



SECP
INSURANCE DIVISION
Islamabad

Before Hasnat Ahmad, Director (Insurance)

In the matter of

Adamjee Life Assurance Company Limited

Show Cause Notice No. and Date: ID/Enf/AdamjeeLife/2016/7679,
November 30, 2016

Date of Hearing: January 18, 2017

Attended By: Mr. Jalaluddin Meghani
CFO and Company Secretary
M/s. Adamjee Life Assurance Company Ltd.

Mr. Asif Mirza
Head of Compliance
M/s. Adamjee Life Assurance Company Ltd.

Ms. Sidra Kanwer
Head of Finance
M/s. Adamjee Life Assurance Company Ltd.

Date of Order: January 25, 2017

ORDER

Under Section 45 read with Section 158 of the Insurance Ordinance, 2000.

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This Order shall dispose of the proceedings initiated against M/s. Adamjee Life Assurance Company Limited (the "Company") and its Directors for alleged contravention of Section 45 read with Section 158 of the Insurance Ordinance, 2000 (the "Ordinance"). The Company and its Directors shall be referred to as the "Respondents" hereinafter.

2. The Company is registered under the Ordinance to carry on the business of life insurance. The Company submitted its Annual Audited Accounts and Regulatory Returns (the "financial statements") for the year ended December 31,

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2015 in pursuance of the provision of Section 46(1) and Section 51(1) of the Ordinance.

3. During the course of examination of the financial statements of the Company for the year ended December 31, 2015, it was observed that the Company disclosed 'Unclaimed Insurance Benefits' pertaining to 1576 policyholders amounting to Rs. 211.21 million as follows:

	Number of policyholders	Amount
Unclaimed maturity benefits	1,483	177,027,540
Unclaimed death benefits	42	13,341,713
Unclaimed disability benefits	12	1,444,291
Claims not En-cashed	39	19,405,773
	1,576	211,219,317

4. The Company was advised to provide details of the 'Unclaimed Insurance Benefits' as at September 30, 2016, provided on its website, in respect of 99 policyholders. The Company vide email dated October 21, 2016 provided the information as follows:

	Number of policyholders	Amount
Unclaimed maturity benefits	93	120,106,307
Unclaimed death benefits	-	-
Unclaimed disability benefits	-	-
Claims not Encashed	6	1,085,418
	99	121,191,725

5. The Company also provided the following reconciliation for the Unclaimed Maturity Benefits as on September 30, 2016:

	Amount
Balance as per Financial Statements as on 31-12-2015	177,027,540
Less: Premium received in advance for lapse portfolio	(105,434,064)
Less: Paid during 9 months period	(23,095,260)
Add: Cases matured during the period	70,957,119
Add: Net Increase in Cash Values of unclaimed maturity benefits	650,973
Balance as on 30-09-2016	120,106,308

6. It was observed that the Company provided the list of 1483 policyholders against whom unclaimed maturity benefits were due as on December 31, 2015 and the Company while reconciling the said benefits, reported payment to 24 policyholders, while 48 policyholders were added during the first nine months of 2016, and the payment to 93 policyholders was still outstanding as on September 30, 2016.

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7. The Company provided the following reconciliation for Unclaimed Death Benefits and Unclaimed Disability Benefits as on September 30, 2016:

	Unclaimed Death Benefits Amount (Rs.)	Unclaimed Disability Benefits Amount (Rs.)
Balance as per Financial Statements as on 31-12-2015	13,341,713	1,444,291
Less : Claims lodged during 9 months period	(13,341,713)	(1,444,291)
Balance as on 30-09-2016	-	-

8. It transpired from the reconciliation that Company paid all their long outstanding claims during first nine months of 2016, many of the said claims pertained to the year 2014.

