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SECURITIES & EXCHANGE COMMISSION OF PAKISTAN INSURANCE DIVISION

Karachi 22 February 2010

Chief Executive Officer
Takaful Pakistan Limited
Office 2nd & 3rd Floors
Dadex House, 34 -A/1
PECHS, Block 6
Main Sharea Faisal
Karachi

DIRECTIVE UNDER SECTION 63(1) OF INSURANCE ORDINANCE 2000 TO CEASE ENTERING INTO NEW CONTRACTS OF INSURANCE

A directive under Section 63(1) was served to Takaful Pakistan Limited ("the Company") on 15 August 2009 by exercising the powers conferred pursuant to the aforesaid Section of the Insurance Ordinance 2000 ("the Ordinance") to cease entering into new contracts of insurance of Amaan Travel Takaful Package Standard for the reasons set forth in the abovementioned directive which was effective one month from the date of the direction unless the Company was in compliance with respect to the defaults stated therein. Further, the given direction to cease entering into new contracts of insurance of Amaan Travel Takaful Package – Standard would only be revoked if the reason for the direction stated in the directive should have ceased to exist.

2. The said Directive would have been effected on the expiry of 30 days from the date of issuance that was 15 September 2009. The Management of the Company had requested the Commission to extend the time to comply with the Directive. Accordingly, the extension of one week was granted by the Commission upto i.e. 22 September 2009.
3. On 17 September 2009, the Management of the Company and its Reinsurance Company (M/s Munich Re) made their presentation to satisfy the Commission that the Company had made effective changes in the product selling and distribution network in order to remove all such discrepancies reported under Sections 11(1)(f) & (h), 12(1) & (4) and 76(1) of the Ordinance. However, some areas regarding the complete disclosure of the terms and conditions of the policy including the claim settlement procedure still remained unsatisfactory. Therefore, upon receiving an application dated 18 September 2009 made by the Company requesting the Commission to again extend the time to remove such discrepancies, the Commission had granted further one week's time i.e. upto 28 September 2009.

4. In order to assess as to whether the Company has made total compliance of each and every default before the expiry of such extended time, an Order of Inspection under Section 59A was issued to the Company on 25 September 2009 by appointing a team of inspectors comprising Mr. Kashif Siddiquee, Joint Director and Mr. Muhammad Nasir Khan, Assistant Director.

5. During the said inspection, the team visited the Company's Head Office located at 2nd & 3rd Floors, Dadex House, 34-A/1, PECHS, Block 6, Main Sharea Faisal, Karachi, and Shirazi Travels (a travel agent) located at Ground Floor, Mehran Hotel, Sharea Faisal Karachi. It was verified that full and complete disclosure of the policy terms and conditions and the claim settlement procedure had been made by incorporating the following changes in the system.

- The information field of "next of kin" had been made mandatory;
- Prominent disclosure was made in the cover note that this product is "complementary" for passengers who have purchased an air ticket.
- Complete policy terms and conditions were disclosed to the passengers. These statements were now being generated automatically along with the cover note.

6. The Commission was satisfied that, prima facie, the Management has complied with the said Directive effectively and in the interest of the policyholders.

In view of the above, the Directive dated 15 August 2009 issued under Section 63(1) of the Ordinance was revoked vide the Commission's letter dated 28 September 2009.

7. However, it has again been brought to the notice of the Commission that the Company was continuously engaging in the same mal-practices due to which the directive to cease entering into new contracts of insurance of Amaan Travel Takaful Package – Standard was issued on 15 August 2009.

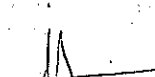
8. WHEREAS, sub-Section (1) of Section 11 of the Ordinance provides that ***"an insurance company shall at all times ensure compliance with the provisions of the Ordinance"***; and

9. WHEREAS, sub-Section (f) of Section 11 of the Ordinance provides that ***"the insurer meets and is likely to continue to meet the criteria for sound and prudent management including without limitation those set out in Section 12"***; and

10. WHEREAS, sub-Section (h) of Section 11 of the Ordinance provides that ***"the insurer is, and is likely to continue to be, able to comply with such other of the provisions of this Ordinance as are applicable to it"***; and

11. WHEREAS, sub-Section (1) of Section 12 provides that ***"for the purposes of this Ordinance, the following shall, without limitation, be recognized as criteria for sound and prudent management of an insurer or applicant for registration as a person authorized to carry on insurance business"***; and

12. WHEREAS, sub-Section (4) of Section 12 provides that ***"the insurer or applicant shall not be regarded conducting its business in a sound and prudent manner if its fails to conduct its business with due regard to the interest of policyholders and potential policyholders"***; and



13. WHEREAS, sub-Section (1) of Section 76 provides that ***“an insurer shall not, in the course of its business as an insurer, engage in conduct that is misleading or deceptive or is likely to mislead or deceive”***; and

14. WHEREAS, the Company’s Management had failed to meet with the requirements as specified above by not giving due regard to the interest of the policyholders in respect to Amaan Travel Takaful Package – Standard and was not making full disclosure of material information to the policyholders by practicing misleading and deceptive market conduct; and

15. WHEREAS, the Travel Agents are working in the dual role of the Company’s Takaful Agents and also Participants in the Participant Takaful Fund; and

16. WHEREAS, the Travel Agents acting as Takaful Agents did not fulfill the basic requirement to complete a contract that is existence of an “offer” and “acceptance”; and

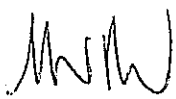
17. WHEREAS, complete disclosure of material information was not made by the Travel Agents to the passengers; and

18. WHEREAS, the complete details of the legal heirs of the passengers were not noted down by the travel agents, even though the Amaan Travel Takaful Package – Standard product insures the accidental death of the passengers; and

19. WHEREAS, Rs.70 was being set aside by the Company out of Rs.600 collected under the Amaan Travel Takaful Package – Standard from the passengers, towards building a collateral reserve for their financial default; and

20. WHEREAS, the Executive Director in exercise of powers conferred under Section 63(1) of the Ordinance is empowered to issue direction to cease entering into new contracts of insurance, if an insurer registered under the Ordinance has failed to comply with the conditions of the registration set out in Section 11 of the Ordinance, compliance of which must be ensured at all times by the insurers; and

21. NOW THEREFORE, I, in exercise of the powers conferred pursuant to Section 63(1) of the Ordinance, hereby direct Takaful Pakistan Limited to cease entering into new contracts of insurance for the reasons set forth above and this direction shall have effect one month from the date of the direction unless the Company is in compliance with respect to the aforesaid default mentioned in the paragraphs above. Further, the given direction to cease entering into new contracts of insurance shall only be revoked if the reasons for the direction stated above shall have ceased to exist.



NASREEN RASHID
EXECUTIVE DIRECTOR – INSURANCE