



## Identifying Risk Elements in the General Insurance Sector to provide a Guide to the Sector in Adapting to its Proposed Removal from the AML/CFT Legislative Framework



June 2019

### A Thematic Review of General Insurers

The main objective of this study is to identify the types of AML/CFT risks in the general insurance sector and to provide guidance in instituting mitigating measures in addressing these issues. This is against the background of the impending removal of the sector from its existing obligations under POCA, TPA and the UNSCRIA (proliferation financing) while being cognizant of the expectations for continuous vigilance and the maintenance of adequate safeguards despite the absence of regulatory requirements.

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## A THEMATIC REVIEW OF GENERAL INSURERS

### 1.0 BACKGROUND

1. Since the passage of the Money Laundering Act (“MLA”) and its attendant regulations in 1998, all insurance companies (both life and general) have been defined as financial institutions and were therefore subject to the provisions of the legislation. With the passage of the Proceeds of Crime Act (“POCA”) in May 2007 which repealed the MLA, the definition of financial institution with respect to persons in the insurance industry was expanded to include insurance intermediaries (with the exception of insurance consultants or adjusters).
2. Similar provisions were made in the Terrorism Prevention Act (“TPA”) and the United Nations Security Council Resolutions Implementation Act (“UNSCRIA”), excepting that insurance intermediaries were not included as financial institutions under the TPA.
3. The inclusion of general insurance companies under the anti-money laundering and the counter-financing of terrorism and proliferation (“AML/CFT/CFP”) regime was not in keeping with the Financial Action Task Force (“FATF”) Recommendations of financial institutions that were required to be brought under this framework. The guidance from FATF with respect to the insurance sector requires that any person who conducts as a business **“Underwriting and placement of life insurance and other investment related insurance (applies to both insurance undertakings and to insurance intermediaries [agents and brokers])”**.
4. For undetermined reasons, Jamaica opted to include general insurers under the provisions of the aforementioned legislation. This created onerous requirements on a sector which has never been considered globally as high risk for money laundering or terrorist financing. Additionally, the findings of the first National Risk Assessment (“NRA”) conducted by the country in 2015/2016 have shown the sector to be low risk for ML and TF. To address this anomaly and buttressed with representation from the industry, the regulatory authorities have decided to remove the sector from the AML/CFT regulatory regime. In the removal of the sector from the provisions of POCA and other related legislation, consideration has to be given to the data originating from the sector whilst it was regulated for AML/CFT. This data has to be taken into account, as there are indications that there were minor incidences of money laundering which were appropriately submitted to the designated authority as suspicious transaction reports (“STRs”).

#### **FATF Definition of Financial Institutions**

Any natural or legal person who conducts as a business one or more of the following activities or operations for or on behalf of a customer:

- Acceptance of deposits and other repayable funds from the public;
- Lending;
- Financial Leasing;
- Money or value transfer services;
- Issuing and managing means of payment;
- Financial guarantees and commitments;
- Trading in: money market instruments; foreign exchange; exchange, interest rate & index instruments; transferable securities; and commodity futures trading;
- Securities issues & related financial services;
- Portfolio Management (individual & collective);
- Safekeeping & administration of cash or liquid assets;
- Underwriting and placement of life insurance and other investment related insurance;
- Money and currency changing.

5. This study aims to review activities identified as being suspicious for money laundering whilst also examining other illicit financial transactions that are attracted to this sector based on its characteristics. The broad objective is to ensure that the sector, although divested of its AML/CFT obligations, continues to act as a gatekeeper to prevent its businesses being used for ML/TF purposes.

## 2.0 METHODOLOGY

6. The main tool used for data collection is a questionnaire that was sent to ten (10) operational general insurance companies to input data for the period 2017 to 2018. The information received from the questionnaires was collated and analyzed and constitutes the main source for this report.
7. A secondary source of information is statistical data held by the Financial Intelligence Unit (“FIU”) on total number of suspicious transaction reports (“STRs”) received in 2017 and 2018 and specifically, the number of reports received from the general insurance sector.

## 3.0 OBJECTIVES

8. The key objectives of this study are:
  - To identify the major ML/TF risks (if any) in the general insurance sector;
  - To construct a rational framework for the proposed removal of the sector from the AML/CFT regulatory provisions;
  - To identify and assess the range of other illicit financial transactions in the sector; and
  - To provide guidance to the sector in instituting mitigating measures to reduce the likelihood of the sector being used to facilitate ML/TF.

## 4.0 INDUSTRY OVERVIEW

9. At the end of 2018, there were twelve (12) registered general insurance companies with ten (10) being operational. Total assets for the industry as at December 31, 2018 was J\$81.4 billion which represented an increase of 4.3% when compared to total assets reported for the preceding year. Total liabilities as at December 31, 2018 was recorded as J\$54.1 billion.
10. The three largest companies had total combined assets of J\$41.6 billion as at December 31, 2018, which represented 51.1% of the total aggregated assets in the sector.
11. The industry reported net income of \$2.7 billion in 2018, which constituted an increase of \$0.3 billion when compared to net income of J\$2.4 billion in 2017.
12. Gross premium written by general insurance companies in 2018 was J\$48.5 billion whilst the total net premium written was J\$21.3 billion.

## 5.0 PRESENTATION AND ANALYSIS OF DATA

13. A questionnaire was disseminated to the ten (10) operational general insurance companies and responses were received from eight (8)<sup>1</sup> companies as listed below:

- Advantage General Insurance Company Limited
- British Caribbean Insurance Company Limited
- Guardian General Insurance Jamaica Limited
- GK General Insurance Company Limited
- Insurance Company of the West Indies Limited
- Iron Rock Insurance Company Limited
- JN General Insurance Company Limited
- Key Insurance Company Limited

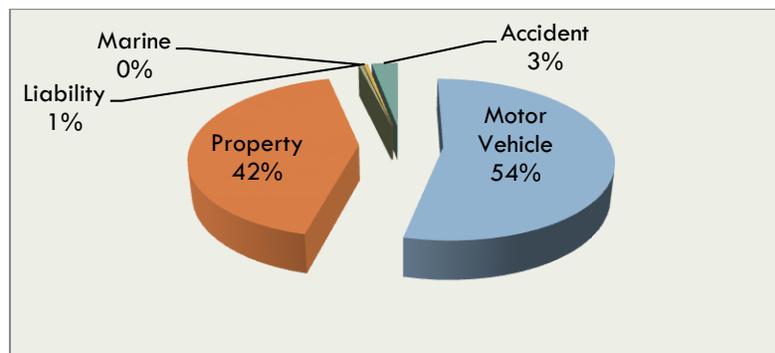
### 5.1 Products and Services

14. Seven (7) companies responded to this question indicating that the top five products and services based on annual earnings on the following classes of business are:

**Table 1 – Schedule of Insurance Products and Associated Annual Earnings**

| <b>PRODUCT</b> | <b>COMBINED ANNUAL EARNINGS (JMD)<br/>(As at December 31, 2018)</b> |
|----------------|---|
| Motor Vehicle  | 17,140,731,767  |
| Property       | 13,464,638,783  |
| Marine         | 144,133,024   |
| Liability      | 157,199,766   |
| Accident       | 943,546,932   |
| <b>TOTAL</b>   | <b>31,850,250,272</b>   |

