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**Committee of experts on the evaluation of anti-money laundering measures
and the financing of terrorism**

MONEYVAL

Typology research

Money laundering through private pension funds and the insurance sector¹

¹ Adopted by MONEYVAL at its 33rd Plenary Meeting (Strasbourg, 27 September - 1 October 2010).

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Executive Summary

1. The insurance industry plays a key role in the global economy and, as economies develop, is finding greater penetration with both consumers and businesses, particularly in responding states. The insurance sector has traditionally been considered as demonstrating a low vulnerability to money laundering and terrorist financing. However, although the primary route for the laundering of criminal funds remains the banking system, the development of increasingly sophisticated control mechanisms mean that criminals are seeking alternative means of laundering criminal funds. As a consequence of this the insurance sector, together with other non-banking financial products, are increasingly being used by criminals.
2. The report is intended to be a guide for supervisors, law enforcement agencies and insurance industry participants to assist them in developing controls to detect and prevent money laundering and terrorist financing in the insurance industry. As such it should be used, together with the preventative measures, as set out in the FATF Methodology, to develop controls to counter money laundering and terrorist financing in the insurance industry.
3. Much of the material in the report is derived from information contained in the questionnaires submitted by MONEYVAL member countries and observers in 2010.
4. The report commences with an **Introduction** that sets out in detail the reasons for commissioning the report. This section is followed by a **Literature and Activities Review** which analyses the existing literature and guidance available on the subject of money laundering and terrorist financing in the insurance industry. This section also provides details of publicly available guidance provided by individual MONEYVAL countries.
5. The third section of the report analyses the **Current Situation in MONEYVAL Member States and Observers** and provides an outline of the insurance industry in these countries, comparing it with the global insurance industry. This section then goes on to consider the existing regulatory frameworks in these countries.
6. The fourth section of the report considers the **Money Laundering and Terrorist Financing Vulnerabilities in the Insurance Industry**. This section sets out the specific vulnerabilities identified and the intention is that this should be used as part of countries risk analysis. In particular it highlights the fact that non-life insurance is considered to be vulnerable as well as life insurance. It also highlights the fact that independent intermediaries marketing insurance products may present a weakness in AML/CFT controls. This section also notes that the development of the internet may give rise to new areas of vulnerability. This section is complemented by the fifth section of the report which sets out a series of **Typologies** that were identified within this project. These typologies are intended to illustrate some of the vulnerabilities highlighted in the fourth section of the report.
7. The sixth section of the report considers **Suspicious Transaction Reporting and Enforcement Action**. The conclusion of this section is that, despite the development of the insurance industry in MONEYVAL countries, the reporting level remains relatively low. One of the reasons for such a low level of reporting may be the general lack of awareness of vulnerability within the insurance sector. There is also a concern expressed that, due to the fact that insurance products are frequently marketed through non-insurance professionals (e.g. banks, estate agents, etc), STRs relating to insurance products may be categorised by reporting entity rather than by product thus giving a false indication of the vulnerability of the sector.
8. The report is complemented by several annexes. In particular, it includes in its first Annex a comprehensive list of **Red Flags and Indicators**. This list is provided to give law enforcement, regulators and the private sector an overview of the types of activities that can be suspicious. The list has been compiled from the publicly available literature as set out in the second section of the report as well as responses to the questionnaire. The remaining annexes provide tables setting out certain details of the regulatory regimes in MONEYVAL countries.

1 INTRODUCTION

1.1 Introduction

1. The insurance industry, along with the banking and securities sectors, is one of the core industries through which persons and entities can access the financial system. This access provides opportunities for criminals to misuse the financial system to engage in money laundering (ML) and terrorist financing (TF). The development of financial markets has determined the evolution of methods and schemes of money laundering and financing of terrorism in various sectors of the financial system, including insurance and reinsurance industry. Although the primary route for the laundering of criminal funds remains the banking system the development of increasingly sophisticated control mechanisms mean that criminals are seeking alternative means of laundering criminal funds. As a consequence of this the insurance sector, together with other non-banking financial products, are increasingly being utilised by criminals.
2. It is therefore important to establish suitable controls within the insurance sector in order to deter and detect instances of money laundering. In order to establish suitable controls, it is important to understand the nature of the risks and vulnerabilities to money laundering within the insurance sector. This report aims to set out areas of vulnerability as identified from within a number of MONEYVAL states as well as to summarize some of the measures undertaken to reduce the vulnerability of the insurance sector to money laundering.
3. Whilst the insurance industry has been the subject of international and domestic efforts relating to anti-money laundering (AML) and combating the financing of terrorism (CFT) for several years, there has been no specific international review of the ML/TF vulnerabilities specific to this industry and no recent typologies appear to be currently available.

1.2 Reasons for producing this report

4. The financial sector, including the insurance sector, offers a wide range of products including transfer, savings and investment products developed to meet the investment needs of a wide variety of consumers. Products are sold both domestically and internationally to consumers ranging from private individuals to multi-national corporations and governments, which exposes the industry to the risk of ML/TF.
5. The insurance industry is a dynamic sector which has developed a wide range of products from pure indemnity products (e.g. property and casualty insurance) to complex savings products (e.g. annuities and pensions) in order to meet the requirements of consumers. It is particularly noted that the insurance industry in responding states has continued to grow at a time when global insurance markets are stagnating.
6. Although there have been a number of studies concerning the vulnerability of the insurance industry to money laundering none of these are recent and tended to be focussed on mature insurance markets rather than those which were in the process of developing. In consequence of this the Romanian delegation submitted a proposal to produce a typologies report on the vulnerability of the insurance and private pensions industry to money laundering and terrorist financing. The proposed objectives of the project were to:
 - Identify the money laundering and financing terrorism vulnerabilities in private pension funds and the insurance sector;
 - Identify trends in money laundering and terrorist financing in private pension funds and the insurance sector;
 - Identify money laundering schemes through private pension funds and the insurance sector;

- Identify red flags and indicators;
 - Identify best practices in regulatory and supervisory approaches to this activity
 - Identify the main ways to combat this phenomenon and the reference points that may indicate the presence of anomalies in certain sectors and also the identification of the measures to be taken for correcting these anomalies;
 - Evaluate whether the FATF 40+9 Recommendations together with the FATF Methodology adequately cover the threats posed by money laundering and terrorist financing in private pension funds and the insurance sector;
 - Develop a specific set of recommendations that may assist both the financial sector and national competent authorities.
7. This proposal was adopted at MONEYVAL's 29th Plenary meeting, held in Strasbourg on 16-20 March 2009. The background to the report was discussed in detail at the 2009 annual typologies meeting which was held in Limassol from 10 to 12 November 2009. At this meeting the broad format and content of the report were discussed and it was agreed to despatch a questionnaire to all MONEYVAL delegations. The questionnaire was subsequently despatched in December 2009 and 26 out of 29 countries responded (See 8.7 below). In addition the United Kingdom contributed a number of case studies which were included in the Typologies section.
 8. It was agreed at the typologies meeting that there was an urgent need for a comprehensive list of red flags and indicators. In consequence of this request a list of red flags and indicators was compiled which was adopted at MONEYVAL's 32nd Plenary meeting, held in Strasbourg on 15-18 March 2010. This list was subsequently published on the MONEYVAL website on 15 April 2010².
 9. The following report was drafted by members of the core group³ and is based on a review of available literature and an analysis of the responses to the questionnaire.
 10. The reports commences by briefly reviewing the literature that is currently available on money laundering in the insurance industry which is followed by a summary of the current AML/CFT regimes in MONEYVAL countries. This is followed by an analysis of the vulnerabilities to money laundering which were identified in the questionnaires together with various case studies. There is also an analysis of the STR regime in MONEYVAL countries. The report ends with conclusions and recommendations.
 11. The list of red flags and indicators which was published following the 32nd Plenary meeting has been updated in order to take into account the responses to the questionnaire and is included in Section 8.1 below.
 12. The report is intended to be a guide for supervisors, law enforcement agencies and insurance industry participants to assist them in developing controls to detect and prevent money laundering and terrorist financing in the insurance industry. As such it should be used, together with the preventative measures as set out in the FATF Methodology, to develop controls to counter money laundering and terrorist financing in the insurance industry.

² This list has now been superseded by the list of red flags and indicators set out in the annex to this report.

³ Rucsandra Asavinei, Project Leader (Romania), Adrian Corcimari (Moldova), Erez Hagbi (Israel) and John Baker (United Kingdom)

2 LITERATURE AND ACTIVITIES REVIEW

2.1 Overview

13. Information on ML/TF typologies, trends and techniques in the insurance industry can be found in various sources. The FATF has conducted typologies in the past. In addition, Financial Intelligence Units (FIUs), law enforcement and other agencies publish suspicious transaction indicators, trends and sanitised ML/TF cases. Significant materials have also been produced by international groups, in particular IAIS, domestic regulators and trade associations. A review of this material is provided below.

2.2 Previous Reports on Typologies

FATF

14. FATF have produced three typology reports which referred to typologies involving insurance products:

Report on Money Laundering Typologies 2002-2003⁴

15. In its 2002-2003 Typologies Report, FATF stated that FATF experts had submitted sanitised case studies that show the vulnerabilities of the insurance sector to misuse for money laundering. The primary emphasis in the examples was on the investment aspect of life insurance or life insurance policies. It was noted that, with regard to the investment side of insurance, a number of aspects of the sector indicate that the vulnerabilities to money laundering are similar to those for the securities sector.

16. The report sets out two examples of money laundering through life insurance policies, one concerning laundering of \$1.2 million and the other \$250,000.

Report on Money Laundering Typologies 2003-2004⁵

17. In its 2003-2004 Typologies Report FATF noted that financial institutions view payments originating from insurance companies as commonplace; the money is assumed to be clean and the payments do not attract attention. It was considered that the insurance sector was potentially vulnerable to money laundering because of the size of the industry, the easy availability and diversity of its products and the structure of its business. In regard to this last point, it was noted that insurance is, in some jurisdictions, often a cross-border business and more frequently than not involved the distribution of its products through brokers or other intermediaries who were not necessarily affiliated with or under the control or supervision of the company that issued the product. Moreover, because the beneficiary of an insurance product is often different from the policyholder, it was sometimes difficult to determine when and for whom it is necessary to perform customer due diligence.

18. It was also indicated that a number of methods for money laundering in the insurance sector had been detected; at the placement stage of the laundering cycle for example, the industry has been used through the outright purchase of insurance products with criminal cash proceeds. In these cases, money launderers have exploited the fact that insurance products are often sold by brokers — that is, agents who are not acting directly under the control or supervision of the company that issues the product. The report sets out 3 case studies concerning general insurance and one concerning life insurance.

19. The report concluded that the amount of actual money laundering detected within the insurance industry appeared to be very low in comparison with the size of the industry. Nevertheless it was

⁴ <http://www.fatf-gafi.org/dataoecd/29/33/34037958.pdf> see pages 26 & 27

⁵ <http://www.fatf-gafi.org/dataoecd/19/11/33624379.PDF> See pages 15-18

believed that the insurance sector was still vulnerable to money laundering. It was considered that it was possible that money laundering was not being detected within the insurance industry due to a combination of the inherent nature of the industry (the dependence on brokers for the distribution of its products), the fragmented and incomplete application of anti-money laundering rules and regulations and a lack of an industry-wide commitment to address this risk.

Report on Money Laundering Typologies 2004-2005⁶

20. Finally, in its 2004-2005 Typologies Report FATF conducted a more in-depth study of the vulnerability of the insurance industry to money laundering.

21. Overall FATF had considered 94 cases that had been reported out of which, 65% related to life insurance, 30% to general insurance and 5% to reinsurance. From these 94 cases the following types of money laundering were identified in the following proportions:

- Risks involved in international transactions - 14%
- General insurance for goods likely to have been purchased with illegal funds - 13%
- Early redemption of policies - 12%
- Large premium deposits funding annual premium - 9%
- Collusion of customer, broker, intermediary, insurance employee - 9%
- Third party payments - 9%
- Single premium life insurance - 7%
- Cash payments to purchase insurance - 7%
- Fraudulent customers, insurance companies and reinsurance - 7%
- Others - 2%

22. In addition to the above, 11% of cases related to general insurance claims fraud.

23. The report sets out 12 cases studies illustrating the methods of money laundering listed above.

24. The report concluded that the overall picture of the insurance sector was that of a rapidly expanding and substantial market, with insurers offering increasingly sophisticated products to their customer, competing with other parts of the financial services industry. However, this expansion and increasing sophistication had not been accompanied by a corresponding widespread awareness that insurance products have become increasingly more attractive to criminals. It was noted the main reasons for the attractiveness of the sector were:

Life insurance

- Substantial sums can be invested in widely available life insurance products and many feature a high degree of flexibility, whilst at the same time ensuring non negligible rates of return. Such characteristics, whilst of considerable value to the honest policyholder, also offer money launderers various opportunities to legitimise their ill-gotten funds.

⁶ <http://www.fatf-gafi.org/dataoecd/16/8/35003256.pdf> See pages 41- 61

General insurance and reinsurance

- Far from being completely immune from criminal infiltration, a well-grounded and considerable set of evidence indicated that there were various instances of crimes related to general insurance and reinsurance, which may not be confined to mere instances of fraud, but possessed all the features of ML. Some cases provided demonstrated that there was also a risk of corporate structures (such as insurance or reinsurance companies) being set up in order to channel funds to disguise their origin.

Intermediaries

- Because intermediaries often also market other financial products such as investment products and mortgages and have a face-to-face contact with clients, intermediaries have the best opportunity in the insurance industry to perform CDD. The report indicated that there was an insufficient degree of compliance with AML requirements by intermediaries with respect to life insurance. A particular problem identified was that intermediaries - especially if independent from the insurer – perceive the risk of ML as low and are focusing more on sales figures as the driver for their commission. Insurers, on the other hand, can be reluctant to push for more compliance by intermediaries because of their dependency on these organisations for new business. It was considered that there was clear evidence that money launderers had recognised that using intermediaries was a successful way of accessing insurance products.

Money Laundering and Terrorist Financing in the Securities Sector⁷

25. Although this report concentrates exclusively on the securities sector, it highlights that the vulnerability of life products with an investment element is similar to the vulnerability to money laundering of many packaged products. The report noted that “In addition, several jurisdictions note that securities products are traded by participants in other markets, such as banking, and products traditionally seen as insurance-related are in turn traded by those in the banking or securities markets, because they contain an investment element. Co-operation between the competent authorities responsible for each core sector is to be encouraged to address any potential vulnerabilities.”

Egmont Group

26. The Egmont Group of Financial Intelligence Units meets regularly to find ways to cooperate, especially in the areas of information exchange, training and the sharing of expertise. The goal of the Egmont Group is to provide a forum for FIUs around the world to improve co-operation in the fight against money laundering and financing of terrorism and to foster the implementation of domestic programs in this field.

27. In 1999, the Egmont Training Working Group undertook an initiative to draw together a compilation of sanitised cases about the fight against money laundering undertaken by the Egmont Group member FIUs. The resulting document, **100 Cases from the Egmont Group**⁸, contains one case (Case number 6) directly involving money laundering using insurance products.

⁷ <http://www.fatf-gafi.org/dataoecd/32/31/43948586.pdf>

⁸ <http://www.egmontgroup.org/library/cases>

2.3 Guidance and other relevant reports

FATF

Risk-Based Approach – Guidance for the Life Insurance Sector⁹

28. Issued as one of a series of guides on the application of the risk based approach, the purpose of this Guidance is to:

- Support the development of a common understanding of what the risk-based approach involves;
- Outline the high-level principles involved in applying the risk-based approach;
- Identify characteristics of risks indicating that enhanced mitigation strategies may be warranted;
- Describe good public and private sector practice in the design and implementation of an effective risk-based approach; and
- Foster communications between public and private sectors that are conducive to the prevention of money laundering and terrorist financing.

