

**Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)**

**In the matter of Show Cause Notice issued to Adamjee Insurance Co. Ltd**

Date of Hearing

July 20, 2020

**Order-Redacted Version**

Order dated September 11, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Adamjee Insurance Co. Ltd. Relevant details are given as hereunder:

<b>Nature</b>	<b>Details</b>
1. Date of Action	Show cause notice dated November 26, 2019
2. Name of Company	Adamjee Insurance Co. Ltd.
3. Name of Individual*	The proceedings were initiated against the Company i.e. Adamjee Insurance Co. Ltd. and its Board of Directors.
4. Nature of Offence	Proceedings under Regulation 4(d), Regulation 6(3)(a), (b)&(c), Regulation 6(5), Regulation 6(5a) (a), (b)& (c), Regulation 9(4), Regulation 12, Regulation 18 and Regulation 20(a) & (b) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the "Regulations") read with Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "Act").
5. Action Taken	<p>Key findings on the default of the provisions of the law were reported in the following manner:</p> <p>I have carefully examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondents. I am of the considered view that the Respondents did not ensure their compliance with the mandatory provisions of the Regulations in the following instances:</p> <p>i) The Company was required to undertake training need analysis on annual basis in order to identify the number of relevant employees as well as contents and topics of AML training which directly pertain to their responsibilities and obligations in accordance with the functions of their departments. However, the Company has initially provided the training to front-end employees only. The provision of AML training based on the relevant contents/topics was also essential for employees of other departments such as underwriting, claim and finance</p>



# Securities and Exchange Commission of Pakistan

## Adjudication Division Adjudication Department-I

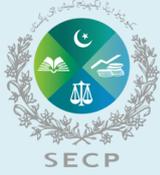
	<p>departments of the Company. Therefore, these deficiencies constitute violation of Regulation 20(b).</p> <p>ii) The job description of the Compliance Officer does not incorporate all the responsibilities as envisaged under Regulation 18 of the Regulations. These responsibilities, inter alia, include effective compliance; approval of policies, procedures and controls from the Board of Directors; monitoring, review and updating of policies, procedures and controls; providing assistance in compliance by other departments; timely submission of data/returns; and monitoring and timely reporting of Suspicious and Currency Transactions to FMU. The inclusion of these responsibilities specifically in the job description of the Compliance Officer is mandatory to highlight their significance. Therefore, violation of Regulation 18(c) is established.</p> <p>iii) It was stated that in cases of customers routed through banks/financial institutions, etc. the customer account is opened in the name of the respective bank/financial institution and not its customer(s) and in such cases the primary responsibility to perform CDD/KYC is of the concerned bank/financial institution which is also subject to strict AML/CFT Regulation. The Company's AML policy and KYC/CDD form does not have any provision regarding identification/ obtaining details of customers while relying on third parties to perform CDD. However, the Company was required to obtain immediately the necessary information relating to identification of the customer, identification of the beneficial owner and/or the nature of business of the customer and maintain data/ information confidentiality and non-disclosure agreement with the third party. Under these circumstances, the Company is in violation of Regulation 12(1).</p> <p>iv) It was stated in the reply that with respect to AML audits of divisions/departments, it may be noted that the account opening process is centralized at the Head Office, Lahore due to which the entire audit processes and procedures related to implementation of AML/CFT were scheduled for the last quarter of 2019 in the annual internal audit plan for year 2019. In view of immense importance of independent audit function, it would not suffice that internal audit of only head office was conducted. The Company was required to establish an independent audit function which should be capable of testing the system. Therefore, deficiencies in audit function constitute violations of Regulation 4(d).</p> <p>v) In terms of Regulation 20(a), the Company was required to develop and implement a comprehensive employee due diligence policy and procedure to be implemented at the time of hiring all employees and these procedures would not be limited to verification of antecedents and screening procedures to verify that person being hired has a clean history. However, no</p>
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	<p>evidence of screening of employees was found in HR files examined by the Inspection Team. The Company is of the view that no match was found to date as no evidence of the screening is possible where the result is non-existent. Under these circumstances, the Company has failed to demonstrate its compliance with the requirements contained in Regulation 20(a).</p> <p>vi) Neither CDD was performed nor information about beneficial owners was obtained in respect of 5 instances of the identified entities. Though it has been stated that the Company has subsequently obtained the information/documents from them but deficiencies of identification of the customers/beneficial owners and verification of the customer's/beneficial owner's identity constitute violations of Regulation 6(3)(a).</p> <p>vii) In line with the requirement of Regulation 6(3)(c) for ongoing monitoring of customers' accounts, the Company's AML Policy requires that KYC/CDD of existing customers would apply at the time of renewal of insurance policies. However, no evidence was submitted to substantiate that the Company obtains KYC/CDD forms and carries out CDD in respect of existing policyholders. Lack of ongoing monitoring of customers' accounts constitutes violation of Regulation 6(3)(c).</p> <p>In view of the foregoing facts, I am of the considered view that multiple violations of the provisions of Regulation 20(b), Regulation 18(c), Regulation 12(1), Regulation 4(d), Regulation 20(a), Regulation 6(3)(a) and Regulation 6(3)(c) of the Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 600,000/- (Rupees Six Hundred Thousand only) is hereby imposed on the Company. The Respondents are hereby directed to fully implement counter ML and TF measures including but not limited to formulation and implementation of policies, procedures and controls to ensure that the requirements contained in the AML/CFT Regulations, 2018 are meticulously complied in true letter and spirit. It is further directed that the Company shall submit its compliance report to the Supervision Department, Insurance Division within one month of the date of this Order in respect of all the obligatory measures under the Regulations regarding screening and training of its employees and screening of its entire customers' database.</p> <p>Order dated September 11, 2020 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A penalty of Rs. 600,000/- (Rupees six hundred thousand only) was imposed on the Company.



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7. Current Order	Status of	Appeal was filed before the SECP's Appellate Bench.
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Redacted version issued for placement on the website of the Commission.