



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department-I

### Adjudication Division

*Before*

**Shahzad Afzal Khan, Director / Head of Department (Adjudication-I)**

*In the matter of*

### **The Universal Insurance Company Limited**

Show Cause Notice No. &  
Issue Date:

ID/Enf/Universal/2016/324  
June 28, 2024

Date of Hearing:

August 27, 2024

Present at the Hearing:

Mr. Amir Raza (Managing Director)  
Mr. Amir Nazar (Chief Financial Officer)  
Mr. Ashfaq Ahmed (General Manager)  
Mr. Liaqat Ali (Company Secretary)  
(Authorized Representatives)

### **ORDER**

#### **SHOW CAUSE NOTICE UNDER SECTION 156 OF THE INSURANCE ORDINANCE, 2000 READ WITH RULE 6 AND RULE 8 OF THE CREDIT AND SURETYSHIP (CONDUCT OF BUSINESS) RULES, 2018**

This Order shall dispose of the proceedings initiated against **The Universal Insurance Company Limited (the Company and/or the Respondent)** under Section 156 of the Insurance Ordinance, 2000 (**the Ordinance**) read with rule 6 and rule 8 of the Credit and Suretyship (Conduct of Business) Rules, 2018 (**the Suretyship Rules**) vide Show-Cause Notice No. ID/Enf/Universal/2016/324 dated June 28, 2024 (**the SCN**). The Company is registered under the provisions of the Ordinance to undertake non-life insurance business in Pakistan.

2. The relevant department of the Commission while reviewing Premium Register of the Company, observed that the Company had issued eleven (11) guarantees/bonds policies in the year ended December 31, 2022 (FY 2022) and five (5) guarantees/bonds policies in FY 2023. However, the Company did not submit credit and suretyship statements for the respective years (Form GCS) to the Commission, as required under Rule 6 of the Suretyship Rules. In response to query of the relevant department of the Commission, the Company submitted that five (5) guarantees issued in FY 2022 and all the guarantees/bonds policies issued in FY 2023, were underwritten by way of co-insurance arrangement under the lead of another insurer and the remaining six (6) guarantees/policies issued in FY 2022 were facultatively re-insured. The Company further stated that the provisions of the Suretyship Rules are not applicable in the matter as the lead insurer under co-insurance arrangements received the amount of premium and paid the claims directly to clients. It has been further added in the reply that the Company and the lead insurer settle their balances periodically.



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3. Under the Suretyship Rules, no exemption is available to an insurer, being the follower in co-insurance arrangement or due to facultative reinsurance arrangement, from filing the Statements (Form GCS) in respect of its suretyship business. Therefore, the Company, *prima facie*, has contravened the requirements of rule 6 of the Suretyship Rules and non-compliance thereof attracts penal provisions contained in rule 8 of the Suretyship Rules read with Section 156 of the Ordinance. Accordingly, the SCN was served on the Respondent to show cause in writing within 14 days of the date of the SCN as to why penalty may not be imposed upon it for contravening the aforesaid provisions of the law.

4. The relevant provisions of the law are reproduced as under:

### **Rule 6 of the Suretyship Rules:**

*Additional Returns:- (1) Every insurer offering a guarantee/ bond in a particular financial year, shall be required to submit the statements, for each such financial year, along with the regulatory returns to be filed in pursuance of section 46 of the Ordinance, in the appropriate form set out in the Form GCS in the Annexure hereto in addition to the returns to be lodged under section 46 of the Ordinance and / or any other section of the Ordinance or rule made thereunder.*

### **Rule 8 of the Suretyship Rules:**

*8. Penalty: Any contravention with the requirement of these rules shall be punishable in accordance with the provisions of the Ordinance.*

### **Section 156 of the Ordinance:**

*Penalty for default in complying with, or acting in contravention of this Ordinance. Except as otherwise provided in this Ordinance, any insurer who makes default in complying with or acts in contravention of any requirement of this Ordinance, or any direction made by the Commission, the Commission shall have the power to impose fine on the insurer and, where the insurer is a company, any director, or other officer of the company, who is knowingly a party to the default, shall be punishable with fine which may extend to one million rupees and, in the case of a continuing default, with an additional fine which may extend to ten thousand rupees for every day during which the default continues.*

5. In response to the SCN, the Company vide letter dated July 9, 2024 submitted its reply, the relevant extracts of which are reproduced as under:

