



SECP
INSURANCE DIVISION
Islamabad

Before Hasnat Ahmad, Director (Insurance)

In the matter of

IGI Insurance Limited

Show Cause Notice Issue Date: June 15, 2015

Date of Hearing: August 7, 2015

Attended By:

1. Usman Saifi
Chief Financial Officer
M/s. IGI Insurance Limited
2. Abdul Haseeb
Company Secretary
M/s. IGI Insurance Limited
3. Nasir Iqbal
Senior Manager Finance
M/s. IGI Insurance Limited
4. Asfa Anwer
Manager Finance & Accounts
M/s. IGI Insurance Limited

Date of Order: August 20, 2015

ORDER

Under Section 32(2)(h) and Section 32(2)(l) read with Section 156 of
the Insurance Ordinance, 2000

.....

This Order shall dispose of the proceedings initiated against M/s. IGI Insurance Limited (the "Company") and the chief executive and directors for alleged contravention of Section 32(2)(h) and Section 32(2)(l) of the Insurance Ordinance, 2000 (the "Ordinance"). The Company, its chief executive and directors shall be collectively referred to as the "Respondents" hereinafter.

SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN

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A. Background

2. The Company reported an amount of Rs. 104.9 million under the head of "Premium due but unpaid" and an amount of Rs. 55.53 million under the head of "Sundry Receivables" as admissible assets in the Statement of Assets for Solvency Purposes (Form GJ) as on December 31, 2013.

3. In this regard, the Commission, vide its letter dated September 19, 2014, advised the Company to provide the aging of "Premium due but unpaid" as of December 31, 2013, and to provide clarification as to why the "Security deposits" of Rs. 10.407 million were treated as admissible assets under the head of "Sundry Receivables".

4. In response to the abovementioned letter of the Commission, the Company furnished the following information / clarification:

- a) Premium due but unpaid: Aging of "Premium due but unpaid" as on December 31, 2013 was provided as follows:

Days Outstanding	0-90 days	91-180 days	181-270 days	More than 270 days	Total
As of December 31, 2013	Rs.90.592 million	Rs. 30.684 million	Rs. 5.335 million	Rs. 67.882 million	Rs. 194.495 million

- b) Security deposits: The Company clarified that the "Security deposits" mentioned in the table below were free from any sort of encumbrance such as claims or liens, and were entirely refundable in nature, and hence, these security deposits were considered as admissible assets:

Particulars	Rs. In Thousands
Security Deposit of Rental Property	7,380
Deposits placed with hospital on panel	1,710
Deposits for bids / tenders	897
Deposits place with utility service providers	144
Others (CDC, drinking water etc.)	276
TOTAL	10,407

5. In the light of Clause (h) of sub-Section (2) of Section 32 of the Ordinance, "premium due but unpaid" up to three months from the due date, can only be considered as admissible asset for the purpose of solvency. However, by comparing the amount shown in the list for aging of "Premium due but unpaid" as provided by the Company with the amount reported under the Statement of Assets for Solvency Purposes (Form GJ) as on December 31, 2013, it appeared that admissible assets were over reported.

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6. The Ordinance in its Section 2(xxii) defines "encumbrance" as:

"(xxii) "encumbrance" in relation to any property, movable or immovable, means any mortgage, charge (fixed or floating), hypothecation, pledge, assignment or transfer by way of security, or any other form of security or ownership interest less than absolute legal and beneficial ownership;"

7. The definition of encumbrance as laid down under Section 2(xxii) of the Ordinance explicitly includes "any other form of security" which clearly implies that the "Security deposits" may not be considered as admissible assets for the purpose of solvency. Hence it appeared that the Company has overstated its admissible assets by treating aforementioned "Security deposits" amounting to Rs. 10.407 million as admissible assets for the purpose of solvency.

8. Clause (h) and Clause (l) of sub-Section (2) of Section 32 of the Ordinance state that:

"(2) For the purposes of this Part, subject to sub-section (1), the following are not admissible assets:

...

(h) premiums due and payable to the insurer but not paid for more than three months from the date due and payable;"

...

(l) assets subject to encumbrances;..."

