

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

In the matter of Show Cause Notice issued to State Life Insurance Corporation of Pakistan

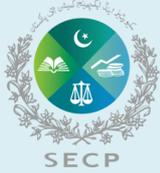
Date of Hearing

July 13, 2020

Order-Redacted Version

Order dated September 01, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of State Life Insurance Corporation of Pakistan. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show Cause notice dated January 3, 2020
2. Name of Company	State Life Insurance Corporation of Pakistan
3. Name of Individual*	The proceedings were initiated against the Corporation i.e. State Life Insurance Corporation of Pakistan and its Chief Executive.
4. Nature of Offence	Proceedings under Regulations 3(1)(a), 3(2)(b), 4(a), (b) & (d), 6(2), 6(3)(a), 6(4), 6(5a), 6(8), 9(2), 9(3), 11(2), 13(1), 20(aa), 20(a) and 20(b) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 read with Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "Act").
5. Action Taken	<p>Key findings of default of the Regulations 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 style="margin-left: 40px;">(i) Though it has been submitted that the Corporation has formulated policy containing procedures and adequate internal controls to manage the business effectively and mitigate risk in respect of money laundering and terrorism financing, the Corporation has not substantiated that it has implemented its AML Policy, procedures and controls effectively. Had there been a monitoring mechanism in place at the Corporation, it would have necessitated definite</p>