(Quote):

*"In this connection we would submit that this non-compliance was inadvertent & unintended and purely happened on account of our misunderstanding regarding the interpretation of Rule 6 of Credit and Suretyship (Conduct of Business) Rules, 2018. We were of the view that since all the requirements along with allied documents were submitted by the Insured to the Leader Company and they must have filed the Statements>Returns (Form GCS) accordingly. However, upon receiving your worthy guidance pertaining to the accurate interpretation of said Rule we for the rectification of this lapse have filed the Form GCS instantaneously. We indeed appreciate the diligence and oversight always exercised by your good office in inculcating the incumbents of Insurance Industry.*

*You would appreciate that our company regularly remained compliant with all Regulatory requirements and in order to prevent such misunderstanding in the future we are implementing additional checks and balances within our Organization's Compliance procedures to avert any recurrence. Therefore, it is respectfully requested that taking*



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*lenient view of this oversight on our part due to misconception of relevant Rule may kindly be condoned off with the withdrawal of Show Cause Notice. We assure our firm commitment and dedication to full compliance with all Regulatory requirements going forward please."*  
(Unquote)

6. In order to provide the Respondent an opportunity of personal representation, hearing in the matter was fixed for August 27, 2024, wherein Mr. Mr. Amir Raza (Managing Director), Mr. Amir Nazar (Chief Financial Officer), Mr. Ashfaq Ahmed (General Manager) and Mr. Liaqat Ali (Company Secretary) appeared as the Authorized Representatives of the Respondent (**the Representatives**). During the hearing, the Representatives were advised to explain the reasons for the alleged non-compliance, as narrated in the SCN. The Representatives reiterated the submissions already made in the written reply dated July 9, 2024. The Representatives stated that the Credit and Suretyship Statements of the Company for FY 2022 and FY 2023 have been subsequently filed with the relevant department of the Commission vide letter dated July 3, 2024.

7. I have examined the facts of the case in light of the applicable provisions of the law and considered the written as well as verbal submissions and arguments of the Respondent and its Representatives and have observed as under:

(a) The Respondent has admitted that non-compliance of rule 6 of the Suretyship Rules inadvertently occurred due to its misinterpretation of the applicable provisions of the law. The Respondent stated that the management was under impression that since all the relevant documents in respect of coinsurance arrangements were obtained by the lead insurer, it was the lead insurer who was obligated to file the credit and suretyship statement in relation to such business. The Respondent further stated that upon receiving correct interpretation from the relevant department of the Commission, it realized the lapse and filed the statement of Credit and Suretyship Statement (Form GCS) for FY 2022 and FY 2023 without any further delay.

However, it is abundantly clear from the plain reading of the Suretyship Rules that no relaxation or exemption is available to an insurer (being the follower in co-insurance or due to facultative reinsurance) under the Suretyship Rules; Moreover, it may also be noted that under co-insurance arrangements, each insurer, regardless of whether or not it is a lead insurer, is responsible for its respective share of coverage/exposure, as stipulated in an insurance policy/guarantee. Therefore, it was obligatory for the Respondent under Rule 6 of the Suretyship Rules to ensure filing of its Statement of Credit and Suretyship Business (Form GCS) along with the respective regulatory returns in terms of Section 46 of the Ordinance within due date i.e. April 30, 2023 and April 30, 2024, respectively; however, the Respondent failed to file the said Statements within due date. Therefore, the Respondent has contravened the requirements of rule 6 of the Suretyship Rules.

(b) The Respondent added that in order to prevent occurrence of such misunderstanding in future, it has put in place additional checks and balances within its compliance procedures.

(c) The Respondent has requested that keeping in view its track record, the default may be condoned.

8. Keeping in view the fact that it is the first instance of default by the Respondent and the default of rule 6 of the Suretyship Rules has been rectified through subsequent filing of the Credit and Suretyship Statements for FY 2022 and FY 2023, the proceedings are hereby concluded with a



warning to the Respondent to ensure meticulous compliance with all the requirements of the Suretyship Rules, in future.

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

A handwritten signature in blue ink, consisting of several loops and a horizontal line at the end, is positioned above the name of the Director.

**Shahzad Afzal Khan**  
Director/Head of Department  
(Adjudication Department-I)

**Announced:**  
September 3, 2024  
Islamabad