



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN INSURANCE DIVISION

[Karachi]

Before Nasreen Rashid, Executive Director (Insurance)

In the matter of

IGI Insurance Company Limited

Date of Show Cause Notice: September 14, 2010

Date of Hearing: October 5, 2010

Attended by: Mr. Haider Raza, Company Secretary and Mr. Muhammad Kashif, G.M. Finance- IGI Insurance Limited.

Date of Order: November 15, 2010

ORDER

(Under Section 29 read with sub-Section 1 of Section 11 and Section 157 of the Insurance Ordinance, 2000)

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This Order shall dispose of the proceedings initiated against IGI Insurance Limited ("the Company") for not complying with Section 29 Read With Section 11(1) & Section 157 of the Insurance Ordinance, 2000 ("the Ordinance").

Background Facts

2. The relevant provisions of Section 11(1) of the Ordinance state that:

"11. Conditions imposed on registered insurers.-(1) An insurer registered under this Ordinance shall at all times ensure that:

(b) the provisions of this Ordinance relating to minimum statutory deposits have been complied with;

3. The relevant provisions of Section 29 of the Ordinance state that:

"29. Deposits.-(1) Every insurer shall, in respect of the insurance business carried on by him in Pakistan, deposit and keep deposited with the State Bank of Pakistan, in one of the offices in



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Pakistan of the State Bank of Pakistan for and on behalf of the Federal Government the required minimum amount specified in sub-section (2), either in cash or in approved securities estimated at the market value of the securities on the day of deposit, or partly in cash and partly in approved securities so estimated.

(2) For the purposes of this section the required minimum amount is, either:

(a) the higher of ten million rupees and ten per cent. (10%) of the insurer's paid-up capital; or

4. The half-yearly accounts of the Company showed the paid-up capital of the Company as Rs. 718,427,000 as at June 30, 2010.
5. According to Section 29 and Section 11(1)(b) of the Ordinance, the Company is supposed to have maintained a Statutory Deposit of Rs. 71,842,700, which is ten per cent (10%) of the Company's paid-up capital.
6. A letter from the State Bank of Pakistan (Ref No: Bkg. U-10/Sec/29033/Ins-115-2010) dated September 8, 2010 revealed that the Statutory Deposit stood at Rs. 70,000,000 as at June 30, 2010, reflecting a shortfall of Rs. 1,842,700.
7. The applicable penal provision of the Ordinance for contravention of Section 29 is stated in Section 157, which states that:

"Penalty for transacting insurance business in contravention of sections 5, 6 and 29.- (1) Any insurer or any person acting on behalf of an insurer, who carries on any class of insurance business in contravention of any of the provisions of sections 5, 6 and 29, or does any one or more of the acts constituting the business of insurance in relation to any insurance business carried on in contravention of any of the said sections shall be punishable with fine which may extend to two million rupees."

Show Cause Notice

8. Accordingly, a Show Cause Notice was issued on September 14, 2010 under Section 29 read with Section 11(1) of the Ordinance to the Chief Executive and Directors of the Company, calling upon them to show cause as to why the penalty, as provided in Section 157 of the Ordinance, should not be imposed upon them and/or upon the Company for not complying with provisions of Section 29 read with Section 11(1) of the Ordinance.

Company's Response to the Show Cause Notice

9. The Company, via its letter dated September 15, 2010, responded to the abovementioned Show Cause Notice. Their reply has been reproduced below:

"This refers to the show cause dated September 14, 2010 under section 29 read with Section 11(1) and section 157 of the Insurance Ordinance, 2010.

Our share capital was enhanced from Rs. 598,689 million to Rs. 718,427 million due to the interim bonus issue declared by the Board of Directors in its meeting held on April 21, 2010.



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The statutory deposit which IGI Insurance had earlier placed with the State Bank of Pakistan was Rs. 70 million, significantly beyond the regulatory requirement, till the bonus issue during the first half 2010.

Inadvertently, the differential of 1.842 Million as statutory deposit following the above mentioned bonus issue was missed out.

The process of purchasing and depositing securities of significantly higher value than required has been initiated and we will inform you as soon as it is completed.

Considering our compliance history, negligibility of the amount involved, and our commitment to correct the same, we request you to kindly take a lenient view of the matter.

We assure you of our keen & continued focus on the regulatory requirements and internal processes are being further enhanced in this regard. "

Hearing of the Case

10. Hearing of the said case was conducted at 11:00 a.m on October 5, 2010 before Ms. Nasreen Rashid, Executive Director (Insurance) which was attended by Mr. Haider Raza, Company Secretary and Mr. Muhammad Kashif, G.M. Finance, IGI Insurance Company Limited. The company said that it had no intention of staying non-compliant which is why it deposited PIB's in the State Bank of Pakistan immediately after the Show Cause Notice was issued and with an amount which was way above the statutory requirement. The company said that, as far as the non-compliance was concerned, it was an oversight and in future there will be no such non-compliances. The company therefore requested the Commission to condone penalty in that regard.

Consideration of Company's Submissions

11. The Company had stated in its response to the Show Cause Notice, as quoted above, that it had "inadvertently missed out" on the compliance of Section 29 of the Ordinance.

12. Additionally, the Company stated that it had promptly filled the deficit in their Statutory Deposit after the Show Cause Notice was issued. As per State Bank letter No. Bkg. U-10/Sec./ /Ins-89-2010 dated 30th September, 2010 the company had deposited an amount of Rs. 14,031,046 (market value on day of deposit) in PIB's on September 16, 2010.

Conclusion

13. I have carefully examined and given due consideration to the written submissions of the Company and have also referred to several provisions of the Ordinance. I am of the view that there has been a default under the relevant provision of the Ordinance. The Company has also admitted its default.

14. Before proceeding further, I find it relevant to discuss the duties of the Directors & the Chief Executive. The Directors & the Chief Executive of a company, in addition to the day to day running of the company and the management of its business, also have some 'fiduciary' duties i.e. duties held in trust and some wider obligations imposed by statute on them and on the Company. The Directors and the Chief Executive of the Company are supposed to be well aware of their legal obligation and the Company's legal obligation in the aforesaid matter along with the consequences of the said defaults.

15. However, the Company did remove the deficit in its Statutory Deposit promptly after receiving the Show Cause Notice. This shows the Company's intent in complying with the law by removing this contravention promptly as and when it realized that it has committed it. It appears that there was no



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mala fide intent on the part of the Company as evidenced by their prompt action in removing the contravention.

16. Furthermore, the Company has been a law abiding company and has been compliant in fulfilling its statutory duties to date.

17. The Statutory Deposit's primary purpose is to protect the policyholders and to financially compensate them in case the Company is unable to do that. It is therefore pertinent to note that the Company has a good market reputation and track record with respect to claims payment.

18. The Company is one of the largest insurance companies in Pakistan. It has a total paid-up capital of Rs. 718,427,000 as at June 30, 2010, which is the one of the highest amongst the private sector non-life insurance companies in Pakistan, and has Reserves amounting to Rs. 10,264,964,000, as on June 30, 2010, along with adequate reinsurance with some of the most internationally renowned reinsurers in the world.

19. This contravention does not appear to affect the rights and interests of the stakeholders.

Order

20. In view of the foregoing material information, I, in exercise of powers conferred on me under Section 157 the Ordinance, will take a lenient view, and, instead of imposing a fine, hereby, **condone** the contravention by the Company and, **warn** and advise the Chief Executive, the Directors of the Company and the Company itself to exercise due caution in the future whilst complying with the requirements of the law.

Nasreen Rashid
Executive Director