**Chart 1 – Percentage Earnings per Product Type**

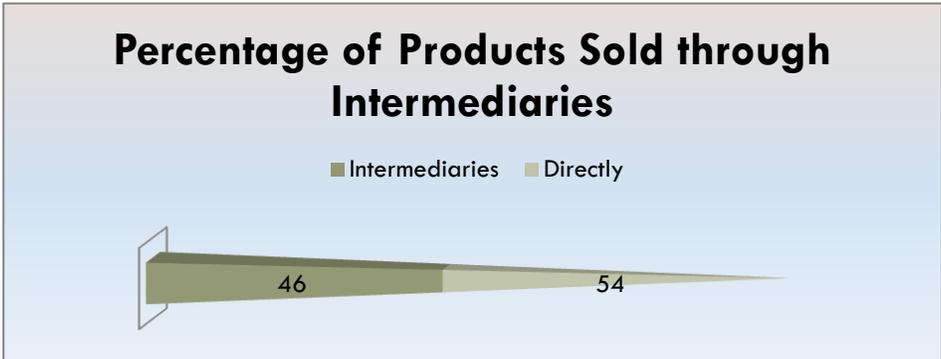


<sup>1</sup>American Home Assurance Company Limited also submitted a response. However, it was received too late to be included in the study.

### 5.2 Use of Intermediaries

15. Respondents indicated that on average forty-six percent of their products were sold through intermediaries as depicted in Chart 2 below:

Chart 2 – Percentage of products sold through Intermediaries and Directly

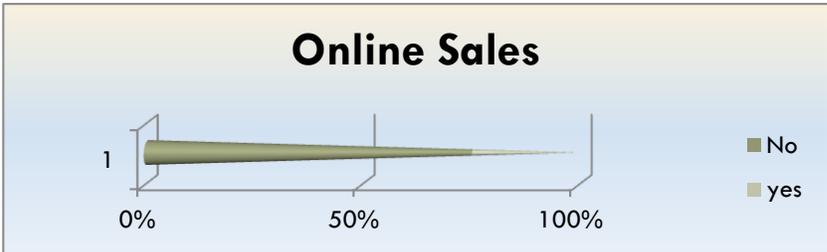


### 5.3 Foreign Currency Denominated Products/Services

16. All eight (8) general insurance companies indicated that they offered foreign denominated products with annual sales totaling Jamaican equivalent of \$33.46 million. This represents 0.1% of total annual premiums.

### 5.4 Online Sales

Chart 3 – Online Sales of Products

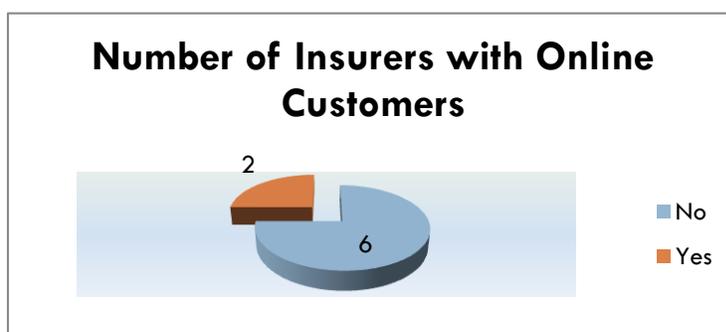


17. Of the eight respondents, only two companies offered online sales of products.

### 5.5 Percentage of Online Customers

18. Of the eight respondents only two had online customers, which represented an average of 8.5% of their total customer database.

**Chart 4 – Number of Insurers with Online Customers**



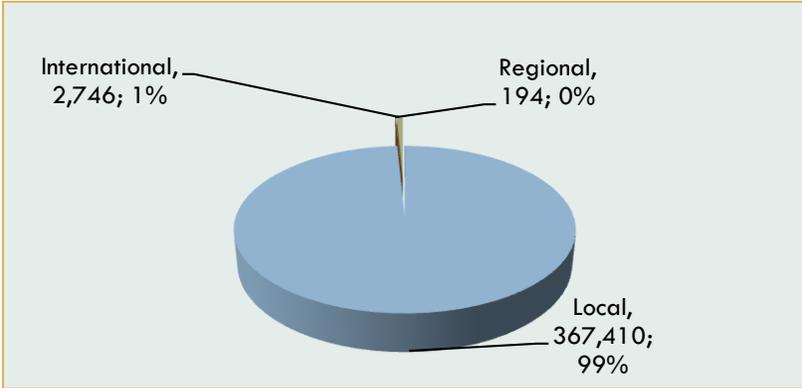
## 5.6 Local & Overseas Customers

19. As at December 31, 2018, the combined total number of customers of all eight general insurance companies was three hundred and seventy thousand, three hundred and fifty (370,350) of which 99% were local customers as presented in Table 2 below.

**Table 2 – Countries of Residence for Customers**

| COUNTRY                | NUMBER OF CUSTOMERS |
|------------------------|---------------------|
| Jamaica                | 367,410             |
| USA                    | 1,504               |
| UK                     | 703                 |
| Canada                 | 528                 |
| Cayman Islands         | 115                 |
| T&T                    | 31                  |
| Guyana                 | 19                  |
| Turks & Caicos Islands | 12                  |
| Bermuda                | 11                  |
| Germany                | 9                   |
| Barbados               | 5                   |
| Italy                  | 1                   |
| Mexico                 | 1                   |
| Bahamas                | 1                   |
| <b>TOTAL</b>           | <b>370,350</b>      |

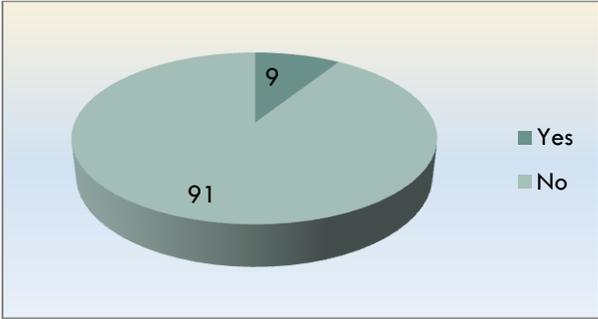
**Chart 5 – Geographic Region of Customers**



**5.7 Percentage of Customers which are Bodies Corporate**

20. With responses from all eight companies, it was established that on average, 9% of customers of general insurers are bodies corporate.

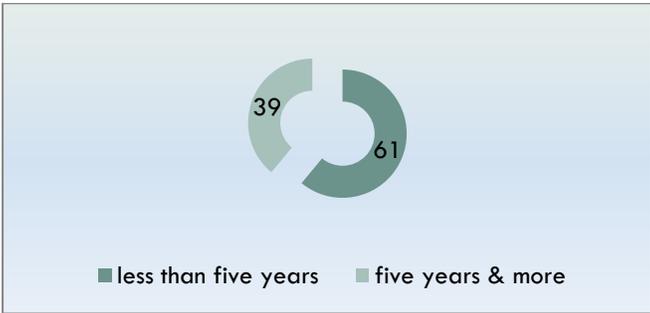
**Chart 6 – Percentage of Customers that are Bodies Corporate**



**5.8 Percentage of Business Relationships Five Years & More**

21. Six respondents indicated that 38.8% of their business relationships have been maintained for five years or more. It should be noted that one general insurance company failed to provide a response to this question and one company has been operating for less than five years.

