



SECP
INSURANCE DIVISION
Islamabad

Before Fida Hussain Samoo, Commissioner (Insurance)

In the matter of

State Life Insurance Corporation of Pakistan

Number and date of Show

Cause Notice: ID/Enf/StateLife/2017/8058 dated January 9, 2017

Date of Hearing: February 6, 2017

Attended By:

1. Mr. Izqar Khan
Executive Director
M/s. State Life Insurance Corporation of Pakistan;
2. Muhammad Rashid
Divisional Head, Finance & Accounts
M/s. State Life Insurance Corporation of Pakistan;
3. Mr. Faisal Mumtaz
General Manager, Actuarial
M/s. State Life Insurance Corporation of Pakistan;
and
4. Mr. Waqas Asad Sheikh
Advocate for the Respondents.

Date of Order: February 23, 2017

ORDER

Under Circular 11 of 2014 read with Section 156 of the Insurance Ordinance, 2000.

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This Order shall dispose of the proceedings initiated against M/s. State Life Insurance Corporation of Pakistan ("SLIC") and its Directors, for alleged contravention of Circular 11 of 2014 read with Section 156 of the Insurance Ordinance, 2000 (the "Ordinance"). SLIC, its Directors and/or any of its authorized representatives in the instant matter shall be referred to as (the "Respondents") hereinafter.



37

A. Background

2. SLIC is registered under the Ordinance to carry on the business of life insurance.

3. During examination of the financial statements for the period ending December 31, 2015, it was observed that SLIC did not disclose the age-wise break-up of the Unclaimed Insurance Benefits in its financial statements as per requirement of clause 2 of Circular 11 of 2014.

4. The Commission vide letter dated July 22, 2016 advised SLIC to provide age-wise break-up of 'Outstanding Claims' amounting to Rs. 17,868.96 million (2014: 16,060.30 million) along with names of the claimants/policyholders and the dates since the said claims were outstanding.

5. SLIC vide letter dated September 9, 2016 submitted the partial detail and provided the "Aging Analysis of Outstanding Claims" as below: -

Descriptions	1 month	1-6 month	7-12 month	13-24 months	25-36 months	Beyond 36 months	Total
1 Outstanding Claims Death (Pak)	319.84	1,272.52	763.45	724.21	377.33	212.34	3,669.69
2 Outstanding Claims Accident (Pak)	27.92	146.44	74.00	70.47	44.30	33.40	396.53
3 Outstanding Claims Antepd, maturity and Surrenders (Pak)	2,365.48	2,759.94	788.40	910.69	537.06	378.03	7,739.61
4 Outstanding Claims Death Group	5,896.48	-	-	-	-	-	5,896.48
5 Outstanding Claims Death (Chif)	166.65	-	-	-	-	-	166.65
Total as appearing in Financial statements	8,776.37	4,178.90	1,625.85	1,705.38	958.69	623.77	17,868.96

6. SLIC did not provide the other information i.e. names of the policyholders/claimants along with the dates since the said claims were outstanding.

7. Furthermore, SLIC did not disclose the list of policyholders' names on its website; instead, it only provided the search option by policy number.

8. In view of the above, it appeared that SLIC failed to comply with the requirements of Circular 11 of 2014 by not providing/disclosing the age-wise analysis of Unclaimed Insurance Benefits in the financial statements for the year ended December 31, 2015 and by not placing on its website, names of the policyholders/claimants who have not claimed or encashed their benefits. Hence, Show Cause Notice bearing number ID/Enf/StateLife/2017/8058 dated January 9, 2017 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 156 of the Ordinance for the alleged contravention of Circular 11 of 2014.

8



9. Circular 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.

....

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

10. Section 156 of the Ordinance states that:

"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."

11. Subsequently, in response to the said Show Cause Notice, Mr. Waqas Asad Sheikh, Advocate High Court, M/s. W&A Law Associates, while acting on behalf of the Respondents, provided response to the said Show Cause Notice vide letter dated January 16, 2017, whereby a power of attorney executed by the Respondents in his favor was also enclosed. The reply of the Respondents is reproduced below:

"1. That at the very outset we place on record our empathetic denial and repudiation of any intentional contravention of Circular 11 of 2014.

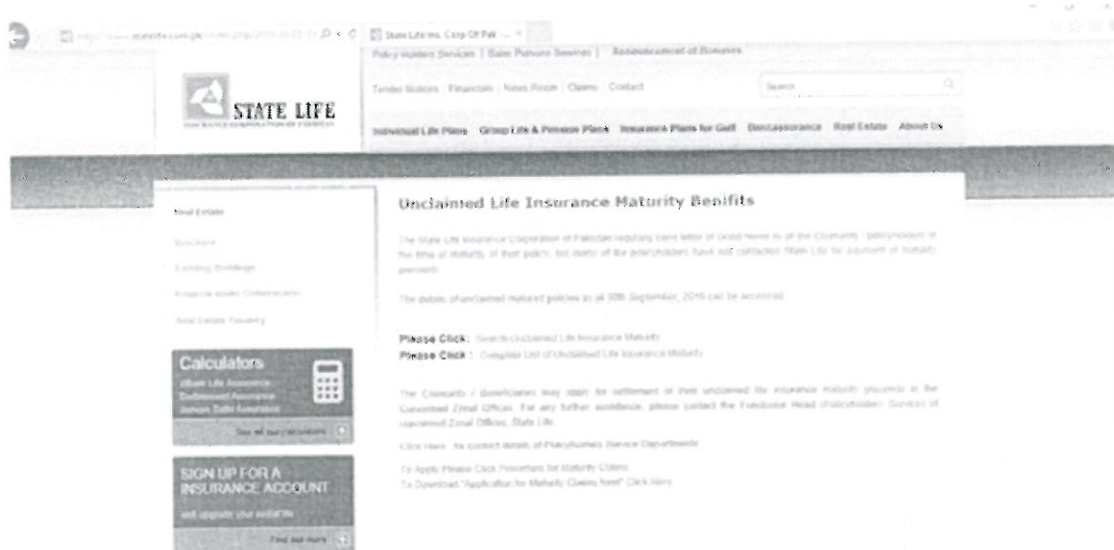
2. That it is submitted SLIC does not possess any intention to be non-compliant with any provisions of the applicable laws and it is worth mentioning that SLIC is continuously striving for the betterment of their policyholders. That it is submitted in regards to the provision pertaining to the Financial and Regulatory Reporting as enumerated in Circular 11 of 2014 SUC has made various representations before the SECP whereby we indicated our position on reporting unclaimed life insurance benefits separately and the damaging consequences thereof. That copy of the representation made before the Commission vide letter dated 17-03-2014 is attached herewith and may be treated as part and parcel of this reply for the sake of brevity.

