

Before Amir M. Khan Afridi, Director/HOD (Adjudication-I)

**In the matter of Show Cause Notice issued to Allianz EFU Health Insurance Limited**

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Dates of Hearing

March 31, 2022

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**Order-Redacted Version**

Order dated July 28, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of Allianz EFU Health Insurance Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated February 17, 2022.
2. Name of Respondent	Allianz EFU Health Insurance Limited (the Company and/ or the Respondent).
3. Nature of Offence	Alleged contraventions of <u>Sections 45, 97 and 98 of the Insurance Ordinance, 2000 (the Ordinance)</u> and <u>rule 34(b)(i), 36 and 58 of the Insurance Rules, 2017 (the Rules) read with Section 156 of the Ordinance.</u>
4. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have reviewed the facts of the case written response of the Company and submissions made by the Representatives during the hearing in light of the applicable provisions of the law and observed that:</p> <p>(i) the Company has stated that commission amounts paid for the period 2019 and for the half year of 2020 pertains to Insurance Brokers who are not registered as insurance agents but instead work for the Company as licensed insurance brokers. The Company has admitted that there were a few individual agents that were erroneously missed out in the register. Subsequent to the issuance of LOF, the Company shared a revised Agents' Register having the particulars of missing agents except the bancassurance agents. Therefore, the Company has violated the requirements of Section 98(3) of the Ordinance.</p>

- (ii) the Company has contended that out of identified eleven (11) agents, five (5) agents have been found to be inactive in the Company's record, to whom no commission has been paid; it was added that remaining six (6) agents have submitted valid declarations and upon the recommendation of internal auditor, the Company has started recording the receiving date on the declarations. In this regard it is stated that had the Company obtained the statement of information from identified agents before appointing them and maintained the said information in the Agents' Register, there would have been an automatic check on submission of the statement of information and declaration on annual basis. Moreover, inactive status of five (5) agents does not mean that they can no longer be employed as agents and stand terminated. The Company was required to obtain the statement of information and declaration from the said eleven (11) agents; however, the Company failed to obtain the statement of information from all of them and valid declaration was not obtained in case of five (5) agents, which constitutes violation of rule 36 of the Rules read with Section 98 of the Ordinance.
- (iii) With regard to recording of aggregate amount of negative premium of Rs. 22,604,892/- against 41 policies which had expired before the year 2019, the Company has stated that the said negative premium amount was recorded in the Policy Register for 2019 to write off the bad debts amounting to Rs. 17,357,245/- as well as pool adjustment and endorsements of an aggregate amount of Rs. 5,247,648/- . The Company has further stated that reversal of negative premium of Rs. 17,357,245 was made in order to write of the bad debts which could not be reconciled with the respective policyholders. This is indicative of the fact that the Company did not obtain the premium in advance before issuance of the policies. Therefore. the Company has violated the provisions of rule 58 of the Rules read with Section 45 of the Ordinance.
- (iv) while explaining the reason for recording negative premium aggregating Rs. 20,644,765/- against 62 policies which had expired before the year 2020, the Company has stated that the said negative premium amount was record in first half of 2020 to write off the bad debts owing to endorsements processed but the same could not be reconciled with relevant policyholders. Therefore, reversal of premium was made in the Register impacting negative premium amount. The breakup of the negative premium amount shows that policies with premium amounting to Rs.

	<p>319,363/- have been cancelled and further an amount of Rs. 4,401,840/- has been recorded on account of pool adjustments and endorsements. However, the Company has not been able to reconcile the major portion of the negative premium amount i.e. Rs. 15,923,562/- which establishes the fact that premium was not received before issuance of the policies. This has resulted in bad debts against the premium receivable amount which needed to be written off. Therefore, the Company has violated rule 58 of the Rules read with Section 45 of the Ordinance.</p> <p>Keeping in view the afore-mentioned established contraventions/ non-compliances, I in exercise of the powers conferred under Section 156 of the Ordinance, hereby impose a fine of Rs. 150,000/- (<u>Rupees One Hundred Fifty Thousand only</u>) on the Company. The Company is also advised to ensure its compliance with all the applicable provisions of the law including the aforesaid provisions of the Ordinance and Rules made thereunder.</p>
5. Penalty Imposed	Rs. 150,000/-
6. Current Status of Order	Penalty deposited and No Appeal has been filed by the respondent.