9. Thus, in view of the above, it appeared that the Company had failed to comply with the provisions of Clause (h) and Clause (l) of sub-Section (2) of Section 32 of the Ordinance by treating an additional amount of Rs. 14.308 million and Rs. 10.407 million on account of "Premium due but unpaid" and "Security deposits" respectively as admissible assets for solvency as reported on the face of the Statement of Assets for Solvency Purposes (Form GJ) as on December 31, 2013. Therefore, a Show Cause Notice (SCN) bearing number ID/Enf/IGI/2015/1336 dated June 15, 2015 was issued to the Respondents, calling upon them to show cause as to why the fine as provided under Section 156 of the Ordinance should not be imposed on them for the aforementioned alleged contraventions of the law. The contents of the show cause notice are reproduced below:

SUBJECT: SHOW CAUSE NOTICE UNDER SECTION 32(2)(h) AND 32(2)(l) READ WITH SECTION 156 OF THE INSURANCE ORDINANCE, 2000

1. WHEREAS, the Commission has observed that M/s. IGI Insurance Limited (the "Company") has reported an amount of Rs. 104.9 million under the head of "Premium due but unpaid" and an amount of Rs. 55.530 million under the head of "Sundry Receivables" as admissible assets for the purpose of solvency, as reported on the face of the Statement of Assets for Solvency Purposes (Form GJ) as on December 31, 2013.



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Insurance Division

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2. AND WHEREAS, Clause (h) and Clause (l) of sub-Section (2) of Section 32(2) of the Insurance Ordinance, 2000 (the "Ordinance") state that:

"(2) For the purposes of this Part, subject to sub-section (1), the following are not admissible assets:

...

(h) premiums due and payable to the insurer but not paid for more than three months from the date due and payable;"

...

(l) assets subject to encumbrances;..."

3. AND WHEREAS, the term "encumbrance" has been defined under Clause (xxii) of Section 2 of the Ordinance, which states as follows:

"(xxii) "encumbrance" in relation to any property, movable or immovable, means any mortgage, charge (fixed or floating), hypothecation, pledge, assignment or transfer by way of security, or any other form of security or ownership interest less than absolute legal and beneficial ownership;"

4. AND WHEREAS, the Commission, vide its letter dated September 19, 2014, advised the Company to provide the aging of "Premium due but unpaid" as of December 31, 2013, and to provide clarification as to why the "Security deposits" of Rs. 10.407 million have been treated as admissible assets under the head of "Sundry Receivables".

5. AND WHEREAS, in response to the abovementioned letter of the Commission, the Company furnished the following information / clarification:

c) Premium due but unpaid: Aging of "Premium due but unpaid" as on December 31, 2013 was provided as follows:

Days Outstanding	0-90 days	91-180 days	181-270 days	More than 270 days	Total
As of December 31, 2013	Rs.90.592 million	Rs. 30.684 million	Rs. 5.335 million	Rs. 67.882 million	Rs. 194.495 million

d) Security deposits: The Company has been of the opinion that the "Security deposits" mentioned in the table below have been classified into assets, which have been free from any sort of encumbrance such as claims or liens, and have been entirely refundable in nature, and hence, these security deposits have been considered as admissible assets:

Particulars	Rs. In Thousands
Security Deposit of Rental Property	7,380
Deposits placed with hospital on panel	1,710
Deposits for bids / tenders	897



Deposits place with utility service providers	144
Others (CDC, drinking water etc.)	276
TOTAL	10,407

6. AND WHEREAS, in the light of Clause (h) of sub-Section (2) of Section 32 of the Ordinance, premium due but unpaid up to three months from the due date, can only be considered as admissible assets for the purpose of solvency. However, by comparing the amount shown in the list for aging of "Premium due but unpaid" as provided by the Company with the amount reported under the Statement of Assets for Solvency Purposes (Form GJ) as on December 31, 2013, it appears that admissible assets were over reported.
7. AND WHEREAS, the definition of encumbrance explicitly includes "any other form of security" which clearly implies that the "Security deposits" may not be considered as admissible assets for the purpose of solvency. Hence it appears that the Company has over reported its admissible assets by treating aforementioned "Security deposits" amounting to Rs. 10.407 million as admissible assets for the purpose of solvency.
8. AND WHEREAS, in view of the above, it appears that the Company has failed to comply with the provisions of Clause (h) and Clause (l) of sub-Section (2) of Section 32 of the Ordinance by treating an additional amount of Rs. 14.308 million and Rs. 10.407 million on account of "Premium due but unpaid" and "Security deposits" respectively as admissible assets for solvency as reported on the face of the Statement of Assets for Solvency Purposes (Form GJ) as on December 31, 2013, for which the above-named directors and chief executive officer of the Company are liable to be penalized under Section 156 of the Ordinance, which 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."

9. NOW, THEREFORE, you are hereby called upon to show cause in writing within ten (10) days from the date of receipt of this notice as to why penalty may not be imposed upon you for contravening the provisions of Clause (h) and Clause (l) of sub-Section (2) of Section 32 of the Ordinance, as aforesaid. In the event that you wish to be represented by a Representative, please ensure that the authorizing instrument (a board resolution or a power of attorney as may be appropriate) is submitted to this office along with your reply to this notice. In case you decide to opt for a hearing, you may appear in person or through a Representative. Please note that any reply submitted by a Representative without an appropriate authorizing instrument may not be taken into consideration for the purposes of the proceedings. All documents submitted by you in support of the reply must be duly authenticated. Please note that you will be liable under law for any



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concealment of any evidence or misstatement made in response of this show cause notice. We have video link facility available in the city in which you reside. In case you wish to avail this option please inform the undersigned in writing so that appropriate arrangements may be made in this regard.