IAIS

29. The IAIS represents insurance regulators and supervisors of some 190 jurisdictions in nearly 140 countries, constituting 97% of the world's insurance premiums. Its objectives are to:

- Cooperate to contribute to improved supervision of the insurance industry on a domestic as well as on an international level in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders
- Promote the development of well-regulated insurance markets
- Contribute to global financial stability

30. In October 2004, the IAIS issued a **Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism**¹⁰. This comprehensive guidance paper sets out an analysis of the vulnerabilities of the insurance industry to money laundering, control measures to prevent and detect money laundering and details of the role of supervisors. An appendix to the guidance paper sets out specific cases and examples of money laundering involving insurance. The case studies set out cover:-

- Life insurance
- Non-life insurance
- Intermediaries
- Reinsurance
- Return premiums
- Overpayment of premiums
- Claims and assignment of claims
- Fraudulent claims

⁹ <http://www.fatf-gafi.org/dataoecd/0/15/43905397.pdf>

¹⁰

http://www.iaisweb.org/temp/Guidance_paper_on_anti_money_laundering_and_combating_the_financing_of_terrorism.pdf

Financial Crimes Enforcement Network (FinCEN)

31. FinCEN was established by the U.S. Department of the Treasury to provide a government-wide multisource financial intelligence and analysis network that collects and analyses information about financial transactions in order to combat money laundering, terrorist financing and other financial crimes. FinCEN, as the delegated administrator of the Bank Secrecy Act, issues regulations and guidance affecting hundreds of thousands of financial institutions subject to BSA reporting and recordkeeping requirements. FinCEN also produces regular reports on money laundering typologies. In November 2005, FinCEN issued an AML program rule and SAR reporting rule for certain segments of the insurance industry.¹¹ FinCEN also published two studies on **Insurance Industry Suspicious Activity Reporting**¹² which set out key findings of FinCEN's assessment of SARs filed by insurance companies during the first two years of required reporting by certain segments of the insurance industry. FinCEN maintains a section on its website specifically dedicated to the insurance industry.¹³

UK: Joint Money Laundering Steering Group (JMLSG)

32. The Joint Money Laundering Steering Group is made up of the leading UK Trade Associations in the Financial Services Industry. Its aim is to promulgate good practice in countering money laundering and to give practical assistance in interpreting the UK Money Laundering Regulations. This is primarily achieved by the publication of industry guidance. Although the **JMLSG Guidance Notes** do not give any specific case studies **Part 1**¹⁴ of the Guidance Notes contains a comprehensive guide to AML/CFT controls and **Part 2**¹⁵ contains a sector specific risk analysis.

MONEYVAL Countries

33. In the response to the questionnaire, the following countries set out details of publicly available guidance on the respective websites with English language versions available.

Cyprus

34. The Insurance Companies Control Service of the Republic of Cyprus has issued **Orders for Life-Insurance Companies and Life-Insurance Intermediaries in accordance with Article 59(4) of the Prevention and Suppression of Money Laundering Activities Law of 2007**¹⁶ which provides guidance on AML/CFT controls for the insurance sector. Part 5 provides examples of activities related to money laundering and terrorist financing operations and other important advice.

Hungary

35. The Hungarian Financial Supervisory Authority (HFSA) has issued a comprehensive package of recommendations and guidance for the financial sector as a whole which includes guidance tailored to the insurance sector. **Recommendation no. 3/2008 on the Prevention and Combating of Money Laundering and Terrorist Financing**¹⁷ has been issued in order to ensure the uniform implementation of the obligations arising from the changes in domestic and international legal statutes

¹¹ http://www.fincen.gov/news_room/nr/pdf/20051031.pdf

¹² http://www.fincen.gov/news_room/rp/reports/pdf/Insurance_Industry_SAR.pdf;

http://www.fincen.gov/news_room/rp/files/Insurance_update_pub.pdf

¹³ http://www.fincen.gov/financial_institutions/insurance/

¹⁴ http://www.jmlsg.org.uk/content/1/c4/98/00/Final_Part_I_030306.pdf

¹⁵ http://www.jmlsg.org.uk/content/1/c6/01/09/68/Part_III_2006__inc_CU.pdf

¹⁶

[http://www.mof.gov.cy/mof/mof.nsf/All/4EBC9E743875D2F7C2257631003F3CF9/\\$file/Money%20Laundering%20Orders.pdf](http://www.mof.gov.cy/mof/mof.nsf/All/4EBC9E743875D2F7C2257631003F3CF9/$file/Money%20Laundering%20Orders.pdf)

¹⁷ http://www.pszaf.hu/data/cms2043359/recom_3_2008.pdf

accepted and published for the prevention and deterrence of money laundering and terrorist financing. An annex¹⁸ contains details of unusual transactions observed financial institutions.

36. The HFSA has also issued **Sample Rules and Guidelines**¹⁹ for insurance companies, insurance intermediaries and employment pension service providers which provide industry specific guidance.

Lithuania

37. The Insurance Supervisory Commission of the Republic of Lithuania has issued **Resolution no N-68 Regarding Approval of Instructions Against Money Laundering for Insurance Companies and Insurance Brokerage Companies**²⁰ which contains details of indicators of suspicious transactions.

Malta

38. The Malta Financial Services Authority has issued **Prevention of Money Laundering Guidance Notes for Investment Services and Life Assurance Business**²¹ although this is currently in the process of being updated.

Moldova

39. The Centre for Combating Economic Crimes and Corruption in Moldova has produced some detailed guidance for the insurance sector although this is currently only available in the Romanian language²². An English language version has been prepared and it is anticipated that this will be available on the website in the future.

Romania

40. The Romanian Financial Intelligence Unit, in conjunction with the European Union's Phare Project and the Italian partners issued in 2004 **Suspicious Transaction Guidelines**²³ and in 2005 a **Training Manual on Anti-Money Laundering and Countering the Financing of Terrorism**²⁴. Although this covers the whole of the financial sector there are specific sections dedicated to the insurance industry as well as insurance specific case studies. Furthermore, within the Transition Facility Project, financed by the European Commission, during 2010, a Manual for Reporting Entities in Romania – Combating Money Laundering and Terrorism Financing, was drafted; this is expected to be published in August 2010. This manual addresses specific issues on AML/CTF compliance. Part III of the Manual – Aspect about Analysis on Suspicious Transactions – also presents vulnerabilities in the insurance sector, as well as indicators and typologies of money laundering identified from the Romanian experience in this field.

Serbia

41. The National Bank of Serbia has published a **Decision on the Guidelines for Assessing the Risk of Money Laundering and Terrorism Financing**²⁵ which includes guidelines for assessing the risk of money laundering and terrorism financing as well as an analysis of risk factors that may affect insurance and pension products.

¹⁸ http://www.pszaf.hu/data/cms2043361/recom_3_208_annex2.pdf

¹⁹ http://www.pszaf.hu/en/left_menu/aml_financial_crime/recommendations

²⁰ <http://www.dpk.lt/en/teises.dpknuostatai.php>

²¹ <http://www.mfsa.com.mt/pages/money%20laundering/guidelines/guidelines.asp>

²²

http://www.cccec.md/Sites/cccec_md/Uploads/Ordin%20CCCEC%20nr%20118%20din%2020.11.2007.1087E74973D24610AA058F9A7C393126.pdf

²³ <http://www.onpcsb.ro/pdf/ROMANIAN%20AML%20GUIDELINES.pdf>

²⁴ <http://www.onpcsb.ro/pdf/AM-CTF%20TRAINING%20MANUAL.pdf>

²⁵ http://www.nbs.rs/export/internet/english/20/kpb/risk_money_londering.pdf

Ukraine

42. The State Committee for Financial Monitoring of Ukraine has published a number of studies of money laundering typologies²⁶. The report **Money Laundering Typologies in Ukraine in 2004-2005**²⁷ sets out a number of typologies, some of which relate to insurance products. The report **Money Laundering Typologies and their Detection Mechanisms**²⁸ includes both international and domestic examples of money laundering typologies a number of which incorporate insurance products.
43. In addition to the forgoing, **Typologies of legalisation (laundering) of crime proceeds in 2005-2006**²⁹ and the **Typologies report on legalisation (laundering) of the proceeds from execution of financial transactions involving unmarketable securities**³⁰ each contain one example where insurance companies were involved in a money laundering scheme.

²⁶ http://sdfm.gov.ua/articles.php?cat_id=121&lang=en

²⁷ <http://sdfm.gov.ua/content/File/Typologies%20Ukraine%2020042005.pdf>

²⁸ <http://sdfm.gov.ua/content/File/pdf/Typologies%20schemes.pdf>

²⁹

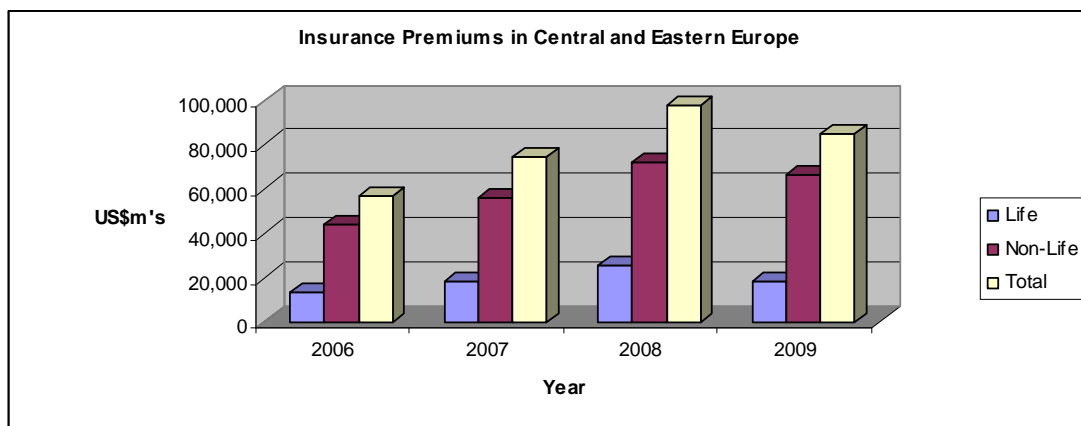
[http://sdfm.gov.ua/content/File/Typologies%20of%20legalization%20\(laundering\)%20of%20crime%20proceeds%20in%202005-2006%20%20%2023.10.08.pdf](http://sdfm.gov.ua/content/File/Typologies%20of%20legalization%20(laundering)%20of%20crime%20proceeds%20in%202005-2006%20%20%2023.10.08.pdf)

³⁰ <http://sdfm.gov.ua/content/File/pdf/Typologies.2007.pdf>

3 CURRENT SITUATION IN MONEYVAL MEMBER STATES AND OBSERVERS

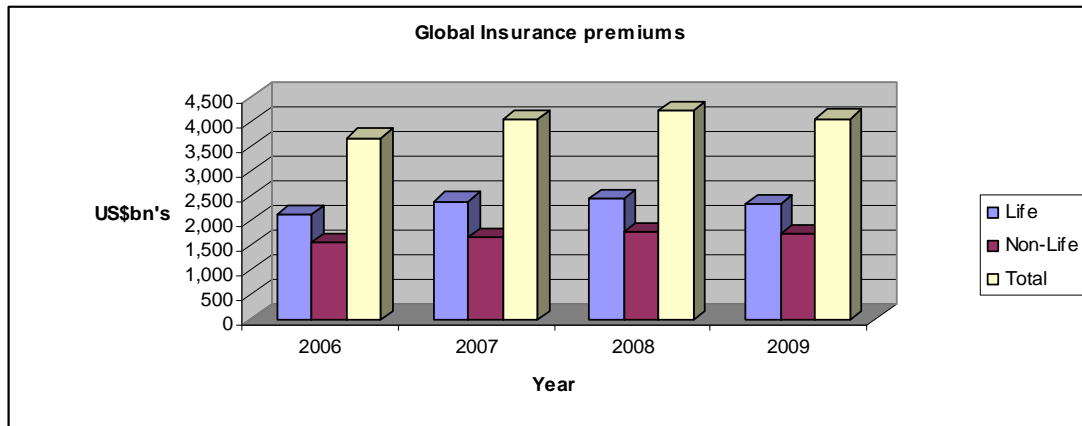
3.1 Overview of the insurance sector and private pension funds

44. The financial sector, including the insurance sector, offers a wide range of products including transfer, savings and investment products developed to meet the investment needs of a wide variety of consumers. Products are sold both domestically and internationally to consumers ranging from private individuals to multi – national corporations and governments, which exposes this industry to the risk of ML/TF.
45. The insurance industry is a dynamic sector which has developed a wide range of products from pure indemnity products (e.g. property and casualty insurance) to complex savings products (e.g. annuities and pensions) in order to meet the requirements of consumers.
46. The insurance sector is a relatively new sector in a number of MONEYVAL countries and is still in the process of building up a range of products. As a result of this, the sector has experienced 49% growth from 2006 to 2009 in responding states. As a result of the downturn in the global economy there was a contraction in insurance premiums in countries in responding states in 2009 with life premiums reducing by 30% in 2009 and non-life reducing by 8%.



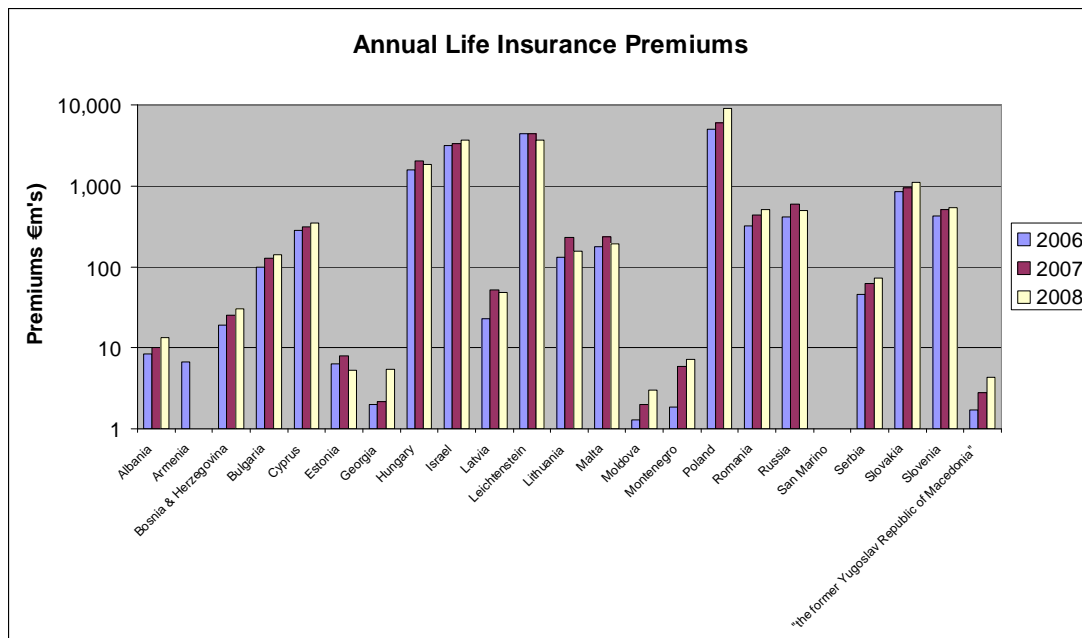
Source: Sigma World Insurance in 2009

47. In terms of world insurance volumes the insurance sector in responding states has continued to develop against stagnation in growth in developed economies. Overall, in the period 2006-2009, global insurance premiums grew by just 11% (against 49% in responding states). The other significant trend is that whereas globally life insurance on average accounts for 58% of all premiums, in responding states life insurance only accounts for 24% of premiums.



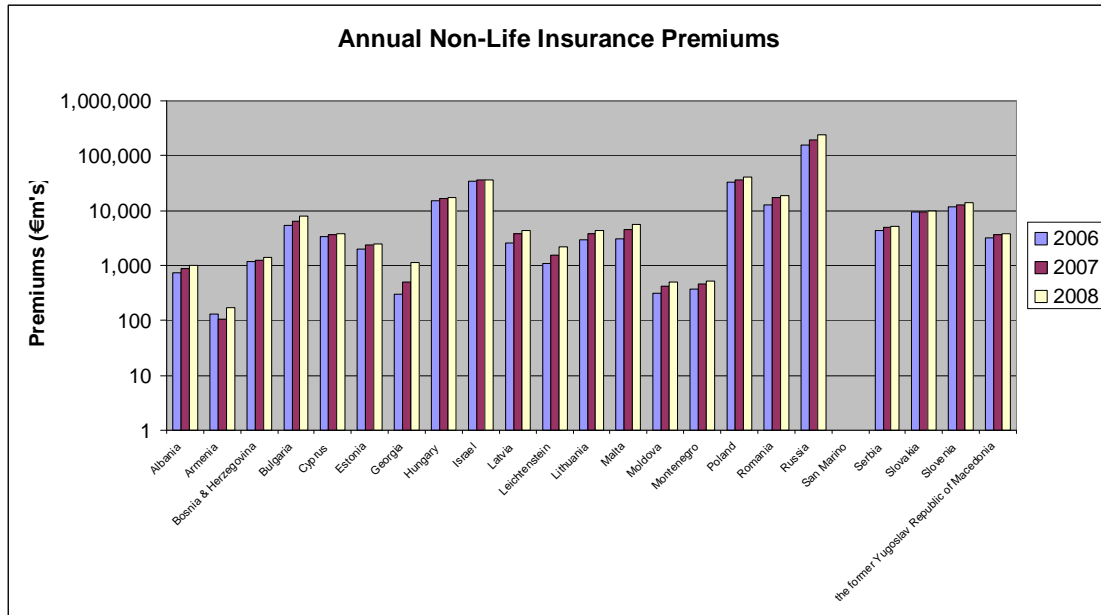
Source: Sigma World Insurance in 2009

48. The life insurance industry in most MONEYVAL countries has been growing in the period 2006-2008, but there are a few exceptions such as - Estonia, Hungary, Latvia, Lithuania, Malta and Russia – in which life insurance industry experienced a decrease between 2007 and 2008.



