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REGULATORY REMINDER GENERAL INSURERS

1.0 BACKGROUND

- 1.1 The Money Laundering and Financing of Terrorism (Prevention and Control) Act, 2011-23 is applicable to financial institutions (**FIs**) which include insurance companies that conduct general insurance business. The application of anti-money laundering measures to non-depository FIs generally, and to the insurance companies in particular, has also been emphasized by section 12.0 of the Financial Services Commission's Anti-Money Laundering & Countering Financing of Terrorism (**AML/CFT**) Guidelines and international regulatory agencies as a key element in combating money laundering.
- 1.2 The responsibility for guarding against insurance products being used to launder unlawfully derived funds or to finance terrorist acts, lies on the insurance company, which develops and bears the risks of its products.

2.0 GENERAL INSURERS

- 2.1 Considering the vulnerability of some general insurance products to threats of money laundering at the **claims stage**, general insurance companies should be diligent in carrying out Know Your Customer (**KYC**) at the settlement stage where claim payout/premium refund crosses a threshold. In cases where payments are made to third party service providers such as garages/repairers etc., the KYC shall apply on the customers on whose behalf service providers act.
- 2.2 The AML/CFT checks become more important in case of claims on the policies assigned by the policyholder to a third party not related to him (except where the assignment is to banks, credit unions, etc.). Notwithstanding the above, the insurers must ensure that no vulnerable cases go undetected. Especially where there is suspicion of money laundering or terrorist

financing, or where there are factors to indicate a higher risk. AML/CFT checks will have to be carried out on such assignments and Suspicious Transaction Report (**STR**) should be filed with Financial Intelligence Unit (**FIU**), if necessary.

- 2.3 In order to discharge the statutory responsibility to detect possible attempts of money laundering or financing of terrorism, every insurer needs to have an AML/CFT programme which should, at a minimum, include:
- a) Internal policies, procedures and controls.
 - b) Appointment of a person to discharge the compliance function.
 - c) Training of employees/agents.
 - d) Review/Audit of the AML/CFT Programme.
- 2.4 Each insurance company has to establish and implement these policies, procedures and internal controls in its AML/CFT programme.
- 2.5 Considering the potential threat of usage of the financial services by a money launderer, the insurance companies should make reasonable efforts to determine the true identity of customers. The term customer also refers to the proposer/policyholder, beneficiaries and assignee. Where a client is a company etc., verification of identity is required to be carried out on persons purporting to act and/or who are authorized to act on behalf of a customer. Special care has to be exercised to ensure that the contracts are not anonymous or under fictitious names.
- 2.6 Insurance premiums paid by persons other than the person insured should be looked into to establish insurable interest.
- 2.7 Care has to be exercised to avoid unwitting involvement in insuring assets bought out of illegal funds. It is imperative to ensure that the insurance being purchased is reasonable, especially in other products like motor insurance that are mandated by law. Accordingly, a customer's source of funds, his estimated net worth etc., could be documented where considered necessary.
- 2.8 Insurers should take appropriate measures, commensurate with the assessed risk of customer and product profile as part of their due diligence measures which may include:-

- a) Conducting independent enquiries on the details collected on/provided by the customer where required;
- b) Consulting a credible database public or other etc.; and
- c) Relevant records and details, which must be maintained in such a way that it enables verification at a later date and support the fact of having established sources of funds involved in the insurance contract.

2.9 At any point in time during the contract period, where an insurance company is no longer satisfied that it knows the true identity of the customer, a STR should be filed with FIU.

2.10 Insurers are required to conduct detailed due diligence while taking insurance risk exposure to individuals/entities connected with countries identified by FATF as having deficiencies in their AML/CFT regime. Special attention should be paid to business relationships and transactions, especially those which do not have apparent economic or visible lawful purpose. In all such cases, the background and purpose of such transactions will as far as possible, have to be examined and written findings maintained for assisting competent authorities.