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	<p>enhanced measures to strengthen the existing procedures and controls to effectively manage and mitigate AML/CFT risks. Therefore, violation of Regulation 4(b) is established.</p> <p>(ii) The Corporation has stated that the proposals in respect of policies (0.04%) with sum assured exceeding Rs. 10 million and average annual premium exceeding Rs. 500,000/- are evaluated and finalized at the Principal Office where data from other zones is available. This indicates that an overwhelming majority of proposals in respect of policies (exceeding 99%) below the said threshold are evaluated and finalized by zonal offices themselves. However, zonal offices share their policyholder's data with the Principal Office at month-end which may allow issuance of multiple policies to a customer without the knowledge of other zones. Thus, all the relevant risk factors in relation to its customers are not being considered to identify and assess overall ML and TF risks which constitutes violation of Regulation 3(2)(b). Since zone-based underwriting is in place at the Corporation, an integrated and uniform approach does not exist to conduct the risk assessment and risk rating of customers. Policies are issued at zones without TFS screening and procedures which are reportedly carried out on monthly basis at the head office only. Admittedly, Screening Utility was not available prior to May 2020 due to which the Corporation did not have a reliable mechanism to screen its prospective policyholders against the list of proscribed persons. Under these circumstances, violation of Regulation 6(5a) read with Regulation 4(a) is established.</p> <p>(iii) Though it has been submitted in the Reply dated July 12, 2020 that AML/CFT Policy contains the condition regarding verification of CNIC of policy holders and others through NADRA verisys but NADRA verisys facility has been installed in Principal Office in November 2019 and deployment of NADRA verisys system in Zones have not been carried out. This state of affairs indicates that policies are being issued by zones without verification of CNICs of customers and/or their beneficial owners, and nominees, etc. Moreover, it has been stated that a large number of customers belong to rural and semi-rural areas where formal documentation of source of income and net worth is scarce. Therefore, the Corporation did not ensure implementation of the policies, procedures and controls to effectively manage and mitigate its ML and TF risks. As admitted in the reply, the afore-mentioned deficiencies were part of the findings of AML Audit Reports of 9 zones. However, AML audit of 24 zones was not conducted which raises serious concerns about effectiveness of the audit</p>
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	<p>function of the Corporation. Therefore, violations of Regulation 4(a) and (d) are established.</p> <p>(iv) Regarding failure in conducting employee due diligence procedures in respect of hiring 5 agents (Sales Representatives and Sales Managers) engaged at Karachi Central Zone, it has been stated that the Corporation has made subsequent compliance with the requirements of the Regulations in respect of the specified agents. It has been further added that the Corporation has already in place the policy for recruitment of commission-based agents to ensure their clear history. However, failure in adopting the screening procedures and implementing due diligence policy prior to hiring of the agents indicates that there is no proper mechanism in place to check the history and background of agents/employees before hiring them by the Corporation, which constitutes violations of Regulation 20(aa) and (a) of the Regulations.</p> <p>(v) Regarding AML training of its employees, the Corporation is of the view that it has arranged the AML training for 7,695 Sales Representatives despite the fact that Corporation is only required to provide AML training to its relevant employees. It would be incorrect to state that sales staff engaged in marketing of policies are not the relevant employees for the purpose of AML training. In fact, training of those employees, even though they are commission-based agents is equally important like employees of underwriting department and claims department of the Corporation. Therefore, the Corporation failed to arrange the AML training of huge majority of its sales force which constitutes violation of Regulation 20(b).</p> <p>(vi) As per submissions of the Respondents, an automated system was deployed at the Principal Office in May 2020 for screening of customers against list of proscribed persons. Prior to deployment of the automated system, the results of manual screenings were being compiled by the Corporation's Compliance Division based on responses from other Divisions. Thus, the Compliance Division used to communicate the results of manual screening to the SECP accordingly. During this manual screening process, only current month's data in respect of new customers was being screened. It was not possible to periodically screen the entire data using this manual screening process which was itself not a reliable and fool-proof system to effectively screen the entire portfolio of the Corporation. Moreover, screening of nominees and beneficial owners of customers/policyholders was not being carried out. Therefore, the Corporation did not adopt effective, reliable and fool-proof screening procedures and</p>
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	<p>controls to ensure that it should not be forming business relationship with proscribed individual/entities; designated individuals/entities under UNSCRs and adopted by Government of Pakistan; and their associates/facilitators, which constitutes violation of Regulation 6(5a) read with Regulation 4(a).</p> <p>(vii) The Regulations do not provide any exemption from the requirement of validation of CNIC through NADRA Verisys in case of regular premium policies with premium less than Rs. 100,000/- or single premium policies with premium less than Rs. 250,000/- or policies other than with high risk profile; However, in contradiction to Regulations, AML Policy of the Corporation does not require conducting NADRA Verisys for policies/proposals not falling in the high-risk profile as defined in its AML Policy document or having premium of less than Rs. 100,000/- for regular and Rs.250,000/- for single premium policies. Accordingly, there was no documentary evidence of NADRA Verisys of policyholders and nominees in any of the 20 sample files examined by the inspection team. These deficiencies constitute violations of Regulation 6(4) read with Note (i) of Annexure-I to the Regulations and Regulation 6(3)(a).</p> <p>(viii) The Corporation has started obtaining the requisite information/documents from its new group clients but it did not conduct Customer Due Diligence of its existing Group and pension clients from Karachi Zone at the time of establishing business relationship and also did not obtain the information/documents as required in Annexure-I to the Regulations, which constitute violations of Regulation 6(2) and Regulation 6(4) read with Annexure-I to the Regulations.</p> <p>(ix) The Corporation did not put in place a mechanism for assigning the risk rating to its customers. It has been stated in the Reply dated July 12, 2020 that assignment of risk rating to customers is currently in trial phase and separate risk profiling sheet has been developed and provided to the Zones with the direction to undertake risk assessment. Therefore, the Corporation did not take appropriate steps to identify and assess its ML and TF risks in relation to its customers and it also failed to assign the risk ratings to its customers. These major issues constitute violations of Regulation 3(1) and Regulation 6(8) of the Regulations.</p> <p>(x) AML policy of the Corporation under clause 2.1.3.b of 'Product/Service Risk' has categorized a product/service as 'low risk' if life insurance policies with an annual premium of less than Rs. 1.0 million and single premium policies with premium less than Rs. 5.0 million which is inconsistent with Regulation 11(2)(d) (Simplified Due Diligence) that stipulates</p>
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	<p>the limits for categorising as low risk cases: Life insurance policies having annual premium of less than Rs. 100,000/- or a single premium of less than Rs. 250,000/-. Thus, the Corporation has violated Regulation 11(2)(d) of the Regulations.</p> <p>(xi) The Corporation in its AML Policy under clause 2.1.1.b (CL4) has categorized legal arrangements as 'low risk' customers; however, Regulation 9(2) categorizes legal arrangements with complex structures and those who receive donations as 'high risk'. Such categorization of legal arrangements is in violation of Regulation 9(2) of the Regulations.</p> <p>(xii) The Corporation did not record the justification in writing for assigning 'low risk' rating to its 2 specified policyholders in the risk profiling sheet, which constitutes violation of Regulation 11(2) of the Regulations:</p> <p>(xiii) Non-availability of KYC forms in files of 7 customers out of a sample of 20 customers files indicates that required CDD measures were not taken when establishing business relationship with those customers which constitutes violation of Regulation 6(2). In case of the policyholder having Policy No. 601907936-6, the Corporation has categorized the product/service risk as 'low', whereas the product is single premium with a premium amount of Rs. 460,118/-. The decision to rate the risk as "low" is not justified in light of Regulation 11(2)(d) which provides that life insurance policies with single premium of less than Rs. 250,000/- could be recognized as "low" risk. Thus, the Company did not conduct the required EDD measures despite the fact that "high" risk exists in the said product/service which constitutes violation of Regulation 9(3).</p> <p>In view of the foregoing facts, I am of the considered view that flagrant and multiple violations of the provisions of Regulations 3(1), 3(2)(b), 4(a),(b)&(d), 6(2), 6(3)(a), 6(4) read with Note (i) to the Regulations, 6(5a), 6(8), 9(2), 9(3), 11(2), 20(aa), 20(a) and 20(b) of the Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 3,800,000/- (Rupees Three Million Eight Hundred Thousand only) is hereby imposed on the Corporation. The Respondents are also warned and Corporation is hereby directed to:</p> <ul style="list-style-type: none">• 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.• That the Corporation shall submit its compliance report to the Supervision Department, Insurance Division within one month of
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	<p>the date of this Order in respect of all the obligatory measures under the AML/CFT Regulations, 2018 including but not limited to screening and training of its employees/agents and screening of its entire customers' database.</p> <p>Furthermore, the Corporation is advised to take the following remedial measures:</p> <p>(a) Web-based application software may be used for imparting "AML/CFT Training" to its entire strength consisting of employees as well as commission-based agents across the country.</p> <p>(b) An internal inquiry may be conducted by the management to fix the responsibility of the officers due to whom violations of the AML/CFT Regulations took place and appropriate disciplinary action may be taken against those responsible, that is commensurate with the riskiness of the violations identified and submit the compliance report to the Supervision Department, Insurance Division at the earliest.</p> <p>Order dated September 1, 2020 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	Penalty of Rs. 3,800,000/- (<u>Rupees Three Million Eight Hundred Thousand only</u>) was imposed on the Corporation.
7. Current Status of Order	Appeal was filed against the Order.

Redacted version issued for placement on the website of the Commission.