**Chart 7 – Length of Business Relationship**



### 5.9 Risk Assessment on Customers

22. All eight general insurers have reported that they have conducted risk assessments on customers, with six entities indicating that risk assessments have been conducted on all customers whilst two entities indicated partial risk assessments.

**Table 3 – Customers Risk Profile**

| Risk Profile  | Risk Level (%) |
|---------------|----------------|
| Low           | 94.8           |
| Moderate      | 2.9            |
| Above Average | 1.3            |
| High          | 1.0            |

### 5.10 Risk Assessment on Products/Services

23. Seven of the general insurers have indicated that they have conducted risk assessments on their products and services, with six reporting that they have conducted a risk assessment on all their products and one reporting a partial risk assessment.

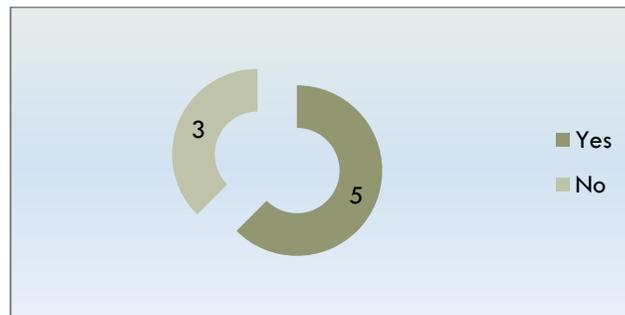
**Table 4 – Risk Profile of Products/Services**

| Risk Profile  | Risk Level (%) |
|---------------|----------------|
| Low           | 98.6           |
| Moderate      | 1.4            |
| Above Average | 0.0            |
| High          | 0.0            |

### 5.11 Incidences of Criminal Activities by Customers

24. Of the eight institutions, five indicated that they have identified criminal activities conducted by their customers as illustrated in Chart 8 below:

**Chart 8 – Institutions that have identified Illicit Transactions**

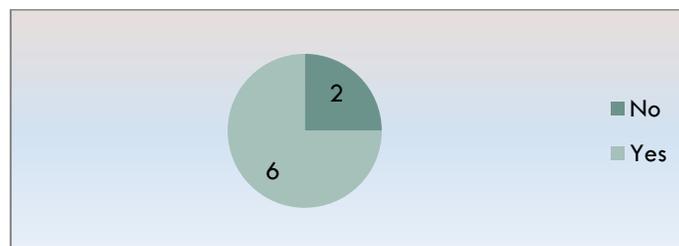


25. All the reported illicit transactions involved some form of fraud.

### 5.12 Reports to the Police

26. Only two of the eight institutions have filed reports with the police as depicted in Chart 9:

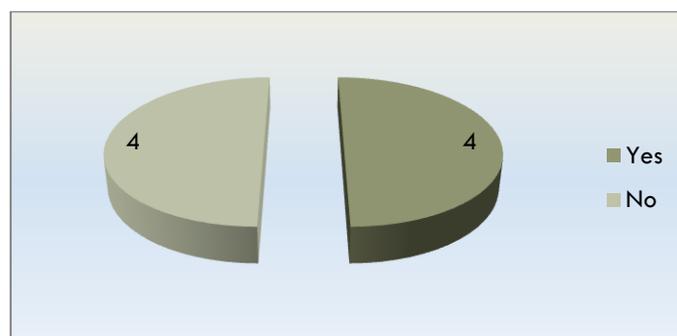
**Chart 9 – Institutions that have filed Police Reports**



### 5.13 Termination of Business Relationships

27. Four of the eight institutions have indicated that they have terminated business relationships based on suspicions of criminal activities.

**Chart 10 – Termination of Business Relationships**



28. These four institutions reported that they have terminated forty-three (43) business relationships in a two-year period (2017 & 2018).

### 5.14 Unusual Transactions

29. Three general insurance companies cumulatively have nineteen (19) unusual transactions over the two year period under review. The reasons given for identifying these nineteen transactions as unusual are:

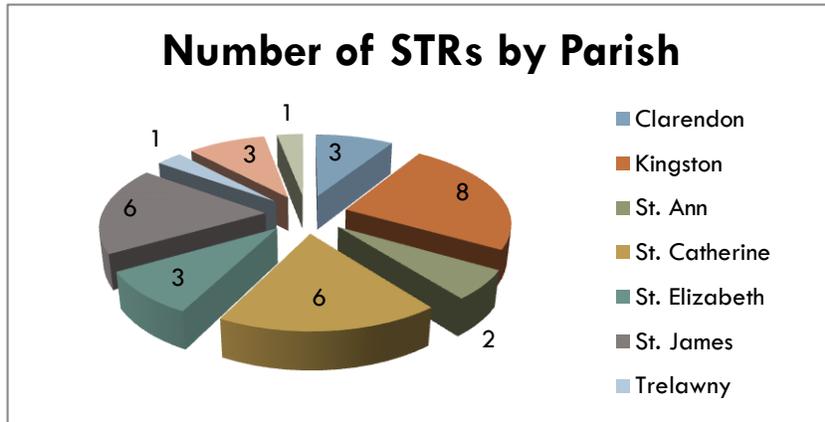
- Inconsistent Customer Due Diligence (CDD) information
- Mismatch between occupation and stated income
- Overseas resident cash purchase of motor vehicle
- Possible involvement in criminal activities
- Occupation appears questionable
- Age of client vis-à-vis the value of the insured asset
- Large cash payments of premiums
- Request for claim to be paid in cash
- Inability to verify source of funds
- Unwillingness to comply with CDD requirements
- Transactions inconsistent with customer's profile

### 5.15 Suspicious Transaction Reports

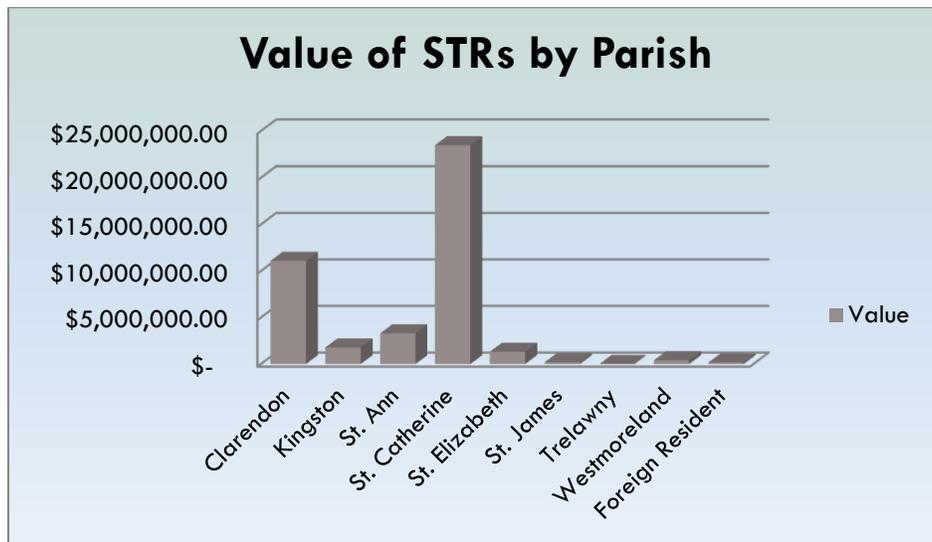
30. Seven general insurers have indicated that they have submitted a combined total of thirty-three (33) suspicious transactions reports ("STR") to the Financial Investigations Division ("FID") over the two-year period (2017-2018) under POCA. There were no STRs submitted under TPA. Reviews of these STRs indicate the following:

- The total value of these suspicious transactions amount to J\$41.7 million.
- The largest transactions (56%) occurred in the parish of St. Catherine.
- The most incidences of suspicious transactions occurred in Kingston with 8 incidences while St. Catherine and St. James each had six incidences.
- Nineteen STRs were filed on males whilst thirteen were filed on females, with one report failing to identify the gender.
- Males accounted for \$29.8 million of the total value of STRs filed.
- Most of the STRs filed were regarding persons between the ages of 31 to 40 years.

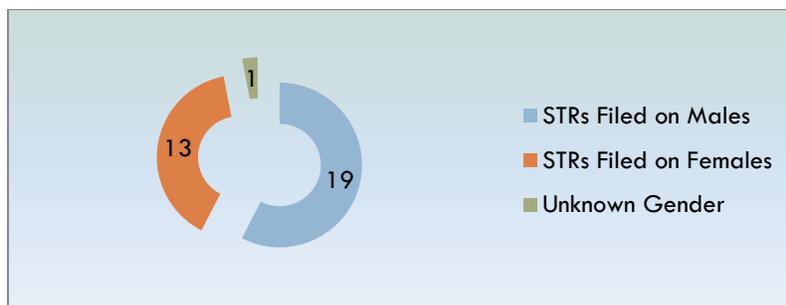
**Chart 11 – The number of STRs by Parish**



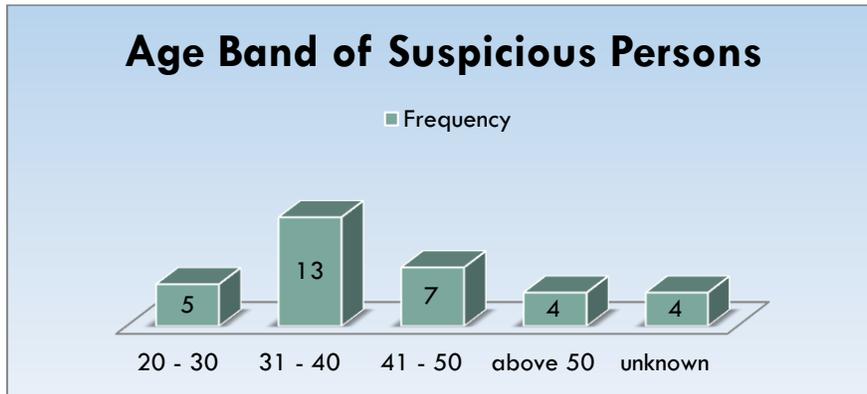
**Chart 12 – The Value of STRs by Parish**



**Chart 13 – Ratio of STRs filed on Males Compared to Females**



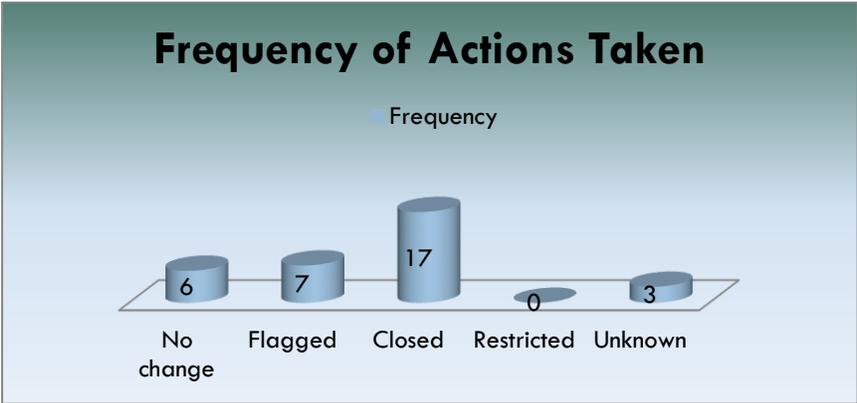
**Chart 14 – Depiction of Ages of Persons on whom STRs have been filed**



31. The following reasons for suspicion were provided by the entities:
- High value transaction which appears to be linked to a Politically Exposed Person (“PEP”)
  - Employee Fraud
  - Cash Purchase of asset with no proof of source of funds
  - Theft of motor vehicle not reported by policyholder
  - Adverse media reports
  - Policyholder owns several motor vehicles which is inconsistent with profile
  - PEP who is under investigation by law enforcement
  - Transaction is inconsistent with profile and transaction history
  - Income is inconsistent with the acquisition of high value asset
  - Insured who resides overseas has purchased high value motor vehicle in cash
  - Incorrect information submitted on motor vehicle accident form
  - Suspicion of insurance fraud
  - Screening revealed criminal history
  - Suspected arson in insurance claim
  - Suspected commingling of funds in business transactions
  - KYC non-compliance
  - Policyholder failed to file a claim after damage to motor vehicle
  - Fraudulent identification documents
  - Attempt to insure a motor vehicle that was reported as stolen.

32. The seven general insurers reportedly took action as follows on accounts on which STRs were filed:

**Chart 15 – Frequency of Actions Taken on Accounts Reported as suspicious**



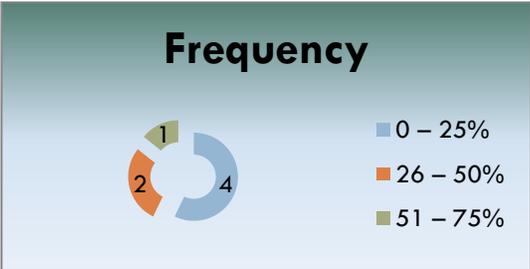
**5.16 Requests for Consent**

33. One general insurance company requested and was granted consent by the Designated Authority to proceed with a suspected prohibited transaction in the period under review.

**5.17 Preventative Measures to be Maintained by General Insurers**

34. Seven of the respondents indicated that they would continue to maintain some AML/CFT preventative measures despite the proposed removal of the sector from the provisions of POCA, TPA and the UNSCRIA. The expected percentages of AML measures to be retained are illustrated in Chart 16 below:

**Chart 16 – Level of Retention of AML Preventative Measures**



35. Some of the measures that would be maintained by general insurers include:

- Identification of the Customer
- Risk assessment of customers
- Transaction monitoring
- Enhanced due diligence for high risk customers
- Limits on cash transactions
- Screening of customers against Listed Entities publications.
- Ongoing policy and procedures development to maintain a risk and compliance culture
- Continuous AML/CFT training
- Continuous strengthening of the lines of defence to manage AML contagion risks
- Recordkeeping provisions

36. Six entities responded that they would continue to submit suspicious transaction reports. However, only regulated entities under POCA and TPA are authorized to file STRs.