Please acknowledge the receipt of this notice through return fax at the number provided in the letterhead.

Sd./-
Hasnat Ahmad
Director

10. The Respondents, vide their letter no. Fin-0205/2015 dated June 22, 2015, requested the Commission to extend the date for submission of written comments in response to the aforementioned show cause notice. Hence, request of the Respondents was acceded to as requested, and the Respondents vide Commission's letter no. ID/Enf/IGI/2015/1365 dated June 24, 2015, were allowed a further period of thirty (30) days to submit their comments.

11. Subsequently, the Respondents vide their letter no. Fin-0239/2015 dated July 28, 2015, submitted their comments as under:

"Please be assured that from now onwards we shall be calculating our admissible assets with regards to premium due but unpaid and security deposits in our regulatory return as per the rules in the manner interpreted by SECP. We assure that we will comply with and meet all statutory requirements in the future. Therefore, we request that the SECP take a lenient view and condone noncompliance of the mentioned matters.

In the event that any further clarifications or further information are required, the company will be happy to provide such clarification/information/particulars as well as previous responses submitted."

B. Hearings

12. Thereafter, the Commission vide letter no. ID/Enf/IGI/2015/1635 dated July 31, 2015, scheduled a hearing for August 7, 2015 at 11:00 a.m. at the Head Office of the Commission in Islamabad to provide an opportunity of being heard to the Respondents. However, on the request of the Company vide letter no. Fin-0247/2015 dated August 4, 2015, the said hearing was conducted through video link connecting Head Office of the Commission to its Office in the city of Karachi. The hearing was attended by Mr. Usman Saifi, Chief Financial Officer of the Company, Mr. Abdul Haseeb, Company Secretary of the Company, Mr. Nasir Iqbal, Senior Manager Finance and Ms. Asfa Anwer, Manager Finance & Accounts of the Company. The Respondents stated that they have already submitted their



contentions before the Commission vide their letter of July 28, 2015, and assured that they will be careful in future.

C. Issues

13. The Respondents were required to ensure compliance with the mandatory provisions of Section 32(2)(h) and Section 32(2)(l) of the Ordinance, to which the Respondents failed to comply with. The Ordinance allows the insurers to treat only ninety (90) days' "Premium due but unpaid" and unencumbered assets as admissible assets for the purpose of solvency.

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

14. Through the written as well as verbal responses of the Respondents, it is quite evident that the Respondents have failed to comply with the mandatory provisions of Section 32(2)(h) and Section 32(2)(l) of the Ordinance, by treating an additional amount of Rs. 14.308 million and Rs. 10.407 million on account of "Premium due but unpaid" and "Security deposits" respectively as admissible assets for solvency as reported on the face of the Statement of Assets for Solvency Purposes (Form GJ) as on December 31, 2013. The Respondents have further admitted the alleged violation, hence, the violation of Section 32(2)(h) and Section 32(2)(l) of the Ordinance is established, for which the penalty as provided under Section 156 of the Ordinance can be imposed onto the Respondents.

15. However, it has also been noted that by treating an amount of Rs. 14.308 million and Rs. 10.407 million on account of "Premium due but unpaid" and "Security deposits" respectively as inadmissible assets, the solvency position of the Company as on December 31, 2013 would not be affected significantly, as the Company would remain solvent by an amount of Rs. 3,568.915 million, hence, the Commission may take lenient view.

E. Overall conclusion

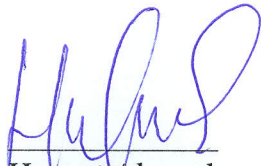
16. I have carefully examined and given due consideration to the written and verbal submissions of the Respondents, and have also referred to the provisions of the Ordinance, the Rules made thereunder and/or other legal references, I am of the view that the default of Section 32(2)(h) and Section 32(2)(l) of the Ordinance is established. Therefore, the fine as provided under Section 156 of the Ordinance can be imposed onto the Respondents i.e. the Company, its chief executive and directors. However, I take a lenient view given the fact that the Company remains solvent even if the aforementioned inadmissible portion of the assets is taken out from the total reported admissible assets as on December 31, 2013.



F. Penalties and directions

17. In exercise of the power conferred on me under Section 156 of the Ordinance, I take a lenient view by not imposing any fine onto the Respondents, due to the reason mentioned in Para 15 hereof. However, the Respondents are directed to ensure full compliance with the Ordinance, rules, regulations and directives of the Commission in future.

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


Hasnat Ahmad
Director