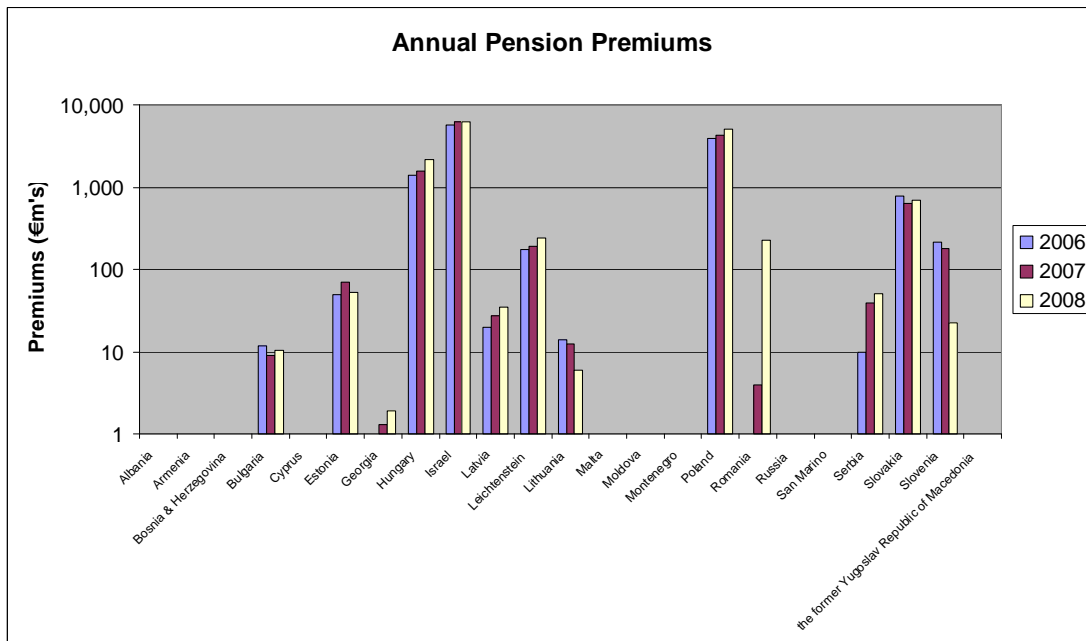
Source: MONEYVAL Insurance Typology Questionnaire

49. The non-life insurance industry has shown constant growth from 2006 to 2008, in spite of the economic and financial crisis.



Source: MONEYVAL Insurance Typology Questionnaire

50. With regard to reinsurance, there was insufficient data provided in the questionnaires to form a comprehensive overview of the size of the reinsurance market in the MONEYVAL countries.
51. With regard to private pension funds, this was a relatively new area for most of the MONEYVAL countries and not all countries were able to provide data on pension contributions paid. This was further complicated by the fact that, in a number of countries, private pension funds are included in the life insurance data.



Source: MONEYVAL Insurance Typology Questionnaire

3.2 Regulatory framework in the insurance sector and private pension funds

Licensing and registration of insurers

52. All MONEYVAL countries which responded to the questionnaire have developed a comprehensive system of licensing and registration which ensure the proper operation of the insurance market (see table no. 4). Furthermore, AML/CFT controls have been developed specifically for the insurance industry in all respondent countries. This indicates increased awareness by participants in the insurance sector, on the one hand and of the authorities, on the other hand, concerning money laundering and financing terrorism threats.
53. The responses to the questionnaires revealed that a variety of licensing systems are functioning in MONEYVAL countries; some based on issuing licenses and others based on registration and licensing.
54. The regulatory framework of insurance and reinsurance in MONEYVAL countries is set out in Section 8.2 below.
55. The licensing systems which apply in most of the MONEYVAL countries contain the following minimum requirements:
- Details of the stockholder or a foundation member of an insurance company;
 - A description of the organisational structure, system of management, decision making and control mechanisms as well as the bylaws
 - An estimate of the costs of setting up the administrative services and the organisation for conducting regular business operations; proof of the financial resources intended to meet those costs deposited in a credit institution;
 - Evidence of appropriate professional qualifications and a good business reputation for senior management and/or employees;
 - Proof of possession of the minimum security capital;
 - Business plan;
 - Proof of compliance with personnel and material requirements.
56. As examples:
- Legislation in **San Marino** provides for registration of insurance companies in a public register which is available on the website of the Central Bank. In order to be included in the above-mentioned register it is necessary to apply for permission, by a procedure. Given the confidential nature of insurance activities a special procedure is applied for life insurance companies.
 - Legislation in **Montenegro** prescribes the licensing procedure for insurance and reinsurance companies, insurance brokerage activities, insurance agency and insurance agents. Within 60 days of receiving the license, the founders of the insurance activities should submit, the registration application to the Central Registry of the Commercial Court. A similar procedure is applied in Hungary.
57. The majority of MONEYVAL countries issue licenses for each class of insurance; in order to conduct business in another class of insurance it is necessary to apply for a further license.
- In **Hungary** there are two kinds of licenses, a foundation license (a license related to the structure and the founding members) and an operation license (a license related to the logistics of the insurance company).

- In **Serbia**, the National Bank is authorised to issue licenses for market participants and the licenses are granted to life insurance companies as well as other intermediaries/agents.
58. In each MONEYVAL country, depending on the administrative organisation, one or more authorities apply the legal framework in the insurance field, notably;
- Specialised financial bodies issue licenses in Albania, Bulgaria, Cyprus, Estonia, Hungary, Latvia, Lithuania, “the former Yugoslav Republic of Macedonia”, Malta, Moldova, Montenegro, Poland, Romania and Russia.
 - In Azerbaijan and Israel the licenses are issued by the Ministry of Finance.
 - The licensing system in Armenia, Georgia, San Marino, Serbia and Slovakia is applied by the National Bank by means of a specialised department.
59. With regard to controls for the preventing and combating of money laundering and financing terrorism it is important to draw up proper legislation in the field of the insurance and reinsurance, in order to avoid the insurance industry being used to introduce or place “dirty money” into the financial system. All respondent MONEYVAL countries have developed special legislation regarding the licensing and/or registration systems, which includes a requirement for the introduction of AML/CFT controls.
60. Overall 13 countries responded that non-life insurance was included in the AML/CFT regime and 12 countries responded that it was excluded.

Licensing and registration of intermediaries and agents

61. A number of MONEYVAL countries specified intermediaries and agents as representing an enhanced risk of vulnerability to money laundering and terrorist financing. It is therefore considered that special attention should be paid to the licensing and registration system for intermediaries and agents.
62. Among MONEYVAL countries there are a number of different procedures for the registration and licensing of intermediaries and agents. Some countries applied similar procedures to for insurance, reinsurance, intermediaries and agents whereas others applied different procedure to those adopted for insurers.
63. In Bulgaria there are two distinct procedures for registration of brokers and agents. Brokers are required to follow a registration procedure as set out in the Financial Supervision Commission Act whereas agents are only required to be listed by an insurer.
64. In Cyprus, the Law on Insurance requires registration and licensing for intermediaries. Once registered, they are subject to the monitoring regime of the Superintendent of Insurance.
65. A similar procedure of registration is applied by Estonia, Latvia, Lithuania, Malta and San Marino.
66. Another approach is followed by Georgia whereby, intermediaries are subject to a similar registration and licensing regime to insurers. The same procedure is applied by Hungary, Liechtenstein, “the former Yugoslav Republic of Macedonia”³¹, Montenegro, Romania and Serbia.
67. In Moldova only brokers (as intermediary) are the subject of licensing.

³¹ “Only licensed persons can offer insurance intermediation services. Insurance brokers are independent insurance intermediaries that intermediate on behalf and for the account of policyholders and insurance representatives (insurance agents) are tied insurance intermediaries that represent and act on behalf and for the account of insurance undertakings.”

68. A licence is required by Slovakian legislation but there are exceptions regarding subordinated agents and tied agents that only have to be registered.

Sanctions

69. Sanctions which can be applied to unlicensed or unregistered insurance institutions are set out in Section 8.5 below. Most of the countries have implemented legislation containing sanctions covering unregistered /unlicensed insurance and reinsurance activities:

- in some jurisdictions conducting unregistered or unlicensed insurance and reinsurance activities constitutes a criminal offence (Albania, Georgia, Republic of Moldova, Poland and Serbia);
- in other jurisdictions fines are applied (Bulgaria, Estonia, “the former Yugoslav Republic of “the former Yugoslav Republic of Macedonia”, Slovakia, Slovenia and Ukraine);
- there are jurisdictions in which the sanctions consists of a combination of a fine and, and/or imprisonment (Armenia, Azerbaijan, Bosnia and Herzegovina, Cyprus, Hungary, Israel, Malta, Romania, Russia and San Marino).

70. Exceptions to the above-mentioned regimes are:

- Latvia and Lithuania where the legislation allows both for fines and/or the confiscation of the products, or the confiscation of property;
- Ukraine where the legislation allows for a fine or correctional labour or restraint of liberty for the same term.

Monitoring

71. In most of the MONEYVAL countries the financial authorities responsible for issuing licenses also carry out AML/CFT surveillance in the insurance sector together/separately with other responsible authorities in the field on prevention and combating of ML/TF.

- In Bulgaria, Estonia, Latvia, Moldova, Montenegro, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine the financial authority charged with issuing the license carries out AML/CFT surveillance in the insurance sector and it has the obligation to report any suspicious transactions to the FIU.
- In Cyprus the licensing authority is charged with AML/CFT surveillance in the insurance sector and it has to take all the necessary measures in cases in which an infringement of the law occurred. In Hungary and Israel a similar procedure is applied.
- In some countries there are separate bodies which carry out the licensing/registration procedure and the AML/CFT surveillance such as Lithuania, Malta, Poland, San Marino, “the former Yugoslav Republic of Macedonia”.
- It is noted that in Bosnia and Herzegovina three separate regional bodies are charged with issuing licenses and AML/CFT surveillance.

CDD

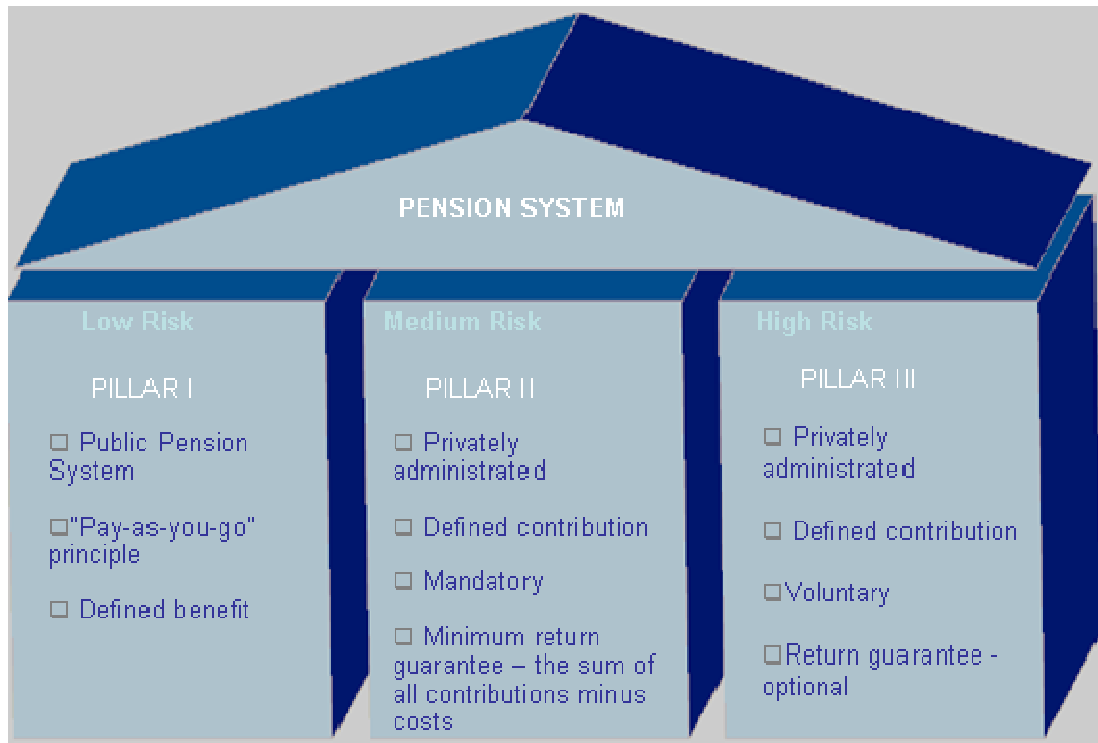
72. Regarding the application of the identification and verification requirements, a similar approach is applied in most of the countries, particularly where the requirements of the 3rd Money Laundering Directive³² have been fully transposed into legislation;

- when establishing a business relationship;
- when carrying out occasional transactions amounting to €15,000 or more, whether the transaction is carried out in a single operation or in several operations which appear to be linked;
- when there is a suspicion of money laundering or terrorist financing, regardless of the amount of transaction;
- when there are doubts about the veracity or adequacy of previously obtained customer identification documents, data or information previously collected for the customer identification.

Private Pension Funds

73. In most MONEYVAL countries, private pension funds have been structured in a typical multi-pillar private pension funds that are formed by 3 or 4 pillars, which may involve different levels of risks:

- Pillar 1, administered by a national authority, consisting of public pensions which involve a minimal ML/TF risk, having regard the involvement of the state;
- Pillar 2, privately administered, consists in a mandatory contribution, and may involve an intermediate ML/TF risk;
- Pillar 3, also privately administered, but having a voluntary contribution, may place a higher risk than Pillars 1 and 2, particularly if there is a less regulated sector.



³² Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (available in other EU official languages)

74. As with the insurance sector responses to the questionnaires relating to private pension funds revealed a variety of licensing systems which are functioning in MONEYVAL countries; some are based on issuing licenses and others based on registrations and licensing.
75. Most of the countries applied the same licensing/registration system as in the insurance sector the regulations being the same (see Section 8.3 below) and the regulatory authorities are the same as in insurance sector.
- In Bulgaria pension funds are registered by the pension insurance companies and have to obtain a permit for their activities from the financial authority. Similar procedures are applied in Lithuania and Slovenia.
 - Moldova and San Marino have no private pension funds licensed.
 - Azerbaijan does not have any specific regulation regarding AML/CFT surveillance for private pension funds.
76. All MONEYVAL countries have regulated the private pension funds from anti money laundering and combating terrorism financing point of view.
77. The similarities between the two systems (insurance and private pension funds) have allowed the application in almost all questioned countries of the same penalties for unregistered/ unlicensed private pension funds (see Section 8.4 below).
78. The minimum requirement for CDD as set out in the 3rd Money Laundering Directive is fully transposed in most MONEYVAL countries with regard to pension private funds.