3. That subsequent to our correspondence on the issue pertaining to the Financial and Regulatory reporting, it is submitted that the Commission considering our point of view and apprehensions regarding the disclosure requirements the Commission allowed SUC to retain unclaimed insurance benefits in its actuarial reserves in compliance of clause 3 of the said circular. That it is submitted that accordingly as per the consent given by the Commission vide letter dated 22-05-2015 (copy attached) the unclaimed insurance benefits are being reported in

actuarial reserves till to date which are not required to be disclosed separately in the audited financial statements as per circular 11 of 2014.

4. That further in compliance with the Financial and Reporting requirements, we submitted the 'Aging Analysis of Outstanding Claims' vide letter dated 09-09-2016 to the Commission in the prescribed format given in the Annexure "A" of the Circular 11 of 2014 and we assure that any further information which may be required by the Commission will be provided by the SUC at the earliest, however, we did not receive any such instructions other than to provide the 'Aging Analysis of Outstanding Claims'.

5. That as per the Para 7 of the show cause notice dated 09-01-2017 it is alleged that SLIC is only providing a search option rather than a list of the policy holders' name on the website, hence, it is non-compliant with clause 6 of the Circular 11 of 2014. That it submitted that SLIC is providing a complete list of the unclaimed life insurance maturity claims which can be accessed by clicking on Policy holder services> Complete List of Unclaimed Life Insurance Maturity. For the sake of convenience, a screenshot of the page is reproduced:



That Complete List of Unclaimed Life Insurance Maturity can be accessed on the following URI:

<http://www.statelife.com.pk/images/doc/claims/Unclaimed%20Information%20-%2009%202016.pdf>

6. That it is stated the complete list of Unclaimed Life Insurance Maturity is very voluminous, hence, for the sake of convenience of the policyholders we have added a search option as well. That it is needless to mention that we have also uploaded the contact details of policyholders service department of the concerned zonal offices of SLIC and in order to further facilitate the policyholder we have uploaded the



application form for maturity claims as well which can be downloaded from our website.

7. That it is needless to mention that SLIC has never attempted to conceal any information and it seems that allegation contained in Para 7 of the show-cause notice 09-01-2017 is a result of some misunderstanding. That it is reiterated that the SLIC is committed in being fully compliant with all applicable laws."

B. Hearings

12. Before proceeding further in the matter, it was considered necessary to provide an opportunity of hearing to the Respondents. Thereafter, the Commission, vide its notice no. ID/Enf/StateLife/2017/8326 dated January 27, 2017, scheduled the hearing for February 6, 2017 at 03:00 p.m.

13. The said hearing was attended by Mr. Izqar Khan, Mr. Muhammad Rashid, Mr. Muhammad Faisal and Mr. Waqas Asad Sheikh for and behalf of the Respondents.

C. Summary of arguments and conclusions in respect of each issue

14. **Web placement:** SLIC did not disclose the list of policyholders' names on its website, instead it only provided the search option by policy number. The Respondents in their response to the SCN and during the hearing stated that list has already been placed on the website even before receipt of the SCN. It has been observed that the list has indeed been added on SLIC's website.

15. **Financial and Regulatory Reporting:** The Respondents were required to comply with the requirements of Circular 11 of 2014 by providing/disclosing the age-wise analysis of Unclaimed Insurance Benefits in the financial statements for the year ended December 31, 2015. SLIC failed to comply with the said requirement. The Respondents referred to the Commission's letter dated May 22, 2015 whereby clarification was provided to SLIC regarding Circular 11 of 2014. The Respondents were under the impression that as per the aforesaid clarification, Unclaimed Insurance Benefits were being reported in actuarial reserves and SLIC was exempted to disclose age-wise analysis of the said benefits in the financial statements. They were of the view that disclosing age-wise break-up in financial statements would not be beneficial to the policyholders and would result in tax implications for the SLIC. The Respondents were apprised that the aforesaid clarification did not imply that SLIC was not required to disclose age-wise break-up of the Unclaimed Insurance Benefits in its annual accounts as per the requirement of clause 2 of Circular No. 11 of 2014.



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D. Overall conclusion

16. 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, I am of the view that the Respondents have placed on their website an updated list of all policyholders' names who have not claimed or encashed their benefits. Further, it is observed that SLIC in not exempt from disclosing age-wise analysis of Unclaimed Insurance Benefits in the financial statements. However, keeping in view the submission and arguments presented at the hearing, I hereby advise SLIC to comply with the requirement of Circular 11 of 2014 by providing age-wise analysis of Unclaimed Insurance Benefits in its financial statements with immediate effect. SLIC is also strictly warned to be careful in future.

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

Fida Hussain Samoo
Commissioner (Insurance)

