

# ML/TF Typologies in Insurance

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# Money Laundering in Insurance Sector

- More than 60% Insurance firms globally have reported exposure to financial crime
- Money laundering in the insurance sector is a growing global problem
- There is a massive flow of funds into and out of the business. This facilitates parking of illegal funds like proceeds of crime
- Most life insurance firms offer highly flexible policies and investment products that offer opportunities to customers to deposit and subsequently withdraw large sums of cash, with a relatively minor reduction in value
- General Insurance products like marine insurance, fire and other risk covers can be misused in areas like TBML
- Claim related frauds are used for generating unlawful funds which triggers money laundering transactions

# Vulnerabilities and Risks of Insurance Sector

Reliance on agents for the sale of Insurance policy and a very meagre proportion of business is done directly by the insurers.

Online sale and online payments- challenges in verifying the identity of client and third-party payments.

Short term contracts providing investment opportunities. Used by launderers to park the money.

Mis-use of features prevalent across insurance products viz., free-look' period, Single Premium remittances, top-up remittance, policy surrender, loan etc.

## Customer Risk

- HNI, Non-Residents, PEP
- Customer dealing in high risk businesses

# Insurance Product Vulnerabilities

## Single Premium Policies

- Offload large amount of money in one transaction

## Annuity Policies or Regular Premium Savings

- Receive income from annuity policies or premium savings products

## Cooling Off Periods

- Request refunds of premiums
- Deliberately overpay and request refund of excess

## Transferring Ownership

- Can transfer ownership of insurance policies to criminal third party who then subsequently withdraws the money

## Collateral

- Life policies can be used as a collateral for loans

# Insurance Sales - Risks and Vulnerabilities



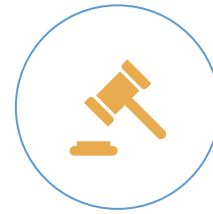
Insurance is normally 'push' sales especially savings products



The commission / incentive pay outs are significant



Steep sales target etc. leads to very high turnover in this industry



Certain unscrupulous elements keep moving between distributors / insurance companies and carry on such practises



Tele sales / non face to face sales have increased during the pandemic, leading to greater risks



Money launderers can use the above vulnerabilities with a promise of substantial new business

# Common Typologies

	Examples
Structuring / Smurfing	Logging multiple policies in cash / cash equivalent below the reporting / threshold level
Use of money transfers / wire transfers	Making premium payment by money transfer from anonymous accounts
Round tripping	Reinvestment of large amount withdrawn through freelook / surrender etc.
Trade Based money laundering	Use of marine, transit, fire and other risk insurance to back up trade based irregularities like over invoicing , under invoicing etc.
Use of Trusts / Corporate Vehicles	Use of opaque corporate / legal structures to buy investment related insurance products without disclosing beneficial owner

# Typologies in Insurance

- Misuse of product features:
  - Freelook
  - Single Premium products
  - Top ups
  - Surrender
  - Loans
  - Partial withdrawals
  - Short term contracts
- Claims related frauds – Vehicle insurance, Medical Insurance, Personal Accident & Term Insurance

# Insurance Challenges



TRAINING CAPACITY V/S FRONTLINE  
STAFF TURNOVER



LICENSING OF INTERMEDIARIES' STAFF



ENSURING PROTECTION OF  
WHISTLEBLOWERS AND ENSURING  
IMPARTIAL INVESTIGATIONS



# Responsibilities of Insurance Companies

The inherent risks are mainly in three areas:

- Products and Services
- Customers and entities
- Geographic locations

The Insurance companies as reporting entities are responsible for:

- Prevention
- Detection
- Of Money Laundering and Terrorist Financing activities

# Regulatory Expectations



The quality and number of Suspicious Transaction Reports are not commensurate with the size of the industry



The alerts and red flag indicators need to be more sharp and proper thresholds should be set or the same



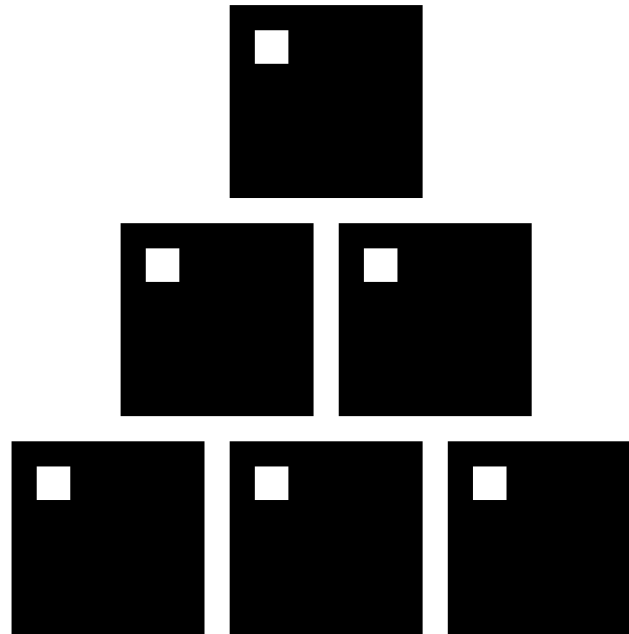
The time taken to identify a suspicious transaction should be reduced