3.3 Scope of AML/CFT regulation

79. The majority of countries responding to the questionnaire indicated that the entire insurance sector was regulated. There were, however, some differences among life (containing term life and investment products with embedded life cover), non-life (property and casualty and health, accident and sickness) and reinsurance legislation regarding the manner in which the AML/CFT law was applied to those sectors.
80. A number of countries (Albania, Cyprus, Estonia, Hungary, Israel, Latvia, Malta, Montenegro, Poland, Serbia and Slovenia) have merely applied the scope of the 3rd Money Laundering Directive and FATF Recommendations, only applying the AML/CFT regulations in the life insurance sector, because the above-mentioned international legislation does not cover the non-life insurance sector.
81. A large number of countries (Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, Georgia, Lithuania, “the former Yugoslav Republic of Macedonia”, Moldova, Romania, Russia, San Marino, Slovakia and Ukraine) have, however, integrated the non-life insurance sector into the AML/CFT requirements.
82. In the field of life insurance and its special AML/CFT regulations, MONEYVAL countries have developed different approaches:
- Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Latvia, Lithuania, Malta, Moldova, Poland, Russia, San Marino, Slovakia, Slovenia and Ukraine have chosen to catch both components (term life and investment products with embedded life cover) of the life insurance sector within their AML/CFT regime;
 - Israel only applies the AML/CFT regulations to investment products with embedded life cover;

- Estonia, Montenegro and Serbia have only included term life insurance within their AML/CFT regime.
83. With regard to private pension funds, MONEYVAL countries have adopted differing solutions for the inclusion of this sector in the AML/CFT regime. In particular, in Armenia, Azerbaijan, Israel, Moldova³³, Montenegro, Poland, Russia and San Marino³⁴ private pension funds are not specifically regulated. The remaining countries have included one or more products or part of private pension funds in the AML/CFT regime:
- Albania and Georgia have covered employment based pensions and private pension schemes;
 - Bosnia and Herzegovina, Hungary, Romania, Serbia³⁵, Slovakia, Slovenia and Ukraine have covered only private pension schemes;
 - Bulgaria, Croatia, Cyprus and Estonia have covered pensions, annuities and private pension schemes;
 - Latvia, Lithuania and Malta, covered the annuities, employment based pensions and private pension schemes.
84. The reinsurance sector is covered by the AML/CFT regime in almost all MONEYVAL countries:
- A number of countries incorporate reinsurance within the regime for other types of insurance (Bulgaria, Cyprus, Hungary, Latvia, Lithuania, Malta)
 - Other countries draw up separate requirements for the reinsurance sector with specific regulations. (Azerbaijan).

3.4 Suspicious Transaction Reports

85. In spite of the significant growth experienced in insurance business in all MONEYVAL countries, there is still a very low level of STR reporting (See also Section 6 below). A broader trend was also referred to in the FATF Money Laundering & Terrorism Financing Typologies Report 2004 – 2005.
86. The vulnerability of the insurance sector to money laundering cannot be based solely upon the number of STRs submitted. This is in part a feature of how STRs are recorded as in a number of jurisdictions STRs are recorded according to the reporting institution rather than relating to the underlying products. This is particularly relevant where insurance products are marketed through other financial service providers (e.g. banks) and may distort the view of the threat (or lack of vulnerability) posed by insurance products.
87. In terms of assessing the vulnerability of insurance products to money laundering, the responses to the questionnaire revealed a number of differing viewpoints:
- Some MONEYVAL jurisdictions, notably Albania, Cyprus, Hungary, Malta and Serbia considered that the insurance industry is not exposed to any significant degree of ML/TF risk.
 - Other countries (Bulgaria and Lithuania) consider that the low level of reporting represents a ML/TF risk vulnerability.
 - Georgia and “the former Yugoslav Republic of Macedonia” expressed the view that the low level of reporting in the insurance and private pension fund field was explained by the fact that the vast majority of transactions are performed by means of banking systems and the risk is transferred in this system.

³³ No private pension fund has yet been registered.

³⁴ Currently primary legislation in San Marino does not provide (discipline) social integrative whether collective or individual. Therefore San Marino insurance companies do not distribute such products.

³⁵ Pension fund business is an emerging process, and it is still very young industry in Serbia.

88. A common conclusion was highlighted by the questionnaires that most of the received STRs have revealed intermediaries, agents and brokers as areas of high risk or vulnerability in the insurance sector. Israel highlighted the fact that intermediaries didn't report STRs to the FIU even when this was a clear requirement.
89. The low level of reporting from the private pension funds sector could be explained by the fact that:
- it is relatively new field;
 - most of the countries involved in this exercise implemented multi pillar system in the field;
 - the 3rd pillar from this system involves a higher level of risk and only few MONEYVAL countries have implemented the 3rd pillar.
90. Taking into account those factors the low level reporting could be explain by the low level of risk involved in the area at the present time. There is also the issue highlighted above that categorisation of reports by reporting entity instead of by product may give a distorted view of the vulnerability of the insurance industry. This may lead to a failure to appreciate the scale of the risk posed by insurance products.
91. A further complicating factor is the fact that the majority of insurance products are marketed via insurance intermediaries. There is a particular concern that training and awareness raising does not always reach down to the level of intermediaries. There is a further concern that, due to the relatively high commission level that intermediaries receive, there may be a conflict of interest or a disincentive on reporting suspicious transactions.

3.5 Information exchange

92. The exchange of information between FIUs, financial authorities and insurance professionals has been identified as an important step in increasing the awareness of the vulnerability of the insurance industry to money laundering and terrorist financing within the insurance sector.
93. In a number of countries (Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Latvia, Lithuania, Malta, Poland, San Marino, Serbia and Ukraine) the exchange of information only took place between the FIU and the financial supervisory authorities. It was noted that the FIU in Israel can only share data with law enforcement authorities but not with financial regulators. The only information that can be shared with financial regulators is statistical data and sanitised case studies.
94. Other countries (Moldova, Romania and Slovakia) indicated that the FIU obtained information directly from the insurance and private pension funds sector as well as from the financial supervisory authorities.

3.6 Integration with the financial sector

95. It is important that insurance is not considered in isolation but as an integral part of the overall financial sector. It has already been noted that there are similarities between life insurance products with a savings and investment element and certain pure savings and investment products which are regulated as securities transactions. Likewise insurance products will frequently be marketed via other non-insurance financial services providers (e.g. banks, financial advisers, etc.). Furthermore insurance products may be paid for and proceeds from insurance transactions (e.g. claims, refunds, etc.) may be paid into banks.
96. It is therefore important that there is co-operation between financial services supervisors to ensure that methodologies identified are shared, particularly those that involve more than one type of financial

product (e.g. insurance policies that can be converted into securities upon maturity) or which involve products with similar characteristics (e.g. life products with savings and investment features).

97. It is also important that there is co-operation between law enforcement agencies and financial services regulators. The complexity of financial products means that law enforcement agencies can benefit from the technical expertise of financial services regulators. Conversely, financial services regulators can benefit from the typologies identified by law enforcement agencies as well as from access to intelligence sources.

4 MONEY LAUNDERING AND TERRORIST FINANCING VULNERABILITIES IN THE INSURANCE INDUSTRY

4.1 Specific vulnerability of the insurance industry

98. Although the banking industry will always remain the primary route for money laundering the continuing improvement in AML/CFT controls within the banking sector mean that criminals are increasingly looking at other areas of the financial sector to facilitate money laundering.

99. There are certain general features of the insurance industry that make it vulnerable to money laundering, notably:

- **Lack of awareness** There is a general lack of awareness in the insurance industry that insurance products can be attractive to criminals as a means of money laundering. This is true at the level of insurance carriers, intermediaries, regulators and law enforcement agencies. It is notable that this is compounded by the lack of international guidance on money laundering in the insurance and personal pensions sectors;
- **Failure to identify money laundering transactions.** This lack of awareness means that instances of money laundering are frequently being overlooked. Failure to identify suspicious transactions is due to a number of factors including:
 - Insufficient knowledge sharing about money laundering in the insurance sector;
 - General lack of anti-money laundering supervision, particularly in the general insurance and reinsurance sectors;
 - The international nature of the reinsurance market makes it difficult to see all aspects of a transaction;
 - Insurance sector primarily vulnerable at advanced (layering) stage of money laundering.
- **Focus on claims fraud.** Although detection and prevention of claims fraud is essential for insurance companies, it is frequently the case that this is perceived as being the only crime threat to insurers. In practice where money launderers make use of insurance transactions this is frequently before claims are made (e.g. through early redemption, refunds, etc.).
- **Savings and investment features.** Many life insurance and pension products have a savings and investment element which means that the products concerned have an underlying intrinsic value. This in turn means that they can be either deposited as collateral for loans or redeemed at an early date generating funds from an apparently legitimate source. Many of the vulnerabilities on these products are similar to those identified in the FATF typology report on Money Laundering and Terrorist Financing in the Securities Sector (See section 2.2 above).
- **Cash deposits.** With an aging population many countries are seeking to encourage savings schemes, including life insurance and pension products. It is a feature of such schemes that cash payments are frequently accepted as payment of premium or contributions. This is particularly the case in countries where cash is still the primary medium for making small or regular payments.
- **Use of intermediaries.** Many insurance companies market their products through independent intermediaries.

100. There has been a general acceptance that the life insurance and pension sectors do have some vulnerability to money laundering and as such the FATF Methodology includes “underwriting and placement of life insurance and other investment related insurance” in the definition of financial institutions. This does, however, mean that non-life insurance is outside of the scope of the FATF recommendations. It has already been noted above that 13 countries who responded to the questionnaire stated that non-life insurance was included in the AML/CFT regime whereas 12

countries responded that it was excluded. The specific vulnerabilities of the non-life insurance industry are set out under 4.2 below.

101. It is noted that money launderers may utilise a number of different products in conjunction (e.g. wire transfers to buy investment linked insurances which are converted into securities products). It is therefore important that insurance products are not looked at in isolation. It is therefore important that there is a unified policy to comply with the requirements of the system for combating money laundering and financing of terrorism across the whole of the financial sector.

4.2 Specific vulnerabilities identified in questionnaire responses

102. The following section sets out the various areas of vulnerability identified in the questionnaire responses. The fact that a specific product has identified vulnerabilities does not automatically mean that the product is being used to launder funds merely that additional care should be taken when those features are present in a specific product.

Common vulnerabilities not unique to the insurance industry

103. The following vulnerabilities were identified in the questionnaire responses, however, it is noted that these vulnerabilities are not unique to insurance products and are present in a wider range of financial products:
- Ability to utilise insurance products as part of structured transactions (e.g. structured life insurance products with a regular savings element being held as collateral and utilised to pay off loans);
 - Provision of portfolio services through private banking whereby tailor-made financial management services are provided to high net worth customers, by providing comprehensive financial management which may include advice on financial planning, investment, tax and inheritance issues, special lending terms, special procedures whereby these customers and their transactions, including insurance are serviced and higher confidentiality of customer data is applied.
 - International nature of insurance business, particularly non-life and reinsurance;
 - Placement and receipt of premiums with/from off-shore companies;
 - Use of intermediaries who are incentivised by high rates of commission;
 - Use of cash for insurance payments, particularly for regular premium payments for savings products;
 - Ability to make frequent payments of premiums by dividing amounts; this ability could be utilised to avoid the identification/reporting requirements;
 - Ability to receive funds/payment from seemingly unrelated third party;
 - Ability to make frequent movement of contracts/funds/policies to different institutions or insurance companies, particularly to foreign companies;
 - Sale of insurance products by non-insurance professionals who have no required skills to analyse whether a particular transaction is suspicious;
 - Ability to request early redemption/surrender of long-term products with limited penalty charges or fees;

Vulnerabilities Associated with Particular Types of Insurance Products

Life (See Case Studies 1-7)

104. The life sector covers a wide range of products from pure indemnity contracts on a single life to savings and investment products with a life insurance element. The following products, features and activities linked with life insurance products were identified as being vulnerable to money laundering and terrorist financing:

- Ability to pay premium annually or through lump-sum payments above the required amount or to make additional top-up payments above the sum initially agreed (See Case Studies 1,2 & 3);
- Ability for applicant to exceed their usual or contracted contribution;
- Ability for individuals or legal persons to pay premiums or annuities for a number of different insured individuals (See Case Studies 1, 2, 3 & 7);
- Use of life insurance policies as collateral for loans or where significant deductions to the terms of the loan contracts can be made (See Case Studies 4 & 5);
- Products which provide cooling off periods or with free look” provisions, which allow for cancellation with full refund of premium within a defined “cooling-off” period.
- Ability to assign rights to all or parts of compensation to persons other than injured person/Payment by one person and directing the benefits to a seemingly unrelated third party;
- Ability to cancel an insurance contract with refund of premiums before maturity (See Case Studies 2, 3 & 6);
- Life insurance policies with an option to purchase units of investment funds where, in addition, there is no limit the amount of money invested;
- Life insurance policies with a high saving percentage where almost no risk element exists, particularly in countries where such policy types are uncommon.

Pensions (See Case Study 8)

105. The vulnerabilities of pensions are similar to those of life insurance policies although there are certain unique features, as set out below, which have been identified. It is particularly noted that third tier pensions have a very similar risk profile to life insurance products:

- Payments by legal persons, in particular putative employers into occupational pension schemes;
- Transfer of pensions under the second pillar to funds that are related persons to the employer;
- Transfer of pensions under the second pillar to new employers on change of employment;
- Funds paid into occupational pension schemes are fungible and are therefore not susceptible to confiscation (See Case Study 8);
- Ability to top up pensions with advanced voluntary contributions; it is noted that in some jurisdictions it is possible to obtain tax relief on voluntary contributions.

Non-Life (See Case Studies 9-18)

106. It is noted that there are a number of factors that limit the vulnerability of non-life insurance to money laundering such as:-

- **Lack of residual value.** non-life insurance contracts generally run for a fixed period, normally one year or shorter which is predetermined at the inception of the contract. Once the policy has expired, there is generally no residual value although valid claims will be paid;

- **No transfer value.** Each policy is a “bespoke” contract and is not transferable. Furthermore, the policyholder must have an insurable interest in the underlying risk;
- **Due diligence on claims.** As previously noted, all insurers normally conduct full due diligence on claims to protect themselves against claims fraud;
- **Slow payments.** Compared to the banking and securities industries, there are no standard settlement terms and, as such, payment systems are comparatively slow
- **Complexity.** Some insurance products are complex and there are technical features and terms that are often unclear to persons who are not regularly involved in the insurance industry; although it is noted that this complexity can also be utilised by money launderers to disguise transactions.

107. There are, however certain generic factors that do make the non-life insurance sector attractive to money launderers, namely:-

- **Lack of awareness of risk.** As noted above, this is a particular problem in the non-life sector as it is excluded from the scope of the FATF Methodology. This in turn means that non-life insurance is frequently not subject to mandatory AML/CFT controls.
- **International scope.** The non-life sector is much more open to international business than the life sector. The nature of some risks (e.g. cargo insurance) mean that claims can arise in a separate jurisdiction to the writing of the risk. Furthermore, the need to spread risk requires reinsurance and the reinsurance industry is centred in a number of international financial centres
- **Intermediaries.** It has been noted above that many insurance companies market their products through independent intermediaries. The vulnerability of sales through intermediaries is compounded by the fact that
 - distribution chains can be long and complex, involving a number of intermediaries in differing jurisdictions;
 - Some jurisdictions do not require the regulation of non-life insurance intermediaries. It was noted that 12 of the MONEYVAL countries responding to the questionnaire do not currently include non-life insurance in their mandatory AML/CFT regime;
 - Intermediaries can receive substantial commissions as a percentage of the premium, providing an added incentive to arrange the policy of insurance;
 - The initial relationship with the customer will be through the intermediary, although the insurance contract is direct with the insurer. The intermediary may remain the primary point of contact with customer
- **Speed of inception.** Some classes of insurance are legal requirements (e.g. motor insurance, public liability, etc.) and may be required to be in place by a specific date. As a consequence of this it is recognised that there may not be sufficient time to conduct full due diligence on the policyholder.
- **No CDD at inception of policy.** In addition to the imperative to have insurance in place by a defined date the nature of non-life insurance products is that only a certain proportion of policies written will give rise to a claim. Furthermore, in the event of a claim arising full due diligence will normally be conducted around the circumstances of the claim. It is therefore normal practice that due diligence does not normally take place at the inception of the policy and, indeed, it may be impractical to do so.
- **Regular claims payments to third parties.** In the event of a claim arising there may be unrelated third parties involved (e.g. victims of motor accidents, etc.) to whom payments need to be made. Furthermore, payments may be made to repairers, loss adjusters and other persons not involved in the original policy.