### 5.18 Proposed Removal from AML/CFT Regulatory Provisions

37. Seven respondents agreed that the sector should be removed from the provisions of POCA/TPA whilst one respondent did not agree. Some of the reasons given in support of the proposed removal were:

- The AML/CFT provisions are onerous for a sector that is considered to be low risk.
- The nature of general insurance requires underwriting of the risk before acceptance. This involves risk assessments which are similar to those used for AML purposes, especially in establishing source of income/source of wealth.
- The relatively low volume of STRs that is generated from the sector.
- A fraudulent claim is the major method of money laundering through a general insurer, and effective fraud legislation which currently exists can adequately address this issue.
- The products and services offered by general insurance companies are not sufficiently flexible to be the first vehicle of choice for money launderers who typically have large amounts of cash to be laundered.
- The costs associated with instituting and maintaining the preventative and reporting mechanisms are disproportionate to the risks of the sector being used for ML or TF.
- Similar AML/CFT regulatory requirements do not exist in other jurisdictions such as the UK and Canada.

38. The reason provided by the respondent who stated that the sector should remain under AML/CFT regulatory provisions was that although the sector was low risk, there were still some AML/CFT risks and therefore the sector should continue to be regulated but be subject to Simplified Customer Due Diligence.

### 5.19 Perception of ML/TF Risk in the General Insurance Sector

39. Seven respondents indicated that they believed that the risk was low, whilst one respondent indicated moderate. The reasons given for a low ML/TF risk were:

- The products are all low risk.
- General insurance policies do not carry cash surrender values, investment features or store value.

- General insurance policies carry a maximum tenure of one year, normally with one annual payment (except where there are payment plans). Therefore, where a risk is identified as being unacceptable, coverage does not have to be renewed.
- Insurance premiums are fairly low and therefore, this is not an effective method of laundering funds.
- Intermediaries are used and therefore, the insurance company does not have the direct risk which has been transferred to the agents and brokers.
- The sector is at a higher risk for fraudulent claims rather than as a conduit for the proceeds of crime.
- By virtue of their nature, the products offered do not provide much scope for money laundering.
- Globally, the general insurance sector is not subject to AML/CFT provisions as the sector is considered to be low risk.

## 5.20 Authorized and Protected Disclosures

40. Seven of the respondents indicated that in accordance with section 100 of POCA, they would continue to submit Authorized Disclosures to the Designated Authority regarding suspected money laundering transactions. Seven general insurers indicated that they understood that making an authorized disclosure provides the entity with a defence from being charged with a money laundering offence.

Data from the Financial Investigations Division (“FID”)

## 5.21 Statistics on STRs Received from the FIU/FID

41. The FID has provided the following data on STRs and Requests for Consent (“RFC”) it has received for the years 2017 & 2018. See details below.

**Table 5 - Total No. of STRs Received**

| Year         | Total STRs     | No. from General Insurers | % of STRs Submitted by General Insurers |
|--------------|----------------|---------------------------|---|
| 2017         | 126,983        | 14                        | 0.01                                    |
| 2018         | 59,698         | 16                        | 0.03                                    |
| <b>TOTAL</b> | <b>186,681</b> | <b>30</b>                 | <b>0.02</b>                             |

42. The data in Table 5 above shows that there was a sharp decline of fifty three percent (53%) in the number of STRs received by the FID in 2018 when compared to 2017. However, the number of STRs submitted by the general insurers actually increased by two (2), resulting in a percentage increase of 14%. However, it must be recognized that the FID instituted its online reporting portal (goAML) on August 1, 2018 which clearly impacted the number of STRs submitted to it. A disaggregation of the data for the period January to July 2018 (pre-goAML), and August to December 2018 (post goAML) undoubtedly reflects this as shown in Table 6 below:

**Table 6 – Breakdown of STR Data (2018)**

| Period            | No. of STRs   |
|-------------------|---------------|
| January - July    | 51,537        |
| August - December | 8,161         |
| <b>TOTAL</b>      | <b>59,698</b> |



**Comparative STR Data**

Jan – Jul 2017: 78,369

Jan – Jul 2018: 51,537



**5.22 Statistics on Requests for Consent (“RFC”)**

43. The FID reported that there was one RFC from the general insurance sector for the relevant period which correlates with data received from the industry. Total RFCs received by the FID for the calendar years, 2017 and 2018 amount to two hundred and twenty eight (228).

**5.23 Case Disclosures from STRs Received from General Insurers**

44. The FID has reported that four (4) Case Disclosures were generated from the STRs it received from the sector. The FID also indicated that one of these Case Disclosures involved a PEP. The number of case disclosures translates to a case conversion rate of thirteen percent (13 %).

**6.0 INTERPRETATION OF THE DATA**

45. The main income streams for the general insurance sector flow from the provision of insurance coverage for motor vehicles and property. These two types of insurance products constitute approximately ninety-six percent (96%)<sup>2</sup> of the gross earnings of the sector. Bodies corporate accounted for nine percent (9%) of all customers while thirty-nine percent (39%) of business relationships were established five years or more.

46. The distribution channel utilized by general insurers must also be factored into the consideration of risk. The respondents indicated that forty-six percent (46%) of sales were through intermediaries. This means that the general insurance company had limited or no direct contact with those policyholders.

<sup>2</sup> As per responses from the questionnaires and do not represent the totality of the data.

Also, only two general insurers had online customers, comprising eight and a half percent (8.5%) of their total customer database.

47. Ninety-nine percent (99%) of customers reside locally whilst only 0.1% of sales of products and services are received in foreign denominated currencies.

48. The risk assessment of customers in the ninety-five percent (95%) as low risk, high risk. The remaining four moderate and above average assessment conducted on sector has classified 99.6% of

49. There appears to be very low activities in the sector, with all transactions involving some five of the general insurance that they identified customer transactions, only two companies filed reports with the police on criminal activities over the two year period. Over the same period, four companies total of forty-three (43) business claims.



sector has categorized almost with one percent categorized as percent (4%) fall in the risk categories. The risk products offered by the these as low risk.

incidences of criminal reported illicit form of fraud. While companies reported initiated criminal indicated that they had customers engaged in period (2017 - 2018). terminated a combined relationships, mostly for fraudulent claims.

50. General Insurers reported that they submitted thirty-three (33) STRs to the FID in the two year period (2017 - 2018), while the FID had reported that it received only thirty (30) reports from the sector. The sector further reported that the amount of funds involved in these suspicious transactions amounted to approximately forty-two million dollars (J\$42M). However, there was no consistency in the amount being reported, as some companies used the value of the asset being insured while others used the annual premium payable. Three parishes (Kingston, St. Catherine and St. James) accounted for the highest incidences of suspicious reports, that is, sixty one percent (61%). The typical person on whom a STR is filed is a male aged between thirty-one to forty years.

51. The FID has reported that for the period under review it received one hundred and eighty-six thousand, six hundred and eighty-one (186,681) STRs, of which general insurers accounted for thirty (30)<sup>3</sup> which would result in approximately 0.02% of total STRs being generated from the general insurance sector. This is in keeping with the risks assessments conducted which have revealed that for the most part, the customers and products of the sector are low risk for money laundering and terrorist financing and therefore, the sector's submission of STRs would be expected to be comparably low.