# Best Practices ...

- The tone has to be set at the top:
  - At head of departments level in the Insurance Company
  - At top management level in an intermediary
  - It is not treated as a tick box approach
- Equal focus on volume and quality
  - Retention programmes and incentives to be based on both parameters
  - Disincentive and clawback of commission for intermediaries and agents
- Training – both at the point of joining and at regular intervals
- Create Champions within the sales, operations and underwriting teams
- Maker – Checker controls at various levels
- Continuous communication from Compliance function to empower frontline as first line of defence

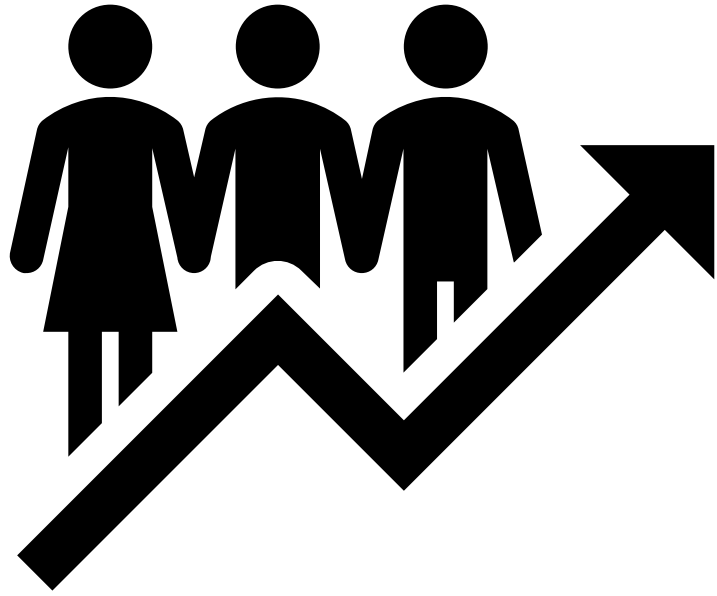
# Best Practices

- Risk assessment covering customers, products and geography of operation
- Set parameters relating to quality of business
- Tools to monitor the parameters on a real time basis
- Upgrade process controls
- Empower checker at the acceptance level, to ensure proper compliance
- Training of all staff especially those involved in frontline and operations
- Strong Whistle blowing mechanism



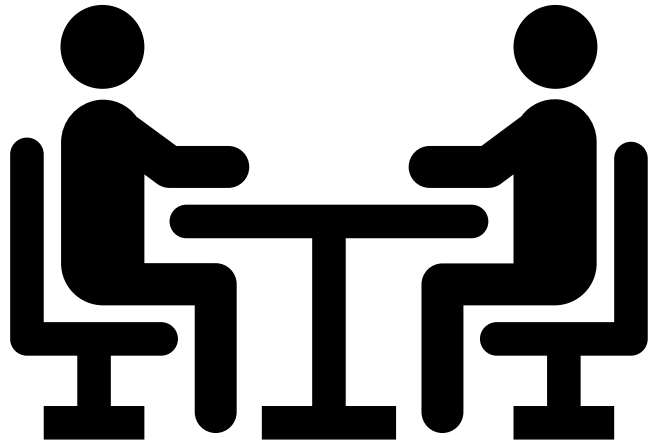
# Products & Services

- Analyse and identify vulnerabilities in products and features
- Set up processes to ensure vulnerable features are not misused
- Review features regularly to identify any trends or patterns



## Sales Channels

- Conduct regular training for all staff, agents and partners on AML and other regulatory requirements
- Conduct due diligence of all sales staff, agents and partners at the time of on boarding
- Measure performance covering all parameters such as sales volume, quality of business, claims experience, compliance etc.