- **Criminal familiarity with the product.** The compulsory nature of some classes of insurance (e.g. motor) means that criminals may be more familiar with insurance products than with savings and investment products.
108. It is noted that in the responses to the questionnaire, 16 countries responded that they considered the non-life insurance sector to be vulnerable to money laundering whereas 7 did not.
109. The following specific vulnerabilities of non-life insurance products were identified in the questionnaire responses:
- Compulsory insurances (e.g. motor, public liability, etc.) frequently mean that there is insufficient time to conduct CDD at renewal, particularly if there is a change of insurer or intermediary (See Case Study 12);
 - CDD is performed at time of claim not at inception of contract; the fact that the onus is on the customer to confirm identity and the existence of property at the time of a claim may foster a more relaxed attitude at inception of the policy;
 - Lack of CDD at inception can lead to fictitious assets and legal persons gaining insurance cover solely for the purpose of laundering funds (See Case Studies 11, 13, 14 & 18);
 - In some cases when a claim is made the investigation is limited to ensuring that the insured risk actually existed;
 - It is possible to make deliberate overpayments of premium and request a refund (See Case Study 10);
 - Policies can be cancelled following removal or change of the nature of risk (e.g. sale of property) with a refund of the balance of premium (See Case Study 12);
 - The ability to sell non-life insurance by non-insurance professionals (e.g. real estate agents, travel agents, retailers, etc.) who may not be regulated as financial service providers;
 - Gearing of premiums to underlying risk means that the payment of relatively small premiums may still give rise to large claims;
 - Insurance policies are occasionally utilised as evidence of valuation of assets, as such, may be used as additional collateral for loans, (See case studies 17 & 18);
 - International nature of commercial risks (e.g. cargo and freight insurance, etc.) mean that the insured risks may cover a number of jurisdictions;

Reinsurance (See Case Studies 20 & 21)

110. Reinsurance is an extension of the concept of insurance, in that it passes on part of the risk for which the original insurer is liable. Reinsurance contracts are slightly more specialist than insurance contracts but for most part they work in exactly the same way – it is just that the ‘insured’ is another insurer, known as the ‘reinsured’. Reinsurance is important for a number of reasons, including:
- **To protect against large claims.** For example, in the case of a fire in a large oil refinery or a large city hit by an earthquake, insurers will spread the risk by reinsuring part of what they have agreed to insure with other reinsurers so that the loss is not so severe for any one insurer.
 - **To avoid undue fluctuations in underwriting results.** Insurers want to ensure a balanced set of results each year without ‘peaks and troughs’. They can therefore get reinsurance which will cover them against any unusually large losses. This keeps a cap on the claims the insurer is exposed to having to pay itself.
 - **To obtain an international spread of risk.** This is important when a country is vulnerable to natural disasters and an insurer is heavily committed in that country. Insurance may be reinsured to spread the risk outside the country.

- **To increase the capacity of the direct insurer.** Sometimes insurers want to insure a risk but are not able to do so on their own. By using reinsurance, the insurer is able to accept the risk by insuring the whole risk and then reinsuring the part it cannot keep for itself to other reinsurers.

111. As the insurance industry is still in the process of developing in a number of MONEYVAL countries there is a clear need to spread the insurance risk by reinsuring with international insurers. The potential for money laundering arises when reinsurance is placed with reinsurers which are based in poorly regulated jurisdictions or with reinsurers that have been established as shell companies purely for the purpose of accepting specific premiums.

112. The following specific vulnerabilities were identified in the questionnaire responses:

- The large sums involved;
- International nature of business;
- Lack of international regulatory consistency with a number of reinsurers being located in offshore jurisdictions;
- Weak reinsurance supervision in some jurisdictions;
- Complex international structures (capital providers, beneficial owners etc);
- Treaty reinsurance means reinsurer may not be aware of the specific risks insured.

4.3 Insurance Market Structure (See Case Study 19)

113. Insurers and intermediaries are potentially at risk of being misused for money laundering and the financing of terrorism. The following generic vulnerabilities relating to the structure of the insurance market were identified:

- Ability for criminals to gain control of unregulated insurance intermediaries;
- Relatively underdeveloped supervisory and AML/CFT regimes for insurance in countries where insurance is a relatively new concept; ;
- Complexity and diverse range of products;
- Heavy reliance on intermediaries to market products and in some cases manage customer relationships including payment of claims;
- The legitimacy afforded by an insurer's name and provision of apparently clean funds (See Case Studies 11,12, 14 & 19);
- International nature of non-life market, particularly with regard to large commercial risks and reinsurance (See Case Study 15).

4.4 Payment Methods Relating to Insurance Transactions

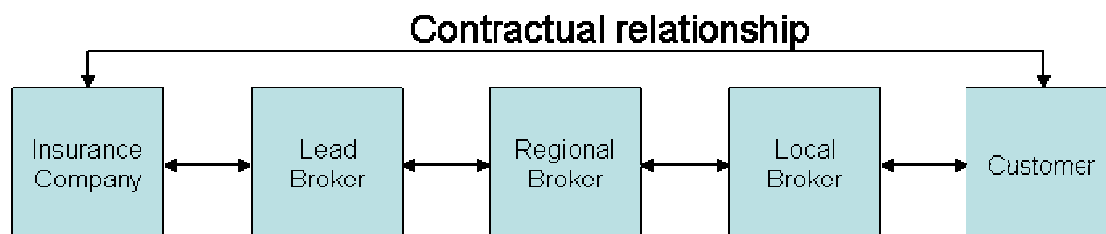
114. Insurance premiums are paid for using the full range of payment methods available. Most of the transactions are carried out through non-cash means (e.g. cheque, wire transfers, etc.). It is, however, noted that in countries where cash is still utilised for small or regular payments it may be used to settle insurance premiums, particularly for regular premium payments on savings style products; this is particularly the case where there is a lack of confidence in the banking system following the global banking crisis.

115. The following vulnerabilities linked to payment systems have been identified:

- Large scale payments in cash;
- Payments through non face-to-face communication (e.g. online payments) (See Case Study 12);
- Payment by endorsable cheques;
- International transfers, including wire transfers used in off-shore operations and reinsurance (See Case Studies 1, 15 & 21).

4.5 Entities Involved in the Offer, Sale, Advice, Management or Distribution of insurance products (“Insurance Intermediaries”)

116. In contrast to other areas of the financial sector, insurance products are frequently marketed through intermediaries who are independent to the product provider (insurance carrier). Furthermore, commission rates offered are comparatively higher than for other financial services products. This may be compounded by the fact that intermediaries themselves may seek to place or market insurances via a chain of other independent intermediaries. A placing chain may appear as follows:



117. As such, although the ultimate relationship is between the insurance company and the customer the insurance company will rely on the placing chain to establish the relationship and, in many cases, take responsibility for CDD (where required) and payment of premium.

118. In addition, with regard to certain commercial risks and reinsurance, intermediaries may be based in a different jurisdiction.

119. It has already been noted that a number of jurisdictions do not apply the AML/CFT regime to non-life insurance and this would extend to the intermediaries involved. This may mean that the owners and key staff have not been subject to any form of regulatory scrutiny or AML/CFT training. This can make apparently legitimate intermediaries vulnerable to being used by criminal groups.

120. The following vulnerabilities have been identified:-

- Unregulated independent brokers or intermediaries;
- Off-shore registration of insurance broker, insurer or reinsurer (off-shore share holders) (See Case Studies 10, 15, 17, 20 & 21);
- Relatively large commissions obtained by agents which can act as a disincentive to rigorous application of AML/CFT controls;
- Long and complex placing chains (See Case Study 15);
- Intermediaries which are responsible for managing the customer relationship including receipt of premium and payment of claims although the actual contract of insurance will be between the insurer and the customer.

4.6 Internet sales (See Case Study 12)

121. While consumers increasingly use the internet to borrow, manage, save, and invest their money, the growth of the internet as a medium of transaction for insurance products has been slow in a number of MONEYVAL countries. The continued expansion of the internet could change this situation; it is noted that in a number of EU countries the majority of personal lines non-life insurance is now marketed over the internet.
122. In some cases, buyers still value the professional advice and face-to-face interaction they get with buying insurance through a dedicated insurance agent. It is noted that with increased usage of the internet, particularly among young people, there is a move towards a more self-directed, independent and flexible approach in buying insurance products.
123. Sales of insurance products over the internet give rise to specific vulnerabilities, notably:
- Lack of face to face contact (See Case Study 12);
 - Inability on behalf of insurer to ask specific questions regarding the exact nature of the insured risk;
 - Ease of purchasing and subsequently cancelling multiple contracts of insurance to cover the same risk (See Case Study 12).

4.7 Clients types

124. Although all types of customer can potentially be involved in money laundering or terrorist financing, the following categories of customer were identified in the questionnaires as being particularly vulnerable:
- Non-life customers introduced by overseas intermediaries in countries where there is no mandatory AML/CFT regime;
 - Politically exposed persons;
 - Customers insuring risks in more than one jurisdiction (e.g. cargo and freight);
 - Customers insuring risks in “high risk” countries or countries on UN/FATF/EU lists.
125. It was also noted that where customers are existing customers of financial institutions whose main business is not insurance (e.g. banks, independent financial advisers, etc.) the CDD checks may not necessarily take in the suitability of the proposed insurance products for the relevant customer.

4.8 Terrorist Financing

126. As with other areas of the financial sector, the insurance industry is potentially at risk of being misused for money laundering and the financing of terrorism. Persons involved in organising terrorist acts look for ways to finance these acts and it is recognised that the products and transactions of insurers provide all these opportunities. In the responses to the questionnaire, 13 countries responded that they considered that the insurance industry was vulnerable to terrorist financing although 10 countries responded that they did not consider there to be a vulnerability. It is, noted that two of the case studies in section 5 below had suspected links to terrorist financing (See case studies 12 & 16).
127. There are no specific methodologies linked to terrorist financing and all of the methodologies identified are potentially vulnerable to being exploited for the purposes of terrorist financing. It is, however, noted that in some cases the nature of the insurance cover requested, particularly cargo

insurance or the specified destination of a risk or payment, may give rise to suspicions of links to terrorism or terrorist financing.

5 TYPOLOGIES

128. The following case studies have been developed from typologies and case studies submitted with the MONEYVAL Insurance Typology Questionnaires together with certain other typologies which have been submitted by members of the core group. The aim of these case studies is to illustrate situations which may give rise to suspicions of money laundering. It should be noted that suspicious transactions reports are submitted on the basis of “suspicions” rather than knowledge and as such, in a number of the following case studies, the underlying crime has not necessary been established.

5.1 Life Insurance and Pensions

129. Life insurance covers a wide range of policy types from pure indemnity through to products that are essentially savings and investment products but with an indemnity element included. Life insurance products with a savings and/or investment element do have an intrinsic redemption value and some products may allow for early redemption. This ability to request an early redemption does give rise to opportunities for money laundering and a number of the typologies featured have utilised this element.

130. Many pension products are structured in a similar manner to life insurance contracts and some products allow for cancellation or early redemption. Likewise criminally derived funds may be invested in pension schemes.

131. In addition to the forgoing, some countries allow for a “cooling off” period after the initial payment has been made on life insurance policies with an investment and savings element as well as for and pension investments. These “cooling off” periods may allow for a full refund of the initial investment within a prescribed period from inception of the policy. Although this provision has been introduced to protect investors it can be exploited by money launderers as a means of laundering criminally derived funds.

No economic rational for transaction

132. The nature of any insurance policy is that the policyholder should have a legitimate interest in the insured risk. Policies entered into without an economic rationale should always give rise to suspicions.

133. The following case deals with investment in and subsequent redemption of single premium life insurance policies by a company on behalf of senior employees in a series of transactions which lacked economic rationale.

Case Study 1

Offence	Money laundering
Insurance related offence	N/A
Jurisdiction	Israel
Subject	Individual/Legal Person
Instruments methods and techniques	Life insurance policies with a substantial investment content
Indicators	<ul style="list-style-type: none"> ➤ The saving ratio in policies was very high and almost no risk/indemnity element existed in the policies. ➤ Substantial premiums per employee. ➤ Premiums paid from an overseas bank account. ➤ The insurance payments are paid by the company itself instead of being paid by the employees designated as the owners of the policies.

	<ul style="list-style-type: none"> ➤ On the redemption date, the money was transferred to the company instead of being paid to the insured persons. ➤ The dates of opening the policies are constant dates. Additionally new policies are opening during the year on the same dates. ➤ The beneficiary of the life insurance is not the insured or his relative or any beneficiary that determined by a relation, but a third party that apparently has no relation to the insured (the accountant firm).
<p>Case description</p> <p>The FIU received information concerning a company managing single premium insurance policies for senior employees (e.g. general managers, presidents, assistant director general and vice presidents) of a local firm and other related firms. All of these policies included a high saving and investment elements. Funds to pay the premiums were transferred from the company's overseas bank account to the company's local bank account managed in country A funds were also transferred to an additional bank account in country A managed as a trust by an accounting firm. The volume of the transfers reached hundreds of thousands of US dollars every month.</p> <p>Each month funds were gradually paid from the company's trust account reducing the balance in the account. These transfers were made in favour of the insurance company for the purpose of acquiring the policies.</p> <p>Although the policies were in the names of the designated senior employees, the company which paid the premiums retained control of the policies. One of the accountants from the accountancy firm was nominated as an irrevocable beneficiary of the policies.</p> <p>When the policies reached the redemption date, the funds were paid via cheque to the accounting firm for the approval of the irrevocable beneficiary. The funds were then transferred back to the company, not to the nominated policy holders.</p>	
<p>Subsequent action</p> <p>In light of the circumstances, the Israeli FIU evaluated that these actions raised suspicions of money laundering and/or tax offences. As a result, the information was forwarded to law enforcement agencies.</p>	

Deposits by third parties and early redemption of policies

134. There are a number of circumstances where interested third parties may pay a life insurance premium on behalf of a policyholder. Employers may pay money into an annuity scheme for key employees as part of their remuneration package and parents may make premium payments on behalf of their children. It is, however unlikely that an unrelated third party would make a payment into a policy for a policy holder and such instances should give rise to suspicions of money laundering.
135. Although payments by third parties may in themselves be an indication of money laundering this is frequently linked to an early redemption or surrender of the policy.
136. The following case studies give examples of where substantial payments of premiums by third parties followed by the early redemption of a policy have led to detailed investigations.

Case Study 2

Offence	Money Laundering, Tax evasion
Insurance related offence	N/A
Jurisdiction	Poland
Subject	Individual and Legal Person
Instruments methods and techniques	Life insurance policy
Indicators	<ul style="list-style-type: none"> ➤ Small initial deposit followed by large deposit by third party legal person. ➤ Additional payments from company in geographically different location. ➤ Policy cancelled with full reimbursement of contributions shortly after inception. ➤ Reimbursement paid to third parties all natural persons.
<p>Case description</p> <p>Mrs. T (teacher) from the South of Poland, entered into a life insurance policy with a small initial premium being paid. The transaction was arranged by Mr. B who was the agent of insurance company IC and a cousin of Mrs. T.</p> <p>Two days later, Company C from the North of Poland made a payment of an additional premium, in excess of 2.1m PLN (€540,000), on behalf of Mrs. T.</p> <p>After one month, Mrs. T cancelled her policy and transferred the refund of contributions to three different accounts:</p> <ul style="list-style-type: none"> - Mr. MD (Managing Director of Company C) –950,000 PLN (€240,000); - Mrs. N (niece of Mr. MD) –600,000 PLN (€150,000); and - Mr. U 600,000 PLN (€150,000). <p>All of them subsequently transferred the money onwards to other accounts in different banks.</p>	
<p>Subsequent action</p> <p>Following an investigation it appeared that the money being laundered was linked to fuel smuggling. The accounts were blocked by the FIU and the case was forwarded to the public prosecutor.</p>	

Case Study 3

Offence	Money laundering
Insurance related offence	N/A
Jurisdiction	Bulgaria
Subject	Individual and Legal Person
Instruments methods and techniques	Pension/savings
Indicators	<ul style="list-style-type: none"> ➤ Large deposit by third party ➤ Prompt withdrawal by policyholder
<p>Case description</p> <p>A single premium on a life policy, totalling more than €500,000 was paid on behalf of Mr. A by Mr. A's employer, who was a related person.</p> <p>Half of the amount was withdrawn by Mr. A within a month of paying the premium. A request for withdrawing the balance of the amount was filed at the same time.</p>	
<p>Subsequent action</p> <p>Following a report to the FIU subsequent checks revealed that Mr. A had a criminal record and was involved in pending legal proceedings.</p> <p>It also appeared that Mr. A was allegedly involved in drug dealing and assassinations.</p> <p>Following further investigation and collection of information, including tax records, CTRs, and movements of funds on Mr. A's accounts the relevant information was forwarded to law enforcement agencies.</p>	

Policies used as collateral for loans

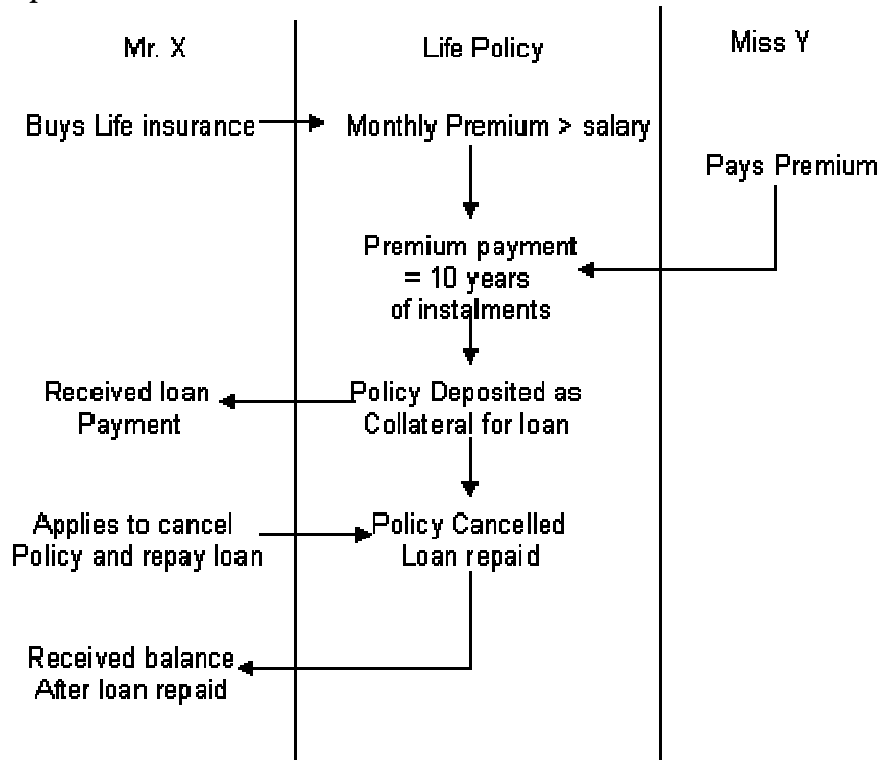
137. As life insurance policies with a savings and/or investment feature have an underlying intrinsic value, this means that they can be used as collateral against a loan, providing a further complication in the layering process.