52. Similarly, requests for consent to conduct a suspected prohibited transaction were inconsequential, with only one such request from the general insurance sector over the period under review.

53. The reasons for suspicion were varied, but most suspicions were related to insuring of motor vehicles with indications that the motor vehicles were purchased using criminal property. These suspicions arose mostly from circumstances where the income of the policyholder could not support the acquisition of the motor vehicle, which tended to be cash purchases. There were some instances where the policyholder, when screened, was found to have a criminal record. Invariably, it seems that the money laundering

<sup>3</sup> Note the difference as stated in Paragraph 50 above

itself would have occurred when the asset (whether motor vehicle or property) was being procured. The general insurance sector would therefore not be involved in the money laundering activity but can retrospectively provide law enforcement with important information on acquisition of criminal property. This is reflected in the favourable case conversion rate of thirteen percent (13 %) of STRs submitted by general insurance companies.

*“For the purposes of this Part, a disclosure is authorized if it is a disclosure to an authorized officer or nominated officer of information or other matter that causes the person making the disclosure to know or believe, or to have reasonable grounds for knowing or believing, that property is criminal property”*

*Section 100(4) (a), POCA*

54. There was a common misunderstanding by the respondents regarding who is authorized to submit a STR, which is restricted to persons in the regulated sector. Otherwise, persons conducting a transaction in the course of their business, trade or profession can submit an authorized disclosure to the designated authority, either before or after completing the prohibited transaction.

55. Most respondents indicated that they would submit authorized disclosures under

section 100(4) of POCA, and understood that such a report protects the entity and its employees from being charged with a ML offence.

56. There was general consensus that the sector would maintain some AML/CFT measures whether these were legally imposed, proposed as guidance from the FSC or self-imposed. Most indicated that there is no necessity to prescribe in law the AML/CFT requirements as their institution intends to retain some measures.
57. Overall, there was almost full support for the general insurance sector being removed from AML/CFT regulatory provisions as the sector was considered to be low risk for ML. It was generally recognized that the sector itself attracted certain illicit transactions, especially in fraudulent claims but that these were mere characteristics of the nature of the industry.

## **7.0 CONCLUSION**

58. Since 1998, the general insurance sector has been required to implement AML measures with the promulgation of the Money Laundering Act and its Regulations. The industry has complied with its regulatory obligations and has instituted the required AML/CFT framework conforming to the various legislative amendments and enactments. However, there has been disquiet within the industry regarding the imposition of a regime that has been onerous in its cost and implementation framework to address what has been believed to be a non-issue; that is, the ML and TF risks in the sector, which are considered to be low. This was supported by the findings of the NRA which classified the sector as low risk and had as a recommendation that general insurers should not be subject to the full range of anti-money laundering requirements.
59. The intention of the competent authorities to remove the general insurance sector from its AML/CFT obligations was triggered by the following factors:

- There is no requirement under the FATF Recommendations for the sector to be brought under AML/CFT regulatory provisions;
  - The sector is considered to be low risk for ML and TF as per the findings of the NRA;
  - The AML/CFT requirements are onerous for a sector seen to be low risk; and
  - There are provisions within POCA for unregulated businesses to submit reports on transactions involving suspected criminal property.
60. Over the years, the sector has instituted measures as required by legislation and the FSC Guidelines inter alia:
- Up-to-date and comprehensive AML/CFT Policy And Procedures Manual
  - Appointment of a Nominated Officer
  - Customer Due Diligence
  - AML/CFT Training
  - Risk Assessment of Customers and Products
  - Transactions Monitoring
  - Identification of Suspicious Transactions
  - Reporting Obligations
  - Independent Audits
  - Screening of Customers against Sanction Lists
  - Know Your Employees Requirements
  - Enhanced Due Diligence for High Risk Customers
  - Recordkeeping Provisions
  - Source of Funds and Wealth
61. Within the context of AML/CFT risk, an in-depth analysis of risk factors including geographic risk, delivery channels, product risk and customer risk when considered, either as separate elements or on a consolidated basis, have been demonstrated to be low.
62. With respect to the reporting of suspicious transactions, the FID has reported that thirty (30) reports were submitted by general insurance companies over the two-year period 2017 - 2018. A review of these reports reveals that suspicions were focused mostly on the insurance of criminal property, which in most cases involved motor vehicles. The sector has contended that the money laundering activity itself occurs at the stage when the asset is being acquired. Therefore, since most suspicious activities identified and reported from the sector involve the acquisition of a motor vehicle, then competent authorities' attention should be directed at car dealers who may be facilitating money laundering by accepting tainted funds.
63. The STRs submitted by the sector provide valuable information to law enforcement officers in the identification and potential recovery of criminal property. It is important to maintain this source of information for the FIU and law enforcement. Therefore, when the sector is removed from its AML/CFT reporting requirements, the necessary sensitization needs to be carried out to ensure that Nominated Officers are aware of the provisions of section 100 of POCA. This should provide the Nominated Officers with an alternate route of making authorized disclosures to the FIU.
64. The very favorable conversion rate of thirteen percent (13%) of STRs to Case Disclosures indicates that the FIU has recognized that the information contained in the reports is germane and actionable.

The FIU therefore has its own responsibility to engage with general insurers to facilitate the continued submission of reports (authorized disclosures) through its goAML portal.

65. There is acknowledgement that there are inherent characteristics within the sector that will attract certain fraudulent criminal transactions. However, this has to be treated as a separate issue and cannot be resolved as AML/CFT problems; but instead forms part of the operational risks of the sector. The identification and reporting to law enforcement of any fraudulent transactions by customers and employees needs to be an essential feature of the entities' Standard Operating Procedures (SOP). This must perforce include having proper claims investigations procedures that minimizes the payments of fraudulent claims.
66. The retention of some AML/CFT measures would be highly desirable to ensure that the sector is not viewed as susceptible to ML/TF activities and therefore attract money launderers. These AML/CFT measures should form part of the FSC's guidance to the sector and should be signed by the Minister and published in the Gazette; thereby making the guidance legally enforceable. Otherwise, general insurance can be classified as a low risk financial activity under POCA and therefore be subject to a limited range of anti-money laundering measures, that is, simplified due diligence.
67. It must be mentioned that the utilization of the limited resources of supervisors is also germane in any discourse on AML/CFT considerations. In the context of risk based supervision, resources are best directed at sectors where the risk of money laundering is highest. At best, ML risk in the general insurance sector is marginal. Therefore, if the sector remains under POCA, then the Competent Authority will have to commit some resources in its AML/CFT supervision. This diversion of resources from the higher risk sectors may invariably weaken the general effectiveness of AML/CFT supervision of all financial services.
68. Where a general insurance company functions as a financial holding company within a financial group, then the AML/CFT obligations will remain in effect.
69. Pursuant to the revised FSC Guidelines, subsidiaries within a financial group that are not subject to AML/CFT regulations should have adequate AML/CFT measures so as to prevent a ML/TF contagion risk to those businesses that are so regulated.

