

Money Laundering in the Insurance Industry



With money laundering in the insurance industry on the rise, **Ms Sandra Lawrence**, Director of Cogent Group Singapore, highlights the red flags that insurers can look out for in order to identify such activities. She also takes a look at the Monetary Authority of Singapore's policy on money laundering, which requires life insurers to report all transactions suspected of being connected with money laundering or terrorist financing. The article clearly spells out all the processes and procedures life insurers have to follow and notes how this can be a suitable framework for other insurers in the region as well.

In simple terms, money laundering is where illegally obtained money is disguised to make it look like it was obtained legally. It is "washed" to make it look clean. Criminals do not want these funds to be detected by law enforcement or revenue agencies, so they convert their dirty money into an asset which appears legitimate, such as an insurance policy, bank deposit, casino cheque or even real estate.

Using Insurance to Launder Money

When people think of money laundering, they might imagine criminals carrying bag loads of dirty money to a casino or a private bank in the Caribbean. What many people do not realise is that insurance products, particularly life insurance, provide a very attractive and simple means of laundering money.

A few years ago, a global US Customs Service investigation exposed the widespread use of insurance products for laundering by international drug traffickers. The investigation revealed that some US\$80 million in drug money was laundered through life insurance policies issued in the Isle of Man and other locations. The traffickers often cashed out policies prematurely, despite penalties for the early withdrawals. The drug traffickers allegedly purchased more than 200 life insurance policies through brokers, naming cartel members and family members as beneficiaries. Policies were paid for using cheques and wire transfers purchased with drug money.

In a case involving general insurance, the criminals used dirty money to purchase a general insurance policy to insure some high-value goods. These goods had also been purchased with dirty money. They subsequently made a fraudulent claim against the policy. So they effectively laundered their money several times! – buying furniture, then buying a policy, then receiving a "clean" cheque from their insurance company when they made a claim.

How Does It Happen? – The Warning Signs

There are a number of ways that launderers can use insurance products. Some of the *red flags* which may indicate money laundering include:

- Paying a large "top-up" into an existing life insurance policy
- Purchasing a general insurance policy, then making a claim soon after
- A customer who usually purchases small policies, suddenly requests a large lump-sum contract
- A customer who wishes to fund its policy using payments from a third party
- Purchasing one or more single-premium investment-linked policies, then cashing them in a short time later
- Premiums being paid into one policy, from different sources
- Making over-payment on a policy, then asking for a refund
- Where the relationship between the policyholder and beneficiary seems unusual
- Making a large investment, then asking for a refund after the 14-day free-look or cooling-off period
- "Structuring" – ie purchasing several policies just under the reportable limit, instead of purchasing one large policy (in some countries all transactions over a certain limit must be reported to the Government)
- Where the customer is more interested in learning about cancellation terms than about the benefits of the policy
- Unusually large payments using cash, money order or travellers cheques
- Redemption of a policy which is unusually early or does not make good economic sense
- Channelling payments via offshore banks



- Purchasing an annuity with a lump sum rather than paying regular premiums over a period of time, particularly if the beneficiary is of an age which entitles him to receive the funds soon after
- Purchasing products which are inconsistent with the buyer's age, income, employment or history
- The funds coming from another country, particularly high-risk jurisdictions
- A customer who wants to pay a large premium with foreign currency or by way of wire transfer

The Law in Singapore

In 2007, the Monetary Authority of Singapore (MAS) released the updated version of Notice 314 on the Prevention of *Money Laundering and Countering The Financing of Terrorism* for life insurers.

The Notice applies to all life insurers registered under section 8 of the Insurance Act (Cap 142). Under the Notice, life insurers must:

- Not deal with any person on an anonymous basis or any person using a fictitious name
- Report all transactions suspected of being connected with money laundering or terrorist financing
- Develop and implement policies, procedures and controls to help prevent money laundering and terrorist financing, including the appointment of a management-level compliance officer
- Provide regular anti-money laundering and combating the financing of terrorism (AML¹/CFT) training to staff and agents
- Perform customer due diligence measures when establishing business relations with any customer, or when undertaking any transaction over S\$20,000 for any customer who has not otherwise established business relations with the insurer

Customer Due Diligence Includes the Following Processes

- Identifying the customer and obtaining identification information from him. This information includes full

name, unique identification number, existing residential address, contact telephone number, date of birth and nationality. Different particulars are required from non-personal customers such as companies.

- Verifying the identity of customers using reliable, independent sources, and keeping a copy of all reference documents used to verify their identity
- Identifying and verifying the identity of payees before making certain types of payment such as surrendering a life insurance policy or refunding a premium
- Obtaining from the customer, when establishing business relations, information as to the purpose and intended nature of business relations
- Ongoing monitoring of business relations with customers
- Conducting scrutiny of transactions undertaken to ensure that transactions are consistent with the life insurer's knowledge of the customer
- Paying attention to all unusual transactions
- Periodically reviewing customer identification information to ensure the information is kept up-to-date.
- Having procedures to address risks associated with non-face-to-face relationships or transactions
- Performing enhanced customer due diligence (CDD) on high-risk customers such as politically exposed persons (PEPs)

Identifying High-Risk Customers

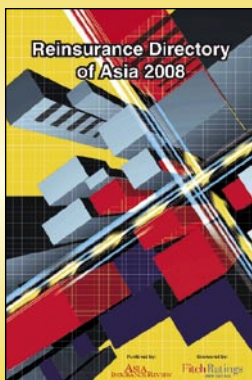
To determine whether your customers fit into the high-risk category, it is advisable to check their names against a reputable interdiction database such as WorldCheck. These databases contain names of terrorists, sanctioned entities, PEPs and other entities who have been reported in the public arena for various offences.

International Association of Insurance Supervisors

For further information on money-laundering case studies and preventive measures, refer to the Association's website which contains a Guidance Paper on AML and combating the financing of terrorism – www.iaisweb.org¹

¹ Anti-Money Laundering

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