9. The Company provided the following reconciliation for the Claims not en-cashed as on September 30, 2016:

	Amount (Rs.)
Balance as per financial statements as on 31-12-2015	19,405,773
Less: Cheques cleared during 9 months period	(19,396,302)
Add: Cheques issued during 9 months period but not cleared	1,075,947
Balance as on 30-09-2016	1,085,418

10. Earlier, the Company had provided a list of 39 policyholders against whom an amount of Rs. 19.40 million was outstanding as on December 31, 2015. While analyzing the data of claims not en-cashed, it was observed that the cheques amounting to Rs. 1.085 million issued to 6 policyholders during the years 2014 and 2015, whereas these were not reported as outstanding in the accounts for the year ended December 31, 2015. Moreover, misreporting was also made regarding the cheques issued to 5 policyholders amounting to Rs. 1.075 million in first nine months of 2016 of claims not en-cashed. The representation made in respect of the cheques issued to the policyholders during the period from January 2016 to September 2016 was also incorrect, as these pertained to the years 2014 and 2015.

11. Circular No. 11 of 2014 requires that:

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2. Financial and Regulatory Reporting: All insurers are required to provide age-wise break-up of unclaimed insurance benefits to the Commission in accordance with Annexure 1, to be disclosed in their financial statements.

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6. Web-Placement: All insurers are required to place on their website an updated list of all policyholders' names who have not claimed or uncashed their benefits...."

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12. The provisions of Section 45 of the Ordinance state that:

“Books and records.- (1) Every insurer, in respect of all insurance business transacted by him, and in the case of an insurer incorporated in a jurisdiction outside Pakistan in respect of the insurance business transacted by the insurer in Pakistan, shall maintain proper books and records.”

(2) Books, accounts and records in respect of insurance business transacted in Pakistan shall be maintained in Pakistan and in either the English or the Urdu language.

(3) For the purposes of this Ordinance, proper books and records shall include without limitation:

(a) a register or record of policies, in which shall be entered, in respect of every policy issued by the insurer, the name and address of the policy holder, the date when the policy was effected and record of any transfer, assignment or nomination of which the insurer has notice;

(b) a register or record of claims, in which shall be entered every claim made together with the date of the claim, the name and address of the claimant and the date on which the claim was discharged, or, in the case of a claim which is rejected, the date of rejection and the grounds therefor; and

(c) such other books and records as may from time to time be prescribed.

(4) For the purposes of this Ordinance, the expression “books” includes –

(a) a register;

(b) accounts or accounting records, however compiled, recorded or stored;

(c) a document; and

(d) any other record of information.

(5) A book that is required by this Ordinance or the Companies Ordinance, 1984 to be kept or prepared by an insurer may be kept or prepared:

(a) by making entries in a bound or loose leaf book;

(b) by recording or storing the matters concerned by means of a mechanical, electronic or other device; or

(c) in any other manner approved by the Commission. Provided that the matters recorded or stored are capable, at any time, of being reproduced in a written form or a reproduction of those matters is kept in a written form approved by the Commission.

(6) An insurer shall take all reasonable precautions, including such precautions, if any, as may be prescribed, for guarding against damage to, destruction of or

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falsification of or in, and for discovery of falsification of or in, any book or part of a book required to be kept or prepared by an insurer."

13. Section 158 of the Ordinance states that:

"Penalty for false statement in document. - Except as otherwise provided in this Ordinance, whoever, in any return, report, certificate, balance-sheet or other document, required by or for the purposes of any of the provisions of this Ordinance, willfully makes a statement false in any material particular, knowing it to be false, shall be punishable [by the Commission] with fine which may extend to one million rupees."

14. In view of the above, it *prima facie* appeared that the Company failed to comply with the mandatory provisions of Section 45 of the Ordinance by misstating in the financial statements. Hence, a Show Cause Notice bearing number ID/Enf/AdamjeeLife/2016/7679 dated November 30, 2016 was issued to the Respondents, thereby calling upon them to show cause as to why punitive action may not be taken against them in terms of Section 158 of the Ordinance for the alleged contravention of Section 45 of the Ordinance.

15. Mr. Jalaluddin Meghani, Chief Financial Officer and Company Secretary, while acting on behalf of the Respondents, provided response to the said Show Cause Notice vide letter dated December 13, 2016, whereby a power of attorney executed by the Respondents in his favor was also enclosed.