# Customers

- Conduct proper KYC procedure at the time of on boarding of customers, covering net worth, behavioural pattern and mode of payment
- Based on the initial findings, enhanced due diligence should be conducted wherever necessary
- In case of Institutions, the business of the institution and the insurance requirement should be clearly understood
- Identification of beneficial owners wherever applicable
- Due diligence and approval by senior management for insurance cover provided to PEPs
- KYC ongoing reviews of customers based on risk assessment



# Geography

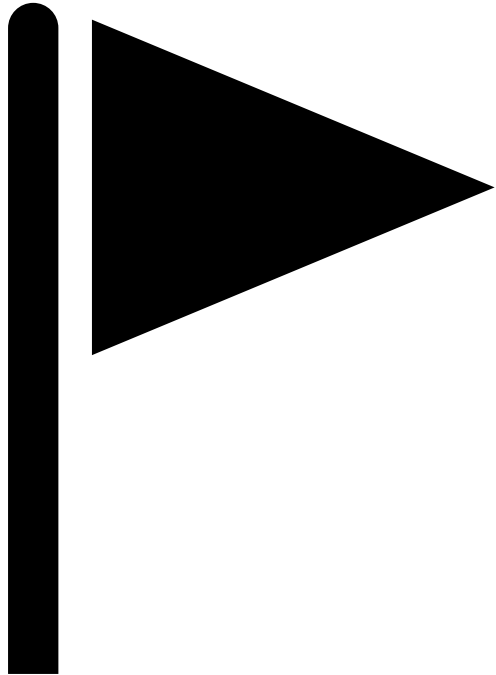
- If cross border business is accepted, then the regulatory regime at the country of residence of the customer should be considered for determining the risk rating
- Business from fraud prone areas should be properly scrutinised
- Trends relating to suspicious businesses should be tracked to identify high risk areas





# Claims

- Proper due diligence of fraud prone areas including detailed review of large claims
- Conduct KYC of all the beneficiaries
- Conduct proper investigations wherever any unusual issues are noted



## Other Factors

- All factors should be used to develop a risk based approach to manage the ML / TF risks
- Risk ratings should be reviewed on a regular basis
- Red flags should be reviewed on a regular basis to review their effectiveness
- All records maintained should be complete and all details related to a suspicious transaction should be readily available

A person (later arrested for drug trafficking) made a financial investment (life insurance) of USD 250,000 by means of an insurance broker.

He contacted an insurance broker and delivered a total amount of USD 250,000 in three cash instalments.

The insurance broker did not report the delivery of that amount and deposited the three instalments in the bank.

These actions raised no suspicion at the bank, since the insurance broker was known to them as being connected to the insurance branch.

The insurance broker delivered, afterwards, to the insurance company responsible for making the financial investment, three cheques from a bank account under his name, totalling USD 250,000, thus avoiding raising suspicions with the insurance company.

*(Source: Comsure)*

## Case Study

# Suspicious Transaction Activities

## Transactions do not make economic sense

- Early redemption of policy when surrender value is less than value of premiums paid
- Policies are cancelled shortly after premiums are paid – especially where premiums are paid in cash
- Transactions incompatible with normal activities of customer
  - Taking out policy loan soon after inception of policy
  - Sudden request to take out large single premium policy
- Transactions not commensurate with customer's apparent financial status
  - Large sum assured
  - Large single premium

# Suspicious Transaction Activities

## **Transactions involving large sums**

- Overpaying premium with request to refund excess
- Transactions in which funds received from or paid to customer bank account held in tax haven countries
- Payment of large premiums in cash
- Frequent taking out of policy loans repaid in cash

# Suspicious Transaction Activities

## **Transactions involving transfers abroad**

- Large and regular premium payments that cannot be clearly identified as bona fide transactions from countries / jurisdictions deemed high risk
- Substantial increase in cash premiums payment from foreign countries by customer without apparent cause

# Suspicious Transaction Activities

## Transactions involving Unidentified Parties

- Paying premiums in large third-party cheques on behalf of customer
- Assignment of policy to unidentified third parties with no plausible explanations
- Number of policies taken by same person, each purchased with cash and then cancelled with return of premiums to third parties

# Suspicious Transaction Activities

## **Apparent disconnects**

- Frequent changes to address
- Agents have consistently high activity levels of single premium business far in excess of any average company expectation
- Use of address that is not customer's permanent address



# Suspicious Transaction Activities

## **Tax- crime related transactions**

- No clear motive for taking life policies
- Source of premiums are not consistent with declarer purpose of the policy
- Source of premiums are from another jurisdiction and often tax haven

# Suspicious Transaction Activities

## **Other type of transactions**

- Customer fails to justify purpose of transaction
- Transaction with countries that are high FATF risk
- Young person purchases life policies and surrenders within short period of time
- Person receives religions or charitable organisation and utilized funds for purchasing life polices with cash value and surrenders within short period of time



QUESTIONS ???

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