(h) of the Ordinance, while 'cash-in-hand' stood at only Rs. 87.280 million.

3. Pursuant to these findings, a show-cause notice dated April 23, 2024 (the "SCN"), was issued to the Appellant. A hearing in the matter was held on June 11, 2024. After considering the matter, the Respondent concluded that the Appellant had failed to comply with the statutory requirement of maintaining adequate reinsurance arrangements, thereby contravening Section 41(1) read with Section 11(1)(d) of the Ordinance, and imposed a penalty of Rs. 250,000/- (Rupees Two Hundred Fifty Thousand only) under Section 156 of the Ordinance.
4. The Appellant preferred the instant appeal on the following grounds *inter-alia*,
 - (i) The Impugned Order is a departure from the language and spirit of the Ordinance, having been passed in an arbitrary manner on the basis of surmises and conjectures, and unlawfully challenged the business decision of the Board of Directors regarding securing the risk through re-takaful.
 - (ii) The Respondent acted without jurisdiction by substituting his own opinion over that of the Appellant's Board of Directors. It was submitted that Section 41 of the Ordinance speaks of an "opinion" which must be formed on the basis of facts and historical affairs of a company and cannot be judged solely on figures on a single day of the year.



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- (iii) The matter did not fall within the purview of Section 156 of the Ordinance, as no provision of the Ordinance had been breached. It was contended that the legislature has expressly left the matter of re-takaful to the discretion of the Board, whereas the Respondent exceeded his jurisdiction by interfering with and dictating the Board's decision.
- (iv) The Appellant further submitted that a penalty for non-compliance with Section 41 of the Ordinance could only be imposed after issuance of directions under Section 41(4) of the Ordinance and subsequent non-compliance therewith, whereas no such directions were issued in the present matter.
- (v) The Respondent failed to consider the practical impediments in obtaining reinsurance for the Group Health Takaful Fund, as reinsurance companies had refused to offer such arrangements or quoted exorbitant rates rendering the product commercially non-viable.
- (vi) It was further submitted that the computation of the solvency position of the *Group Health Takaful Fund* was carried out contrary to Section 35(3) of the Ordinance, and the Respondent failed to consider that the Shareholders' Fund was solvent and sufficient to meet the exposure of the *Group Health Takaful Fund*.
- (vii) The Appellant contended that the government and the regulator had failed to address the systemic problem of non-availability of reinsurance for health insurance products, which has resulted in low market penetration of such products.
- (viii) It was also submitted that penalizing health insurers for not obtaining reinsurance would further discourage health insurance products already offered by a limited number of companies, and would result in discriminatory treatment against life insurance companies as compared to non-life insurers.
- (ix) The Appellant, therefore, submitted that it was a fit case for taking a lenient view, and prayed that the Impugned Order may kindly be set aside.

5. In response to the submissions of the Appellant, the Respondent, *inter alia*, submitted;

- (i) The Impugned Order did not suffer from any misreading of the law and was fully in line with the spirit of the Ordinance. Section 41(1) read with Section 11(1)(d) of the Ordinance categorically requires an insurer to effect and maintain adequate reinsurance arrangements to ensure continuing compliance with solvency provisions.



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- (ii) It is an admitted fact that the Appellant failed to obtain reinsurance arrangements for the *Group Health Takaful Fund* for the Financial Year 2022, which was insolvent by Rs. 312.187 million as of December 31, 2022, thereby contravening Section 41(1) read with Section 11(1)(d) of the Ordinance.
 - (iii) Section 41(1) of the Ordinance does not allow the directors' opinion on reinsurance arrangements to be formed without reasonable grounds. The opinion must be based on an assessment of exposures from individual contracts and aggregate losses, ensuring adequate reinsurance to maintain solvency.
 - (iv) Reinsurance arrangements are subject to review by the Commission, which under Section 41(4) may direct modifications where necessary, enabling immediate intervention if arrangements are inadequate.
 - (v) The Appellant failed to comply with Section 41(1) read with Section 11(1)(d) of the Ordinance, and such contravention is liable to penalty under Section 156 of the Ordinance, which was rightly invoked.
 - (vi) The law does not require issuance of directions under Section 41(4) before initiating show-cause proceedings for violations of Section 41(1). In the present case, cognizance was rightly taken based on the financial year 2022 annual accounts and regulatory returns.
 - (vii) Reinsurance arrangements are vital for the sustainability and growth of group health takaful business, ensuring solvency of the fund. If the Appellant faced difficulty in obtaining such arrangements, it should have approached the Insurance Division of the Commission or the Insurance Association of Pakistan to find a way forward.
 - (viii) Market expansion cannot be pursued at the cost of exposing the industry to excessive risk for the sake of competitiveness.
 - (ix) The contravention of Section 41(1) read with Section 11(1)(d) of the Ordinance was adjudicated after due process, and the provisions apply equally to life and non-life insurers without any exemption for health insurance business.
 - (x) The case did not warrant any leniency in view of the Appellant's failure to obtain reinsurance arrangements for the *Group Health Takaful Fund*.
6. The Appellate Bench (the "Bench") has heard the arguments of both parties and perused the record. It is not in dispute that Section 41(1) of the Ordinance, read with Section 11(1)(d),



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requires an insurer to ensure that reinsurance arrangements are effected and maintained in a manner adequate to ensure continuing compliance with solvency requirements, having regard to the insurer's exposures. The statutory framework makes it abundantly clear that the obligation to maintain adequate reinsurance or retakaful arrangements is not optional or discretionary but is an integral component of the solvency regime established under the Ordinance. The opinion of the Board of Directors of an insurer regarding the adequacy of reinsurance arrangements must therefore, be formed on reasonable and objective grounds, consistent with the insurer's risk exposures.

7. The Bench notes that the Appellant's contention that reinsurance for the Group Health Takaful Fund is not available is factually incorrect, as reinsurance arrangements for group health portfolios are in fact available in the market and certain insurance companies have obtained reinsurance cover for their group health funds. The availability of such arrangements in the market demonstrates that the Appellant's assertion of systemic non-availability is untenable. The Bench is of the view that it is not a prudent approach to expose a fund to higher risk by operating without any reinsurance protection. Reinsurance is a necessary and prudent mechanism for risk transfer and risk mitigation, which is fundamental to the stability and solvency of a fund and the industry at large.
8. In view of the foregoing, the Instant Appeal is dismissed, with no further orders as to costs.

(Abdul Rehman Warraich)
Commissioner

(Zeeshan Rehman Khattak)
Commissioner

Announced on:

18 SEP 2025