138. This is a feature of the following case studies where the life insurance policies were used as collateral for loans which were drawn down soon after the inception of the policy. This was followed by early redemption of the policies and repayment of the loans.

Case Study 4

Offence	Money laundering, suspected bribery
Insurance related offence	N/A
Jurisdiction	Israel
Subject	Individual/Legal Person
Instruments methods and techniques	Life insurance policies with a substantial investment content
Indicators	<ul style="list-style-type: none"> ➤ Unrelated third party paying a lump sum in advance for an instalment scheme. ➤ The value of the premium did not match the economic circumstances of the policyholder. ➤ The policy was deposited as collateral against a loan shortly after inception of the policy. ➤ Early redemption of the policy linked to early repayment of loan.

Case description



Mr. X acted as a broker between a financial institution and a government institute. Mr X and Miss Y were suspected of receiving a bribe in return for helping the financial institution to reduce its debt to the government institute. It was suspected that Mr. X then attempted to launder this bribe using the following scheme.

Mr. X took out a life insurance policy with a savings and investment element. The policy required

<p>regular payments of instalments of premium. The policy detailed Mr. X's salary income which was much lower than the regular monthly premium payments.</p> <p>Mr. X was employed by Miss Y who paid the life insurance premium instalments on behalf of Mr. X. Miss Y was the owner of the policy. The insurance company received a very large advance single premium from Miss Y on behalf of Mr. X. This single premium was equivalent to 10 years of monthly instalments.</p> <p>After the single advanced premium payment, Mr. X took out a loan, from the insurance company, using the policy as collateral and receiving a cheque drawn on the insurance company's account.</p> <p>At the same time Mr. X applied to the tax authorities in order to receive an approval to draw the policy funds exempted from tax. This request was granted and Mr. X, after only one month, submitted an application to the insurance company to cancel the policy and withdraw the monies paid. A week later, Mr. X redeemed his policy and received a cheque amounting to the balance left in the policy after the loan had been repaid.</p> <p>After another period of time had elapsed, Mr. X made an additional deposit of a similar sum to a new policy and on the same day took a loan amounting to 2/3 of the funds deposited, with funds being transferred directly to Mr. X's account.</p> <p>After two years Mr. X redeemed the policy crediting the debt due to the loan he took, and received a cheque amounting to the balance remaining in the policy.</p>
<p>Subsequent action</p> <p>The case was investigated due to the suspicion of bribery. In addition, it appeared that Mr. X was trying to evade paying tax via life insurance policies. Eventually an indictment was not submitted.</p>

Case Study 5

Offence	Money laundering, Tax fraud, obtaining loans by deception
Insurance related offence	N/A
Jurisdiction	Romania
Subject	Individual/Legal Person
Instruments methods and techniques	Life insurance
Indicators	<ul style="list-style-type: none"> ➤ Undue interest in early redemption clauses. ➤ Insistence on inclusion of an early redemption clause. ➤ Deposit of insurance policy as collateral for a loan.
<p>Case description</p> <p>The Romanian FIU received a STR from a Romanian Insurance Company regarding a life insurance contract for €50,000 for 30 years, negotiated by Company L for its manager, Citizen Z.</p> <p>During the contract negotiations Citizen Z asked if it is possible to take over the contract or to cancel it. The standard life insurance contract contained a clause that allowed for redemption after 4 years. Citizen Z requested derogation from this clause to allow the redemption period to begin after 2 years.</p>	
<p>Subsequent action</p> <p>A subsequent investigation by the Ministry of Public Finance concluded that Company L was involved in tax fraud.</p> <p>By analysing the turnover of the account opened by Company L, it indicated that a limited number of premium payments were made to the insurance company. The company was also known in the records of some banks as a “bad payer” and therefore, the company had a poor credit record and was unable to obtain other loans.</p> <p>Citizen Z used the insurance policy as guarantee for a loan in the amount of €30,000 from bank A. Bank A granted the loan and Citizen Z transferred the amount of €29,500 to an account opened by Company L justified as “personal contribution”.</p>	

Early redemption

139. The early redemption and “cooling off” or “free look” features in a life insurance policy make it attractive for money launderers. This enables criminally derived funds to be paid to an insurance company, either directly or through an intermediary. Once the policy is redeemed the person

concerned has funds from an insurance company that can be paid into the mainstream banking system without giving rise to suspicions.

140. In the responses to the questionnaire, 16 countries allowed “cooling off” or “free look” features in life policies whereas 7 countries had specifically excluded them. With regard to Pensions, 4 countries allowed “cooling off” or “free look” features in life policies whereas 13 countries had specifically excluded them and 13 countries allowed early redemption of pension policies whereas 5 countries had specifically excluded them.

141. Although there may be legitimate reasons for early redemption of a life insurance policy, for example change in personal circumstances or large unexpected expense incurred a request for an early redemption may be an indication of money laundering. This is particularly the case where there is no valid reason for the early redemption or it is close to the inception of the policy.

142. The following case study provides an example of a situation where funds have been paid into an insurance company as premium payments on life insurance policies with subsequent early redemption with funds being paid into the banking system.

Case Study 6

Offence	Money Laundering
Insurance related offence	N/A
Jurisdiction	Romania
Subject	Individual/Legal Person
Instruments methods and techniques	Life insurance
Indicators	<ul style="list-style-type: none"> ➤ Large single premium deposits ➤ Premium inconsistent with customer profile ➤ Cancellation of policy soon after receipt of premium
<p>Case description</p> <p>The Romanian FIU received an STR sent by a Romanian Insurance Company regarding suspicions about early redemptions related to a life insurance policy.</p> <p>A life insurance policy was signed by Citizen X. Six months later two additional premiums of €20,000 each were paid in two consequent days. Three weeks later a redemption claim was submitted for the two additional premium payments amounting to total €40,000.</p> <p>The premium payments did not accord with the declared sources of income of the insured person Citizen X.</p> <div style="text-align: center;"> <pre> graph LR CX[Citizen X] -- Signs Policy --> LP[Life Policy] LP -- "2 months later" --> D1[Day 1: Deposits €20,000] LP -- "2 months later" --> D2[Day 2: Deposits €20,000] LP -- "3 weeks later" --> C[Policy cancelled] C --> CY[Citizen Y] CY --> B[€15,000 At Bank N] B --> CW[€9,500 Cash Withdrawn] </pre> </div>	
<p>Subsequent action</p> <p>The case was referred to the Ministry of Public Finance. The subsequent investigation revealed that</p>	

Citizen X's declared taxable income was lower than the amount used for paying the premium for the life insurance policy.

By analysing the turnover of the account opened by Citizen X with Bank M, it was found that Citizen X received the amount of €75,000 from AB Company Ltd, a company that was known to be involved in tax fraud operation (including illegal reimbursement of VAT). The amount of €75,000 was recorded as "salaries".

After receiving the redeemed amount from the insurance company, Citizen X had withdrawn the amount of €9,500 in cash; this being below the reporting threshold to the FIU, at that time.

Moreover, Citizen X arranged the transfer of an amount of €15,000 to an account opened by Citizen Y (AB Company Ltd's manager) with Bank N;

Analysis of the turnover of the account opened by Citizen Y with Bank N concluded that Citizen Y withdrew in cash the amount of €9,500. The amount of €6,000 was used for constituting a deposit in Bank N.

Collusion with life insurer

143. In most instances of money laundering the insurance company is the unwitting facilitator and only becomes aware of the true nature and intention of the transaction as a result of a specific set of circumstances triggering a suspicion. In some instances, however, the insurance company may work together with the money launderers to facilitate a scheme of money laundering.

144. The following case study provides an example of a life insurer working in collusion with a company to facilitate a tax avoidance scheme. This case also provides an example of an insurer effectively being used as a banker to facilitate payments to a company's employees. Furthermore, it would appear that all parties concerned were aware that insurance was not the purpose of this scheme of transactions.

Case Study 7

Offence	Tax evasion
Insurance related offence	N/A
Jurisdiction	Russia
Subject	Legal person Non-Profit organisations Insurance company
Instruments methods and techniques	Life insurance for employees Fictitious company Loans to employees
Indicators	➤ Transactions where insurance is not the primary objective. ➤ Insurance company used to make regular payments to employees.
Case description	
<p>Company A, entered into an arrangement with an insurance company to develop a scheme for paying its employees and avoid paying tax on their salaries.</p> <p>Company A established a nominee company, Company B, which was used to transfer funds to a non-profit foundation, Company C.</p> <p>Once the funds were received by Company C it granted loans to employees of Company A. Subsequently, the employees of Company A then entered into long-term life insurance agreement with the insurance company and paid the money received to the insurance company as a single premium. The employees then received monthly insurance payments equalling 1/12th of the paid annual insurance premium which was equivalent to their actual salary.</p> <p>This scheme was used by a number of commercial institutions to pay the salaries of their staff with the aim of reducing the taxable base. An overall analysis of the insurance market has shown that this type of insurance, which was used to pay the salaries of the staff, was particularly popular with commercial companies in 2005.</p>	
Subsequent action	
This scheme is no longer used following the introduction of a new tax on individual income received in	

the form of life insurance payments made out of a policy during the first five years of the agreement term.

Pensions

145. As previously stated some pension policies display similar characteristics to life insurance policies with investment and savings features. This is particularly true of schemes which have flexible investment and redemption features.

146. In addition criminals also utilise pension schemes as a vehicle both for long-term savings but also to shelter funds from confiscation. In some cases the nature of pension schemes means that the contributions paid into the scheme are co-mingled with the funds of other scheme members and are only available upon reaching retirement age.

Case Study 8

Offence	Conspiracy to obtain property by deception
Insurance related offence	N/A
Jurisdiction	United Kingdom
Subject	Natural person
Instruments methods and techniques	Occupational pension scheme
Indicators	➤ Criminal funds paid into occupational pension scheme
Case description	
<p>Mr. C was part of a conspiracy designed to defraud elderly and vulnerable people. They were told that they needed damp-proofing services. They were provided with these services when they were not required and charged exorbitant sums. The services with which they were provided were valueless. Mr. C was a salesman for the company who directly swindled some of the clients.</p> <p>The prosecution authorities sought to confiscate the benefit that Mr. C had obtained of £68,000. The only assets that Mr. C had were two pension policies which were due to mature 9 years later. Due to the nature of these policies, Mr. C had no right to access the fund until maturity. In particular, there was no surrender value and the policy could not be assigned or sold. The policy had an underlying value which represented the value of the units in the policy fund. It also had an anticipated transfer value, namely the anticipated capital value which would be available to Mr. C on maturity. But neither value reflected any immediate benefit to Mr. C.</p> <p>It was concluded that there was no current market value in the pension policies and they were, therefore not available for confiscation at that time.</p>	
Subsequent action	
<p>The only option available to prosecutors would be to seek a court order when assets become available which can be utilised to meet the Confiscation Order.</p>	

5.1 Non-life Insurance

147. Although the features of life insurance policies and pension schemes make them particularly attractive non-life insurance policies can also be used for money laundering and financing of terrorism.
148. Although non-life insurance policies do not have the intrinsic redemption value that life insurance policies with savings and investment features have they are still vulnerable to being utilised for the purposes of money laundering as is illustrated by the following case studies.
149. It is noted from the following case studies that motor insurance figures in a number of the studies. It should, however, be noted that the methodologies utilised could be applied to any class of non-life insurance.

Failure to provide information

150. The activities or behaviour of the policyholder may give rise to suspicions. This is illustrated in the following case study.

Case Study 9

Offence	Money laundering
Insurance related offence	N/A
Jurisdiction	Bulgaria
Subject	Legal Person
Instruments methods and techniques	Motor insurance
Indicators	<ul style="list-style-type: none"> ➤ False or inconsistent declarations ➤ Refusal to provide information on source of funds
Case description	
<p>Numerous motor vehicles owned by a number of companies were insured.</p> <p>As part of the process for setting up the insurance policies various company documents were reviewed by the insurer. The companies had been incorporated during 1994-1995 when Mr. X was 24 years old. The registered business activities of the companies set out significant investments that did not correspond to the age and status of Mr. X.</p> <p>The companies appeared to be linked to other persons related to the Mr. X and were incorporated with the same address.</p> <p>Subsequently Mr. X refused to provide information on the origin of the funds used to acquire the motor vehicles.</p>	
Subsequent action	
A report was submitted to the FIU and an investigation was instigated.	

Inflated premiums

151. The use of inflated insurance premiums and overpayments of premium are common methods of money laundering. With regard to inflated premiums, this requires collusion with an insurer or insurance intermediary whereas an “accidental” overpayment of premium does not.

Case Study 10

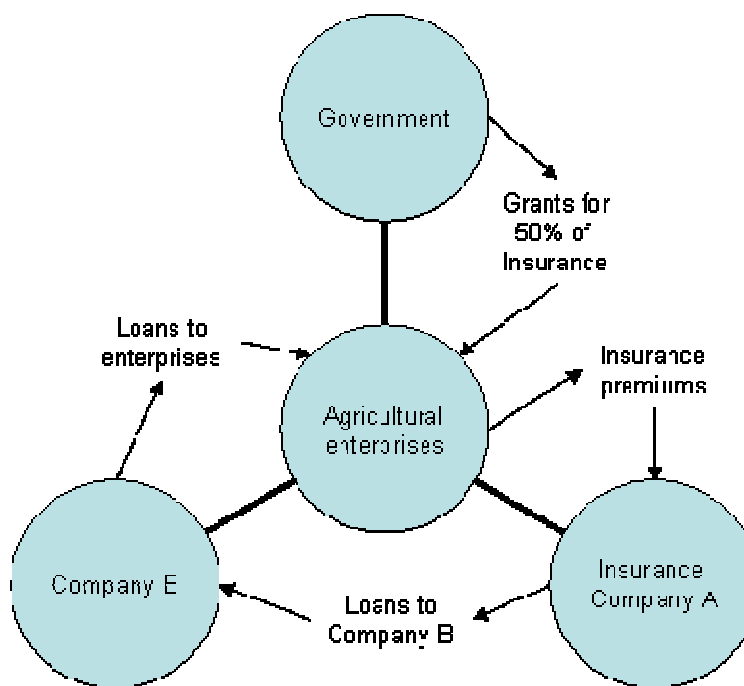
Offence	Money laundering, organised criminality and capital flight
Insurance related offence	N/A
Jurisdiction	United Kingdom
Subject	Overseas insurance company Insurance intermediary
Instruments methods and techniques	Reinsurance of energy risk
Indicators	<ul style="list-style-type: none"> ➤ Overpayment of premium ➤ Request to pay money into offshore bank accounts ➤ Excessive commissions paid to offshore companies
<p>Case description</p> <p>A UK reinsurer was requested to reinsure an energy risk on behalf of an overseas insurer. A premium of US\$1.5 million was agreed.</p> <p>It was also agreed that the premium payment would include an additional US\$10 million that was to be paid as “commission” to insurance brokers in an offshore location. It was also noted that these insurance brokers did not appear to have been involved in the placing of the original risk.</p> <p>When the premium was paid, the payment that was received was US\$21.5 million and it was explained that the additional US\$10 million was an “accidental” overpayment. It was requested that the overpayment was refunded to a bank account in an offshore location.</p> <div style="text-align: center;"> </div>	
<p>Subsequent action</p> <p>This transaction was uncovered as a result of an ongoing investigation into other criminal activities. The insurer had not previously submitted a suspicious transaction report on this transaction as UK legislation did not include non-life insurance in the scope of its AML/CFT requirements.</p>	

152. The following case also involves overpayment of insurance premiums although in this case the insurance companies were complicit in setting up the transactions.