## **8.0 RECOMMENDATIONS**

70. The requisite proposed amendments to referenced legislation to have general insurance companies removed from AML/CFT legislative provisions are currently under review. However, as noted above, those amendments would not be applicable to any general insurance company that functions as a financial holding company within a financial group. Further, the FSC Guidelines requires that subsidiaries within a financial group maintain adequate AML/CFT measures. For those general insurance companies that are outside the financial group structure, it is recommended that certain AML/CFT measures be retained to ensure that the sector remains low risk for ML and TF activities.
71. As Supervisor, the FSC should provide appropriate guidance to the sector on the AML/CFT features outlined below:

## 8.1 Measures to Retain

72. It is recommended that the FSC directs general insurers (after the sector's removal from POCA and related legislation) to retain the following AML/CFT measures:

- Comprehensive AML/CFT Policy and Procedures Manual that is updated annually and readily accessible to all employees;
- Appointment of a Nominated Officer (Entities would make their own determination as to whether this would be a fully dedicated post);
- Identification Requirements (the following information constitutes appropriate identity elements or identifiers for a natural person):
  - Full Registered Name (and any other names used)
  - Date of Birth
  - Place of Birth
  - Taxpayer Registration Number (or equivalent for foreign customers)
  - Gender
  - Current Permanent Address
  - Telephone Number
  - Nationality
  - Occupation/Business Activity (For employed persons – Name of Employer);
- AML/CFT Training for relevant employees on a needs basis;
- Risk Assessment of Customers and Products for AML/CFT purposes;
- Appropriate systems for the Identification of Unusual and Suspicious Transactions;
- Processes to submit Authorized Disclosures to the FID;
- Record-keeping Provisions (Entities should be required to maintain records for a minimum of seven years); and
- Source of Funds/Source of Wealth Information (For transactions over a defined threshold).

## 8.2 Group-wide Provisions

73. In the case of a general insurance company that forms part of a financial group structure, the measures outlined below should be included in the financial groups' AML/CFT programme:

### Risk Assessment

74. Risk assessments should take into consideration group wide risk appetite and framework. The financial

holding company should therefore perform a consolidated risk based assessment (“RBA”) for the entire group, taking into account the geographic locations of companies and branches within the group. This RBA should include group wide assessment of AML/CFT compliance.

### **Policies & Procedures**

75. Group-wide standards, policies, procedures, processes and practices and internal controls should be applied across groups to allow for a consistent approach to AML/CFT control for all the companies within the group. The effectiveness of these policies and procedures should be assessed periodically and updated annually.

### **8.3 Internal Control Systems**

76. General insurance companies should be required to implement effective internal control systems to reduce the likelihood of the sector being used for illicit fraudulent purposes by having:

- Policies and Procedures for the handling of illicit financial transactions conducted by customers and employees;
- Adequate systems for the detection of fraudulent transactions (inclusive of internal and/or external audits);
- Investigation processes for investigating fraudulent claims;
- Defined processes to refer matters to law enforcement; and
- Systems to terminate business relationships.

77. Based on the abovementioned Recommendations, the general insurance sector would be subject to all the fundamental features of a Simplified Due Diligence regime as imposed by the Regulator. The sector should therefore continue to effectively deter persons from using its financial products and services for illicit purposes.

## APPENDIX – COPY OF QUESTIONNAIRE

| 1.0 ENTITY INFORMATION    |  |                 |                                  |                 |                                 |
|---------------------------|--|-----------------|----------------------------------|-----------------|---------------------------------|
| 1.1                       | Name of Entity:  |                 |                                  |                 |                                 |
| 1.2                       | Address:   |                 |                                  |                 |                                 |
| 1.3                       | Telephone Number:  |                 |                                  |                 |                                 |
| 1.4                       | Name of Nominated Officer:   |                 |                                  |                 |                                 |
| 2.0 PRODUCTS AND SERVICES |  |                 |                                  |                 |                                 |
| 2.1                       | How many products and services are currently offered to customers?   |                 |                                  |                 |                                 |
| 2.2                       | List your top five products/services (based on customers' purchases) and associated annual earnings.                                     |                 |                                  |                 |                                 |
|                           | #  | Name of Product | Associated Annual Earnings (J\$) |                 |                                 |
|                           | 1  |                 |                                  |                 |                                 |
|                           | 2  |                 |                                  |                 |                                 |
|                           | 3  |                 |                                  |                 |                                 |
|                           | 4  |                 |                                  |                 |                                 |
|                           | 5  |                 |                                  |                 |                                 |
| 2.3                       | What percentage of products/services are sold directly to customers?   |                 |                                  |                 |                                 |
| 2.4                       | What percentage of products/services is sold through intermediaries?   |                 |                                  |                 |                                 |
| 2.5                       | Do you have any foreign currency denominated products/services?  |                 | Select a response                |                 |                                 |
| 2.6                       | If your answer to question 2.5 is 'yes', indicate the annual earnings generated from foreign currency denominated products and/services. |                 | J\$                              |                 |                                 |
| 2.7                       | Are products/services offered online?  |                 | Select a response                |                 |                                 |
| 2.8                       | If your answer to question 2.7 is 'yes', indicate what percentage of products/services are offered online.                               |                 |                                  |                 |                                 |
|                           | Use this space to insert any additional comments you have in regards to this section:  |                 |                                  |                 |                                 |
|                           |  |                 |                                  |                 |                                 |
| 3.0 CUSTOMERS             |  |                 |                                  |                 |                                 |
| 3.1                       | State the number of customers as at December 31, 2018  |                 |                                  |                 |                                 |
| 3.2                       | What percentage of your customers are local residents?   |                 |                                  |                 |                                 |
| 3.3                       | Indicate the top 5 most common jurisdictions for non-resident customers  |                 |                                  |                 |                                 |
|                           |  | 1 <sup>st</sup> | 2 <sup>nd</sup>                  | 3 <sup>rd</sup> | 4 <sup>th</sup> 5 <sup>th</sup> |
|                           | Country  |                 |                                  |                 |                                 |
|                           | Number of Customers  |                 |                                  |                 |                                 |
| 3.4                       | What percentage of your total clients are online customers?  |                 |                                  |                 |                                 |
| 3.5                       | Indicate what percentage of your total clients are corporate entities. (Nb* bodies corporate)  |                 |                                  |                 |                                 |
| 3.6                       | What percentage of the customers in your client database have maintained business relationships with your company for 5 years or more?   |                 |                                  |                 |                                 |
|                           | Use this space to insert any comments you have in regards to this section:   |                 |                                  |                 |                                 |
|                           |  |                 |                                  |                 |                                 |