16. Before proceeding further in the matter, it was considered necessary to provide an opportunity of hearing to the Respondents. Hearing in the matter was fixed for December 27, 2016 however, on the request of the Respondents, the hearing was rescheduled for January 18, 2017 at 3:00 p.m.

17. The hearing was held on the said date, connecting the Head Office of the Commission with its Office in Karachi through video link facility, and was attended by Mr. Jalal-ud-Din Meghani, CFO & Company Secretary of the Company, Mr. Asif Mirza, Head of Compliance of the Company, and Ms. Sidrah Kanwer, Head of Finance as authorized representative on behalf of the Respondents.

18. Submission of the Respondents both through their reply to the SCN and at the time of hearing are summarized as under:

- i. Respondents stated that 1,414 cases amounting to Rs. 105,434,064 included in 'Unclaimed maturity benefits' were actually representing premium received against lapsed portfolio/policies, awaiting to be reinstated upon receipt of the re-underwriting requirements from the policyholders. Since, these amounts remained unconsumed under advance received against lapsed policies, as a matter of cautiousness,

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the Company, after reconciliation, mapped such accounts under unclaimed maturity benefits in the disclosure Note 10.3 of the audited financial statements. The Respondents provided revised Note 10.3 of the financial statements of 2015 after excluding the additional disclosure of Rs. 105,434,064 against 1414 policyholders as follows:

	Number of Policyholders	Amount
Unclaimed Maturity Benefits	69	71,593,476
Unclaimed death benefits	42	13,341,713
Unclaimed disability benefits	12	1,444,291
Claims not en-cashed	39	19,405,773
	162	105,785,253

- ii. Regarding disclosure of "unclaimed maturity benefits" under Circular 11 of 2014 on the Company's website, the Respondents stated that they strictly followed the principle to include only those policies, which had fully completed their terms under the policy contracts.
- iii. In response to the observations at Para 8 and 9 of the SCN, the Respondents stated that they did not mention payment of such claims during first nine months of the year 2016 but captioned those as "Claims lodged during 9 months period". The reference to the year 2014 & 2015 in the detail break down of such claims was a reference to the date of incidence/loss. The said claims were recorded on the basis of 'date of intimation' and not on the basis of 'date of incidence' as there were always "Incurred but not reported" claims (IBNR) as of any cutoff date. Out of these, 42 death and 12 disability cases were intimated in January 2016. As these claims were intimated to the Company before finalization of the accounts for the year ended December 31, 2015, the same were disclosed under "unclaimed death and disability benefits.
- iv. The Respondents accepted the error that five (5) cheques amounting Rs. 1.075 million were actually issued in 2014 and 2015 but those were inadvertently omitted from inclusion in disclosure Note 10.3 of Financial Statements of 2015, for the purpose of disclosure under Circular 11 of 2014. However, when this error was discovered later, they included them under the heading 'cheques issued during the period'. Revised Note 10.3 after rectification of the error would be as under:-

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	Number of Policyholders	Amount
Unclaimed Maturity Benefits	69	71,593,476
Unclaimed death benefits	42	13,341,713
Unclaimed disability benefits	12	1,444,291
Claims not en-cashed	44	20,481,720
	167	106,861,200

19. I have carefully examined and given due consideration to the written and verbal submissions of the Respondents, and have also referred to the provisions of the Ordinance and other legal references. In view of the comments provided by the Respondents in the foregoing paragraphs and immateriality of the non-disclosure in the financial statements, I hereby advise the Company and its management to be careful and observe strict compliance of the provisions of the Ordinance, Rules and Regulations in future.

20. This Order is issued without prejudice to any other action that the Commission may initiate against the Company and / or its management (including the chief executive officer or directors of the Company) in accordance with the law on matters including those subsequently investigated or otherwise brought to the knowledge of the Commission.


Hasnat Ahmad
Director (Insurance)