Case Study 11

Offence	"Carousel" insurance in the agricultural sector Government grant fraud
Insurance related offence	N/A
Jurisdiction	Russia
Subject	Agricultural businesses
Instruments methods and techniques	Inflated insurance premiums
Indicators	➤ Use of fictitious companies with no asset base can quickly disappear upon the occurrence of an insured event.

Case description



Insurance company A arranged for the formation of a nominee Company B, as a fictitious company, to issue low rate loans (e.g. 5% per annum) to agricultural enterprises on condition that they purchase their harvest insurance policy from Company A.

The premiums received were returned by the underwriters at insurance company A to Company B as payment for its own bills or in the form of a loan. This money was then used by Company B to refund the agricultural enterprises agreeing to take out their harvest insurance policy from Company A. Thus, the same amount is given to various agricultural enterprises in the form of a loan and later paid by each borrower in the form of an insurance premium to Company A.

Subsequently, the state compensated the agricultural enterprises for 50% of their insurance expenses. The compensation received was then used by the agricultural enterprises to repay their debts to Company B.

Early cancellation of insurance policies

153. Although there is no underlying intrinsic value in non-life policies can be cancelled at any time during the life of the policy with a refund of a portion of the premium. The following case study gives an example of a situation whereby early cancellation of motor insurance policies was used as a means of laundering funds.

Case Study 12

Offence	Suspected terrorist financing
Insurance related offence	N/A
Jurisdiction	United Kingdom
Subject	Natural person
Instruments methods and techniques	Cancellation of motor insurance policies
Indicators	<ul style="list-style-type: none"> ➤ Early cancellation of policy ➤ Prompt closure of account from which premium paid ➤ Request for cheque rather than wire transfer to originating account ➤ Cheque presented to “cash converter”
Case description	
<p>In October a motor insurance policy was purchased by Mr X to cover a Nissan Micra. The premium was £772 based on 4 years no claims bonus. The premium was paid by way of debit/credit card via the internet. Mr X cancelled cover on the 5th November and asked for the refund of premium to be paid by personal cheque as he had lost the relevant debit/credit card.</p> <p>On 3rd December Mr X contacted the insurer’s call centre and took out cover on a different vehicle, a Vauxhall Corsa. This time he attempted to pay via a debit/credit card and initially the transaction was declined. The premium was paid in full by debit card the following day. Mr X now claimed that he had no no claims bonus and bought every possible “added on” product and subsequently the premium was £3,483.</p> <p>Once again Mr X requested that this policy be cancelled. He requested that the refund of premium should not be paid via the original debit card as that particular bank account had been closed. Consequently he asked for a personal cheque to be sent to him. This was refused with the insurer insisting that the refund should be paid via the original debit card.</p> <p>The insurer has subsequently established that the first refunded cheque was presented to cash converters.</p>	
Subsequent action	
<p>The series of transactions was reported to the FIU. Subsequent investigations indicated that the individual concerned appeared to be linked to a terrorist network.</p>	

Staged accidents and manufactured insurance claims

154. Although insurance companies are usually diligent in identifying and declining any claims that appear to be false or fraudulent a number of case studies have been identified where insurance claims have been used as a means of laundering criminally derived funds. It is noted that in a number of the following case studies the laundering activity was undertaken with the co-operation or collusion of the insurance company.

155. The following case studies involve fraudulent claims based on non-existent accidents supported by collusion with an insurance company.

Case Study 13

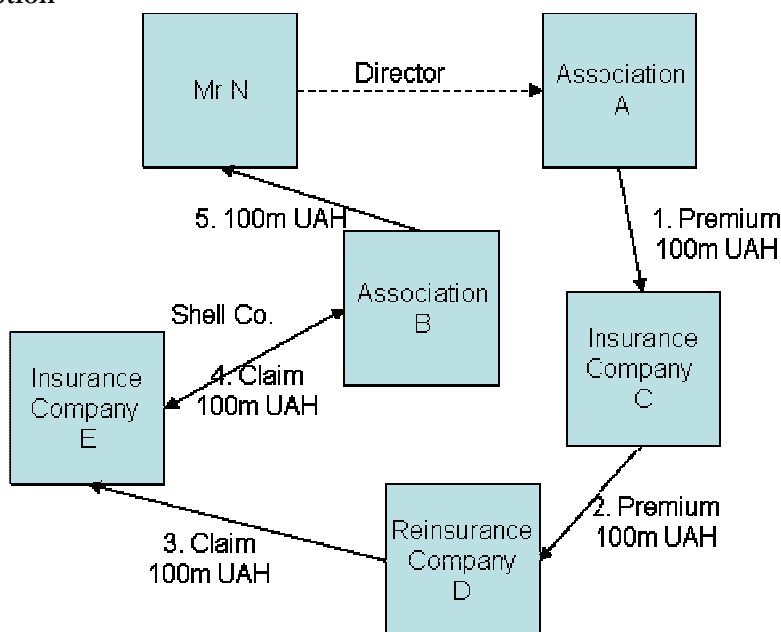
Offence	Insurance fraud/money laundering
Insurance related offence	Insurance claims fraud
Jurisdiction	Moldova
Subject	Individual/Legal Person

Instruments methods and techniques	Health and personal injury insurance
Indicators	<ul style="list-style-type: none"> ➤ Dummy persons ➤ Premium rate that did not equate to the underlying risk ➤ False claims supported by false documents ➤ Abnormal internal practices (accelerated claims payments)
Case description	
<p>An insurer in collusion with an insured person attempted to launder money through insurance transactions. The manager of an insurance company sold health and personal injury insurance policies insuring against the liability from accidents to dummy persons, normally in the names of friends and relatives. These persons paid a low premium rate.</p> <p>Subsequently claims were received, supported by false documentation and medical certificates to substantiate the losses and the insurer paid the claims promptly. The claims for damages were considerable.</p> <p>The manager then sought to legalise this scheme and recover the damages paid out. Under subrogation rights, the insurance company took legal action against all businesses where the alleged accidents had occurred. The businesses involved (restaurants, clubs etc.) responded that they had not been aware of the alleged accidents and that no such accidents had occurred at the times stated.</p>	
Subsequent action	
<p>Details were subsequently passed to law enforcement agencies. It was also considered that the scheme could have been designed to avoid payment of taxation.</p>	

Case Study 14

Offence	Money laundering Theft of state funds
Insurance related offence	Fictitious claims
Jurisdiction	Ukraine
Subject	State owned companies and government officials
Instruments methods and techniques	General insurance and reinsurance
Indicators	<ul style="list-style-type: none"> ➤ Excessive premiums ➤ False claims ➤ Shell companies

Case description



Mr. N was the Director of state controlled Association A. Mr N concluded an agreement of property and

financial risks insurance with Insurance Company C (1). The nature of the insurance policy conditions meant that it was unlikely that the insured events would actually occur and therefore, no claims would be made. In accordance with this agreement, Association A transferred 140 million UAH (€14.6 million) as insurance premiums.

Insurance Company C then concluded a reinsurance agreement with Reinsurance Company D in another country and transferred funds to meet the premium (2).

At the same time Insurance Company E, which was working in collusion with Mr. N and Insurance Company C established a shell company, Association B (4). Insurance Company E also concluded a reinsurance agreement with Reinsurance Company D (3).

Following receipt of claims submitted by Association B, Reinsurance Company D paid 100 millions UAH (€10.5 million) in respect of reinsured accidents to Ukrainian Insurance Company E (3) which in turn related to insurance risks in Association B. Association B then paid the funds to Mr. N (5).

Subsequent action

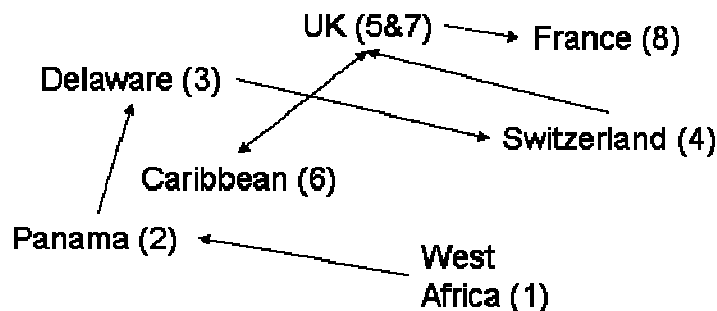
An investigation disclosed that Mr N then arranged for funds to be transferred to a number of fictitious private entities apparently involved in entrepreneurial activity.

156. Complex placing chains linked to insurance through off-shore insurers can be utilised for laundering funds as well as facilitating the perpetration of fraud. The following case study uses these techniques to disguise the source of funds and perpetrate a fraud.

Case Study 15

Offence	Fraud, bribery and corruption
Insurance related offence	N/A
Jurisdiction	United Kingdom
Subject	Natural person
Instruments methods and techniques	Property and casualty insurance
Indicators	<ul style="list-style-type: none"> ➤ Unnecessary use of insurance brokers ➤ Lengthy placing chain using multiple jurisdictions ➤ Insurance placed through company set up for one transaction only ➤ Change in nature of the insured risk during placing chain

Case description



A multinational company based in West Africa (1) paid an insurance premium for property and casualty risks of the equivalent of €8m. The premium was paid to an insurance intermediary based in Panama (2) who then placed the risk through an intermediary based in Delaware (3), USA. The risk was then passed to an intermediary in Switzerland (4) who placed it through a broker in London, UK (5). The London based broker then placed the risk with an insurer based on a Caribbean island (6) which had been established solely for the purpose of underwriting this transaction. On the same day that the premium was paid, a claim was submitted equivalent to the amount of the premium less commission and was paid through the London (7) based broker to an individual in France (8).

Subsequent action

This series of transactions came to light in the context of a larger investigation. A number of the individuals concerned were subsequently for charges which included fraud, bribery and corruption.

157. Claims assessors normally conduct an extensive review of the circumstances surrounding an insurance claim, this review may uncover circumstances which indicate that money laundering or terrorist financing may be involved even if the insurance policy itself has not been used for the purposes of money laundering. The following case study provides an example of a situation whereby investigation of an insurance claim gave rise to suspicions of terrorist financing.

Case Study 16

Offence	Suspected terrorist financing
Insurance related offence	Claims fraud
Jurisdiction	United Kingdom
Subject	Legal person
Instruments methods and techniques	Property and casualty insurance – Jewellers block
Indicators	<ul style="list-style-type: none"> ➤ Unsubstantiated insurance claims ➤ Unsubstantiated payments for insured goods
Case description	
<p>An UK based insurer underwrote Jewellers block coverage for a Jewellery company based in Miami Florida, USA. A claim against the policy was been made however the company owner, Mr X was unable to provide evidence of the loss and as a result an investigation took place.</p> <p>The investigation identified discrepancies in the financial records of the company and raised questions with regard to the movement of monies between bank accounts. Of significant interest was the transfer of funds to a bank account in Beirut. Under oath, Mr X stated that the account contained in excess of \$200,000. No explanation for the movement of monies was provided and no bank statements were produced with regard to the bank account in the Middle East.</p>	
Subsequent action	
<p>This matter was reported to US law enforcement agencies by the insurer’s attorneys. The law enforcement agencies were particularly interested in the movement of funds and indicated that these could have been used for the purposes of terrorist funding.</p>	

Insurance policies used as collateral

158. In the following cases the provision of a financial guarantee insurance policy was used to provide additional security to a bank for making a loan. It is also notable that the subsequent claim on the insurance policy prompted the insurance company to make a report to the FIU.

Case Study 17

Offence	Obtaining loan by deception
Insurance related offence	N/A
Jurisdiction	Moldova
Subject	Legal Person Off-shore companies
Instruments methods and techniques	Financial guarantee insurance Insurance policies deposited as collateral for a loan
Indicators	<ul style="list-style-type: none"> ➤ Insurance policies deposited as collateral ➤ Funds paid to accounts in third countries not directly linked to transaction ➤ Transfers to companies linked to company owners
Case description	
<p>Company X was a construction company which urgently needed to purchase lifting cranes. Company X obtained a credit line of €1.5m from Commercial Bank B in order to purchase 3 lifting cranes from German Company Z, a leasing company which leased second hand machinery, including cranes. Company Z agreed to sell Company X lifting cranes for a price of €1.78m.</p>	

As collateral for the loan from Commercial Bank B, Company X was granted a lien over real estate and the imported cranes. In addition Company X arranged a financial risk insurance policy to cover certain aspects of the risks of the transaction.

Once these arrangements were in place, Bank “B” transferred €1.78m (€1.5m loan plus €280,000 of Company X’s own funds) to the account of Company Z in a German bank.

It subsequently appeared that Company X had received a better offer and had entered into a new agreement with Company Z for the sum of €5m. In a side letter to the agreement, Company X required Company Z to transfer €1.673m to the account of Company Y which was based in a third country. Company Z then transferred €1.6m to the account of Company Y, this money was then transferred to the accounts of companies linked to the owners of Company X.

Commercial Bank B was unable to recover the sums loaned and there was insufficient collateral, furthermore, the cranes were never imported to Moldova. The bank tried to claim on the financial guarantee insurance policy although the claim was declined as insurance company claimed that losses due to criminal conspiracy were not covered by the policy.

The insurance company did, however, submit a report to the Moldovan FIU.

Enforcement actions

The Moldovan FIU opened a case and commenced an investigation. Links between the various companies as set out above were subsequently uncovered and the investigation is ongoing.

159. The following case is typical of a type of money laundering whereby assets are deposited as security against loans and the vault insurance policy is effectively used as a valuation of the underlying assets.

Case Study 18

Offence	Fraud and money laundering
Insurance related offence	N/A
Jurisdiction	United Kingdom
Subject	Natural person
Instruments methods and techniques	Property and value insurance – Vault insurance
Indicators	<ul style="list-style-type: none"> ➤ Low risk of claims ➤ Improbably high value of insured risks ➤ Insured reluctant to provide personal details ➤ Defective supporting documentation

Case description

An insurer received an approach to provide vault insurance for 150lbs of uncut emeralds valued at more than \$25.5 million. Whilst full details were provided with regard to the bank where the gems were to be securely held little detail was provided with regard to Mr X, the owner of the emeralds.

The insurer had a number of concerns the most significant of which was in relation to the supporting documentation provided which included valuations and accreditations from unaccredited sources. On this basis the insurer declined the risk but submitted a report to the relevant law enforcement agencies.

In another case a “ruby” known as the “Gem of Tanzania” was valued at £11m (c. €9m) and was used as security for loans to a UK based construction company. It was noted that at the time of the loan, the highest recorded price paid for a ruby was £2.6m (c. €2.2m) in 2006. When the company failed the stone was eventually sold for £8,000 (c. €7,000), largely due to its curiosity value, its real value being estimated at £100 (c. €80).

Subsequent action

The insurers concerned have seen a number of similar proposals all of which have been reported to the FIU. The insurers are concerned that if a policy was issued it could be misused by the policyholder to either falsify the value of their company (e.g. falsely inflating their company’s balance sheet and enabling them to trade whilst insolvent), or to purportedly evidence their ownership of a fictitious asset, assisting the policyholder to fraudulently seek and obtain finance from a lending institution, (e.g. obtain a loan, letter of credit etc).

5.2 Insurance Companies

Fronting for non-insurance revenues

160. Although insurance transactions are used as a vehicle for money laundering the fact that insurance companies normally have a substantial turnover of funds as well as a perceived legitimacy for transactions provides the potential for the insurer itself being used to launder funds without any insurance transactions being undertaken. The following case study provides an example of an insurance company being used by its parent company to disguise the source of funds.

161. Insurance companies invest surplus funds in the securities markets, in some countries insurers may be among the largest groups of investors. Such investments are strictly regulated in accordance with both national and international solvency standards which are linked to detailed reporting requirements.

162. The following case study gives an illustration of an insurance company utilising its investment portfolio to hold bearer securities.