Identifying Risk Elements in the General Insurance Sector to provide a Guide to the Sector in Adapting to its Proposed Removal from the AML/CFT Legislative Framework

|  |  |          |               |                   |
|--|--|----------|---------------|-------------------|
|  |  |          |               |                   |
| <b>4.0 RISK ASSESSMENTS</b>  |  |          |               |                   |
| 4.1  | Have you conducted risk assessments on all your customers?   |          |               | Select a response |
| 4.2  | Indicate a percentage for all the customers in your portfolio that fit into the risk categories listed below:<br>NB* (response must add up to 100%)                          |          |               |                   |
|  | Low  | Moderate | Above Average | High              |
|  |  |          |               |                   |
| 4.3  | Have you conducted risk assessments on all your products/services?   |          |               | Select a response |
| 4.4  | Indicate a percentage for all the products/services in your portfolio that fit into the risk categories listed below:<br>NB* (response must add up to 100%)                  |          |               |                   |
|  | Low  | Moderate | Above Average | High              |
|  |  |          |               |                   |
| Use this space to insert any comments you have in regards to this section: |  |          |               |                   |
|  |  |          |               |                   |
| <b>5.0 INCIDENTS OF CRIMINAL ACTIVITIES</b>                                |  |          |               |                   |
| 5.1  | Have you identified any incidents of criminal activities by your customers?  |          |               | Select a response |
| 5.2  | If yes, describe the three most frequent illicit financial transactions by your customers (eg. Fraudulent insurance claim) (put not applicable in this section if 5.1 is no) |          |               |                   |
|  | 1st  | 2nd      | 3rd           |                   |
|  |  |          |               |                   |
| 5.3  | Have you made a report to the police in the last two calendar years on suspected illicit transactions? (between January 01, 2017 and December 31, 2018)                      |          |               | Select a response |
| 5.4  | Have you terminated any business relationship in the last two years based on suspicions of criminal activities? (between January 01, 2017 and December 31, 2018)             |          |               | Select a response |
| 5.5  | If yes, state the number of closed business relationships  |          |               |                   |
| Use this space to insert any comments you have in regards to this section: |  |          |               |                   |
|  |  |          |               |                   |
| <b>6.0 UNUSUAL TRANSACTIONS</b>  |  |          |               |                   |
| 6.1  | How many unusual transactions have you logged in the last two calendar years? (between January 01, 2017 and December 31, 2018)   |          |               |                   |
| 6.2  | State all the criteria used by your entity to classify transactions as unusual.  |          |               |                   |
|  |  |          |               |                   |
| 6.3  | Have there been recurring incidents of unusual transactions for the same customer(s)?  |          |               | Select a response |

Use this space below to insert any comments you have in regards to this section:

| 7.0 SUSPICIOUS TRANSACTIONS                     |   |        |             |                    |              |                 |                                      |                    |                |
|---|---|--------|-------------|--------------------|--------------|-----------------|--------------------------------------|--------------------|----------------|
| 7.1   | State the total number of suspicious transaction reports submitted to the FID in 2017 & 2018 under POCA:  |        |             |                    |              |                 |                                      |                    |                |
| 7.2   | State the total number of suspicious transaction reports submitted to the FID in 2017 & 2018 under TPA:   |        |             |                    |              |                 |                                      |                    |                |
| 7.3   | Please provide a profile of the individuals for whom STR's have been filed: (between January 01, 2017 and December 31, 2018)                        |        |             |                    |              |                 |                                      |                    |                |
|   | #   | Gender | Age         | Residential Parish | Occupation   | Source of Funds | Reason for Suspicion (brief summary) | Transaction amount | Account Status |
|   | 1   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 2   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 3   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 4   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 5   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 6   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 7   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 8   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 9   | ?      |             | ?                  |              |                 |                                      |                    | ?              |
|   | 10  | ?      |             | ?                  |              |                 |                                      |                    | ?              |
| 7.4   | State the 5 most frequent indicators of suspicious transactions   |        |             |                    |              |                 |                                      |                    |                |
|   | 1 <sup>st</sup> Indicator:  |        |             |                    |              |                 |                                      |                    |                |
|   | 2 <sup>nd</sup> Indicator:  |        |             |                    |              |                 |                                      |                    |                |
|   | 3 <sup>rd</sup> Indicator:  |        |             |                    |              |                 |                                      |                    |                |
|   | 4 <sup>th</sup> Indicator:  |        |             |                    |              |                 |                                      |                    |                |
|   | 5 <sup>th</sup> Indicator:  |        |             |                    |              |                 |                                      |                    |                |
|   | Use this space to insert any comments you have in regards to this section:  |        |             |                    |              |                 |                                      |                    |                |
|   |   |        |             |                    |              |                 |                                      |                    |                |
| 8.0 REQUESTS FOR CONSENT/AUTHORISED DISCLOSURES |   |        |             |                    |              |                 |                                      |                    |                |
| 8.1   | State the total number of requests for consent submitted to the FID in 2017 & 2018  |        |             |                    |              |                 |                                      |                    |                |
| 8.2   | State the total number of responses from the FID in the following categories. (Nb* input a response for each category)                              |        |             |                    |              |                 |                                      |                    |                |
|   | Granted:  |        | Denied:     |                    | No response: |                 |                                      |                    |                |
| 8.3   | State the frequency of actions that have been taken against accounts on which consent have been requested? (Nb* input a response for each category) |        |             |                    |              |                 |                                      |                    |                |
|   | Closed:   |        | Restricted: |                    | Flagged:     |                 | No action:                           |                    |                |
|   | Use this space to insert any comments you have in regards to this section:  |        |             |                    |              |                 |                                      |                    |                |
|   |   |        |             |                    |              |                 |                                      |                    |                |

|  |   |                   |
|--|---|-------------------|
|  |   |                   |
| <b>9.0 PROPOSED AML/CFT FRAMEWORK AFTER LEGISLATIVE AMENDMENT</b>  |   |                   |
| 9.1  | Indicate the percentage of AML/CFT measures that will be maintained by your entity if the sector is removed from the provisions of POCA, TPA and the UN Act.                | Select a response |
| 9.2  | Indicate/describe the elements of your entity's AML/CFT framework that will be maintained in the box below:<br><div style="background-color: #e0f2f1; height: 40px;"></div> |                   |
| 9.3  | Will your entity continue to submit authorised disclosures (under POCA section 100) to the FID?   | Select a response |
| 9.4  | Indicate your understanding of the effect of an authorized disclosure.  | Select a response |
| Use this space to insert any comments you have in regards to this section:<br><div style="background-color: #e0f2f1; height: 80px;"></div> |   |                   |
| <b>10. PERCEIVED RISK OF ML/TF ACTIVITIES IN THE GENERAL INSURANCE SECTOR</b>  |   |                   |
| 10.1   | What is your perception of ML/TF risk in the general insurance sector?  | Select a response |
|  | State the reason for the answer you selected in the space below.<br><div style="background-color: #e0f2f1; height: 60px;"></div>  |                   |
| 10.2   | Do you agree that the sector should be removed from the provisions of POCA/TPA?   | Select a response |
|  | State the reason for the answer you selected in the space below.<br><div style="background-color: #e0f2f1; height: 60px;"></div>  |                   |
| 10.3   | What elements of the AML/CFT framework should be retained to protect the sector from ML/TF risk?<br><div style="background-color: #e0f2f1; height: 60px;"></div>            |                   |
| 10.4   | Should these elements be prescribed in law or remain at the discretion of each general insurance company?   | Select a response |
| Use this space to insert any comments you have in regards to this section:<br><div style="background-color: #e0f2f1; height: 80px;"></div> |   |                   |
| <b>Thank You For Your Cooperation</b>  |   |                   |