FINANCIAL SERVICES COMMISSION

17-June-2019 **REF: AML-2019/3**

REGULATORY REMINDER

LONG-TERM INSURERS - CDD REQUIREMENTS

1.1 The Anti-Money Laundering and Financing of Terrorism (**AML/CFT**) Guidelines (**Guidelines**) issued by the Financial Services Commission (**Commission**) effective November 2013 require that financial institutions (**FIs**) develop risk based programmes to combat money laundering (**ML**) and counter terrorist financing (**TF**).

1.2 Section 2 of the Money Laundering and Financing of Terrorism (Prevention and Control) ACT, 2011-23 **(MLFTA)** defines a person who operates an insurance business within the meaning of the Insurance Act, Cap. 310 as a FI for the purposes of AML/CFT.

1.3 Long term insurance business as defined in the Insurance Act; Cap. 310 means insurance business of all or any of the following classes, namely, life insurance business, industrial life insurance business and bond investment business.

2.0 INTRODUCTION

2.1 This Regulatory Reminder should be read in conjunction with the Guidelines issued for the Commission's regulated FIs on anti-money laundering and anti-terrorism financing.

3.0 CUSTOMER DUE DILIGENCE

3.1 FIs need to carefully assess the specific background, other conditions and needs of the customer for AML/CFT purposes and protection of the integrity of the insurer and its business. Additional customer due diligence information is provided in the Guidelines.

3.2 FIs must know the identities of their insurance customers, their customers' sources of funds and wealth, and the purpose and intended nature of their insurance customers' activities. This information assists FIs in knowing who the customer is, understanding the true source of funds flowing through the insurance product, and establishing norms for expected customer profiles and conduct.

3.3 Identification and verification of customers and beneficial owners should take place when the business relationship is established. The policyholder (owner/controller) generally needs to be identified and their identity verified before, or at the end of the month when, the insurance contract is finalized.

3.4 Identification and verification of the beneficiary may take place after the insurance contract has been concluded with the policyholder, where the ML/TF risks are low and are effectively managed. In this instance, verification of a beneficiary's identity may take place:

a. At or before the time of any payout or premium refund; or
b. At or before the time the beneficiary exercises any vested right under the policy.

3.5 Where the verification information is not forthcoming at the outset or within a reasonable time after initial contact the proposed business relationship must be re-evaluated and transactions must not proceed.

3.6 FIs should conduct retrospective due diligence. FIs must collect customer due diligence and beneficial ownership information **on all existing accounts**

4.0 ML/TF RISKS & RED FLAGS

4.1 Generally, insurers engaged in long-term insurance business or annuity products may present a higher ML/TF risk compared to other insurers. Attempts to launder money through an insurance company may be carried out in any one or several of three ways:

a. By an insider (i.e. director, manager or employee) either individually or in collusion with others inside and/or outside of the company;
b. By a policyholder seeking to place illicit funds with an insurance company; or

c. By an insurance agent, broker, manager, or other intermediary facilitating the placement of illicit funds on behalf of either a policyholder or a third party or intermediary itself.

4.2 Significant factors that will affect the level of risk of any transaction or business relationship for long-term policies include:

a. The applicant for business, and any beneficial owner;
b. The beneficiaries;
c. Geographic connection;
d. The involvement of any intermediaries or third party service providers;
e. The nature of the product to be underwritten or sold; e.g. does it have a cash-in value or surrender value and can loans be taken against the policy.
f. The mode/method of payment of the premium;
g. The manner of transaction; e.g. face-to-face, online etc.; and
h. The amount of premium e.g. higher premium policies could be more vulnerable to ML/TF.

4.3 Particular note should be taken of the heightened ML/TF risks associated with the following insurance products:

a. Single premium life insurance policies with surrender value;
b. Investment-linked or other single premium contracts with surrender value;
c. Fixed and variable annuities; and
d. Endowment (second hand) policies

4.4 The following are some of the red flags specific to insurance that may require the application of additional customer due diligence:

a. Early surrender requests;
b. Overpayment of premiums;
c. Changes in the type of insurance product;
d. Changes to the duration or amount of coverage;
e. Requests for payments to third parties; and
f. Subsequently discovered information about an insurance applicant, beneficial owner of an applicant, controller or beneficiary.