Case Study 19

Offence	Money laundering Illegal share trading
Insurance related offence	Unauthorised share purchases Failure to report transactions
Jurisdiction	Ukraine
Subject	Insurance company
Instruments methods and techniques	Bearer securities
Indicators	<ul style="list-style-type: none"> ➤ Purchase of bearer securities ➤ Suppression of transaction reports
Case description	
<p>Insurance company officials systematically carried out transactions using bearer securities, which were not placed in depositaries. Violating current legislation, deposit certificates of a bank amounting to over 4 million UAH (€420,000) were purchased on the basis of a securities exchange contract. A report on execution of financial transactions was not provided to the SCFM of Ukraine, which is an obligatory condition for insurance companies.</p> <p>Furthermore, the insurers concluded contracts on the purchase and resale of shares of an enterprise, issued in simple document form in amount over 1 million UAH (€104,400). These transactions were not reported either to the Ukrainian authorities.</p>	
Subsequent action	
<p>The prosecution authorities in Ukraine initiated a criminal case under the Criminal Code of Ukraine, with sanctions of either a large fine or imprisonment up to two years.</p> <p>Criminal proceedings were also instituted against officials of both banks involved in the transaction. It was eventually discovered that the employees of one of the banks had paid out funds totalling US\$130,000 to a private person and had reported the transactions to the SCFM of Ukraine. The other bank had acted in a similar manner, paying out 15 million UAH (€1.6 million), followed by a further 8 million UAH (€835,000) to the same person.</p>	

5.3 Reinsurance

163. The following cases studies provide examples of where payments to non-resident reinsurance companies have been utilised to launder money and move funds from the jurisdiction of the domestic authorities.

Case Study 20

Offence	Capital flight/exchange control violations Tax evasion
Insurance related offence	Reinsurance of non-existent risks
Jurisdiction	Russia
Subject	Legal persons Reinsurance brokers
Instruments methods and techniques	Reinsurance
Indicators	<ul style="list-style-type: none"> ➤ Location of non-resident reinsurers in jurisdictions with no established reinsurance sector. ➤ Premiums paid to non-resident reinsurance companies with no apparent involvement in reinsurance. ➤ Premiums paid to reinsurance companies which are not licensed to offer insurance products. ➤ Institutions with a low payout ratio between the volume of insurance payments and the volume of insurance premiums. (According to the Russian Federal Insurance Supervisory Authority (FISA), all insurance companies with a payout ratio of 5% fall into the category of suspicious (ratio for developed countries normally in the range of 60-70%).
Case description	
<p>Domestic companies, while using different pretexts, such as "for equipment", " for materials", "for products", etc., transfer funds to the companies 'collectors' responsible for the distribution and accumulation of the incoming funds.</p> <p>Subsequently, the funds are paid to Russian insurance companies presented as "for promissory notes" or "as part of reinsurance agreement".</p> <p>The received funds are then sent as reinsurance premiums to non-resident "reinsurance companies".</p>	
Subsequent action	
<p>An analysis of the insurance market has shown that a number of leading reinsurance institutions active in the insurance business are involved in "schematic" reinsurance aimed at channelling funds out of Russia.</p>	

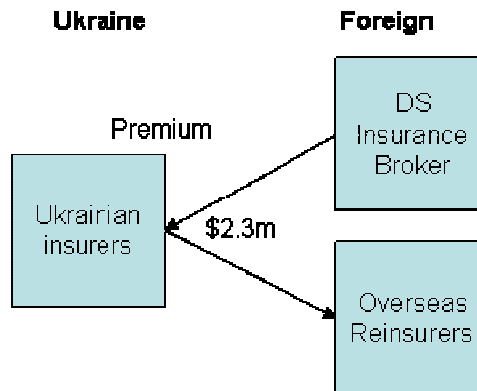
164. The following case study concerns payments of reinsurance premiums to unlicensed companies.

Case Study 21

Offence	Money laundering Capital flight
Insurance related offence	Use of unlicensed insurers and brokers
Jurisdiction	Ukraine
Subject	Insurance companies
Instruments methods and techniques	Retrocession reinsurance
Indicators	<ul style="list-style-type: none"> ➤ Use of non-insurers for retrocession payments ➤ Payments through unlicensed companies
Case description	
<p>Ukraine reported a number of instances of premiums paid to reinsurance companies being utilised to</p>	

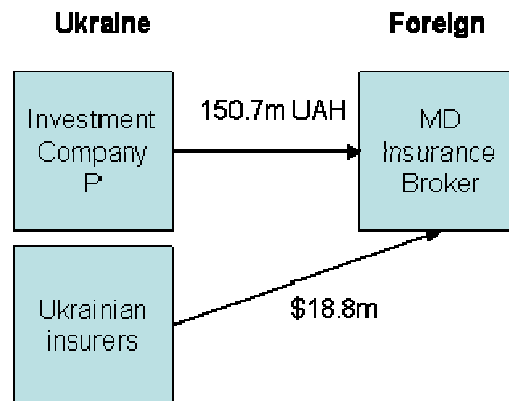
transfer funds abroad.

Case 1



A premium was paid on behalf of a non-resident company DS to a group of Ukrainian insurers. The insurers then arranged a contract of reinsurance with overseas reinsurers and subsequently paid them a reinsurance premium of US\$2.3 million. The payment was supported by reinsurance agreements and cover-notes with confirmation of risk acceptance to reinsurance.

Case 2



Investment company P, domiciled in Ukraine, paid 150.7 millions UAH (US\$28.4 million) from its Ukrainian bank account to bank accounts in a neighbouring country held by the company's non-resident Company MD.

Subsequently, Ukrainian insurance companies transferred US\$18.8 million to Company MD according to retrocession agreements. Money was transferred overseas through the company MD. The company MD was acknowledged as a foreign investor, and a number of banks, in which it had its accounts, were obligated to comply with requests from MD for the purchase of foreign currency and facilitate its transfer overseas.

Subsequent action

Ukrainian insurance companies did not have the right to reinsure the risks with companies MD and DS. Company MD had previously held a license to carry out insurance broker activity from October, 1995 until September, 2002, when this permission was cancelled. The license of DS had been suspended since May, 2001.

The State Commission on Regulation of Financial Services Market of Ukraine subsequently made 21 insurance companies takes measures to terminate reinsurance agreements with these companies.

6 SUSPICIOUS TRANSACTION REPORTING AND ENFORCEMENT ACTION

6.1 Level of Reporting

165. In spite of the rapid development of the insurance industry in MONEYVAL countries (see Section 3.1 above), the level of reporting of suspicious transactions remains low.
166. Although 7 countries (Croatia, Hungary, Israel³⁶, Latvia, Russia, Slovakia and Ukraine) reported a significant number of STRs being submitted, overall the reporting level was very low or non-existent. (see Table 1 below).

Table 1: STRs received³⁷

	2006	2007	2008	2009
Bulgaria	0	1	4	5
Croatia	9	142	175	0
Cyprus	1	0	0	3
Estonia	0	0	2	1
Georgia	0	0	1	1
Hungary	185	180	90	137
Israel	509	810	1,196	1,439
Latvia	117	80	29	2,150
Liechtenstein	0	3	6	9
Lithuania	1	0	0	0
Malta	2	2	2	0
Moldova	0	4	7	16
Romania	4	10	6	6
Russia	346	1,345	515	847
Serbia	0	0	2	1
Slovakia	126	259	261	112
Ukraine*	8,909	21,557	25,392	21,109

* The quantity of reports received by insurance types (Table 2) does not match with the quantity of received reports by years (Table 1), because the data on general scope of transactions, which were received from insurance companies and private pension funds, were included in table 1. Simultaneously, data on the scope of reports on cash transactions and large amount transactions were included in Table 2.

167. It is unclear concerning the exact reasons for the lack of reporting, particularly as some countries (as noted above) are receiving a significant number of reports. Concerns were, however, expressed that in a number of countries STRs are categorised by reporting entity rather than by underlying financial instrument. As has already been noted, insurance products are frequently sold through agents who may be primarily involved in other areas of the financial sector (e.g. banks, financial advisors, etc.) or through other outlets (e.g. estate agents, etc.). As such the level of reporting may be understated.
168. As noted above, the reporting level of STRs as set out in the questionnaire responses appeared quite low. However, the fact that a number of countries were receiving a significant number of STRs does indicate that there is a level of vulnerability in the insurance industry. Furthermore, a number of countries indicated that STRs had led to referrals to law enforcement agencies and, in some cases prosecutions.
169. Although it has not been possible to highlight the reasons for law reporting it is considered that the following factors may have an impact on the reporting levels:

³⁶ In Israel the FIU receives UARs and not STRs. The threshold of UAR (unusual) is lower than the threshold of STR (suspicious). The Israeli authorities consider that the insurance companies are over reporting.

³⁷ Table only includes statistics from MONEYVAL countries which submitted details in the questionnaire.

- The insurance industry in general and life insurance in particular is still in a relatively early stage of development in a number of countries;
- In some countries non-life insurance products are excluded from the AML/CFT regime;
- As a result of the forgoing points, there may be an unrealistically low view on the vulnerability of the insurance industry to money laundering;
- In a number of countries STRs are categorised according to reporting entity rather than through the underlying products and, as insurance products are frequently marketed through non-insurance related businesses (e.g. banks, etc.) the level of reports may be under-estimated.

6.2 Source of STRs

170. The following table sets out the sources of STRs submitted as set out in the questionnaire.

Table 2: Source of reports³⁸

Country	Insurer	Insurance Intermediary or Broker	Bank	Financial Advisor	Other
Cyprus	1		2		
Estonia	3				
Hungary	592				
Israel [#]	3,546		168		70 [~]
Liechtenstein	18				
Lithuania	1				
Malta	2	2	1	1	
Romania	25				1 ⁺
Serbia	3				
Slovakia	758				
Ukraine	52,533	1,337			

[#] STR/UTRs received contained reports of multiple transactions

[~] Reports received from provident fund companies

⁺ Report received from Insurance Supervisory Commission

171. In most of the countries in Table 2 above, it would appear that STRs appear to be categorised by reporting entity (such as Estonia, Hungary, Liechtenstein, Lithuania, Romania, Serbia and Slovakia). It is notable that only 4 countries (Cyprus, Israel, Malta and Romania) indicated that STRs had been received from outside the insurance industry.

172. It is also noted that in some countries the statistics include reports based on suspicions of claims fraud rather than money laundering. This again presents a false picture of the level of money laundering through the insurance industry as the reporting entities are confusing between predicate offences (the most spread is fraud in the insurance sector) and money laundering/terrorism financing offence.

173. It is therefore difficult to draw conclusions about the vulnerability of the insurance industry based on the above statistics as, for the reasons set out above; the true level of reporting may be different than indicated.

³⁸ Table only includes statistics from MONEYVAL countries which submitted details in the questionnaire.

6.3 Range of products reported

174. The following table sets out the products on which STRs were submitted.

Table 3: Products on which reports submitted³⁹

Country	Non-Life Insurance		Life Insurance	
	Property and casualty	Health, accident and sickness	Term life	Pension, etc.
Cyprus			4	
Estonia	2		1	
Israel [#]			3,599	185
Liechtenstein			18	
Lithuania			1	
Malta			6	
Serbia			3	
Ukraine [*]	41,731	3,815	8,324	

[#] STR/UTRs received contained reports of multiple transactions

^{*}Analysis of products did not fully reconcile to number of STRs submitted

175. The above table is limited in its scope as, as noted in section 3.3 above, a number of countries do not include non-life insurance products within the scope of their AML/CFT regime. Furthermore a number of countries do not maintain statistics on the underlying products which form the basis of the STRs submitted. One exception to this was Ukraine, which both categorised the STRs by means of the class of insurance product and also relating to the type of filing institution.

6.4 Referral to Law enforcement agencies

176. The following table sets out the number of referrals to law enforcement agencies relating to insurance linked STRs.

Table 4: Referrals to law enforcement agencies⁴⁰

	Referrals to law enforcement agencies	Prosecutions
Israel	26	
Latvia	65	
Liechtenstein	9	8
Malta	3	
Moldova	2	1
Poland		7
Serbia	2	
Slovakia	17	

177. It was notable that Latvia, a country with a significant number of STRs submitted (in 2006 – 117 STRs, in 2007 – 80 STRs, in 2008 – 29 STRs and in 2009 – 215 STRs) indicated the highest number of cases which were submitted to the police (in 2006 – 31 cases, in 2007 – 26 cases, in 2008 – 8 cases and in 2009 – 1 case); although it was indicated that these were largely related to cases of fraud or tax evasion.

³⁹ Table only includes statistics from MONEYVAL countries which submitted details in the questionnaire.

⁴⁰ Table only includes statistics from MONEYVAL countries which submitted details in the questionnaire.

178. It is also notable that Slovakia and Israel both received a significant number of STRs and submitted a number of referrals to law enforcement agencies. Serbia received 3 STRs in 2008 and 2009 and in 2009 recorded 2 referrals to law enforcement agencies. In Moldova the number of STRs received was also low but in 2008 it was reported that a prosecution arose as a result of an insurance-linked referral. Although Poland did not specify the number of STRs received it also recorded prosecuted cases linked to insurance STRs, with 3 cases in 2007 and 4 cases in 2008.

6.5 Risk indicators

179. It has already been noted above that it is difficult to draw conclusions about the vulnerability of the insurance industry based on the level of STRs received for the reasons set out above. A number of questionnaire responses indicated that the insurance industry is a new industry and has a low exposure to risk. As an example of this, Albania's stated that there are only three life insurance companies established and all the products sold by them are based on preconditions required by banks. The same applied to "the former Yugoslav Republic of Macedonia" which stated that the insurance sector was considered to have a low exposure to the risk of money laundering because using such a service it is necessary to make a payment in a bank where full CDD procedures were required this was then augmented by a similar requirement in the insurance agency at the time of signing a contract.

180. A number of countries had identified specific risks as a result of analysing the STRs received:

181. **Poland** had identified the following risk factors involving the insurance and private pension funds sector:

- 1) conclusion of several insurance contracts followed in a short time by liquidation of the contracts and transferring cash to various bank accounts; and
- 2) transactions financed with funds from operations to the detriment of insurance companies (insurance fraud) and further transfer to other segments of the financial sector or outside the market.

182. **Israel** indicated that the STRs revealed that there is a possible risk in the area of policy loan and collaboration between intermediaries and their clients for purpose of money laundering.

183. However, taking into consideration the fact that the private pension funds field is a new area in many MONEYVAL countries and the fact that this sector is generally considered to hold a low risk of money laundering, few countries made specific remarks regarding the risks indicated arising out of STRs received.

7 CONCLUSIONS

7.1 General

184. The primary goal of this typology report was to consider and raise awareness of the vulnerability of the insurance industry in MONEYVAL countries to money laundering and terrorist financing. With the help of the MONEYVAL countries that participated in the typology, a comprehensive set of vulnerabilities, red flags and indicators and relevant case studies have been gathered together.
185. Such a study is, by its very nature, limited by the number of practical examples that have been identified by the participants, and some threats remain theoretical rather than actual. However, in an industry which, by its very nature, facilitates the movement of funds worldwide through a constantly developing range of products knowledge of the threats goes some way to raising awareness of the potential issues.
186. It is particularly noted that within a number of the MONEYVAL countries the insurance market is still relatively new and is in the process of developing. In such a dynamic environment, the risks will evolve, and the core group hopes that this study will form the catalyst for further work on this topic by industry organisations, supervisory bodies and law enforcement agencies.
187. In those MONEYVAL countries where the insurance market is still in the process of development, some of the typologies and indicators might not currently be readily recognisable. However, given the continuing expansion of the insurance industry in responding states it is hoped that the information provided will be of use.

7.2 Terrorist Financing

188. Overall there was little indication that the insurance industry is being utilised for terrorist financing. It is, however, noted that there was a suspicion of terrorist funding being involved in two of the case studies. The possibility of the insurance sector being used for terrorist financing therefore remains a serious risk. In particular, the international nature of the commercial non-life insurance market is a potential vulnerability.

7.3 Money Laundering

189. Although the insurance industry has not been considered particularly vulnerable to being used for money laundering the range of vulnerabilities identified, together with the various case studies provided, indicate that the insurance industry is being used for the purposes of money laundering. It is a particular concern that as the AML/CFT controls are being developed and improved in the banking sector money launderers will increasingly look to other sectors. The very fact that the insurance sector is not considered to be vulnerable to money laundering may make it more attractive to money launderers.
190. The fact that the non-life sector is excluded from the scope of the FATF Methodology has meant that a number of MONEYVAL countries have excluded it from the scope of their mandatory AML/CFT regimes. The vulnerabilities identified and the case studies presented do however give a clear indication of the fact that non-life insurance products are clearly being used for the purposes of facilitating money laundering.
191. A particular weakness identified was the fact that although the final relationship is between the insurer and the customer, many insurers do not market their products directly instead relying on

independent intermediaries to introduce customers to them. In many cases the intermediary will be responsible for identifying the risk conducting CDD (where required) and may also handle the collection of premiums.

7.4 Suspicious transaction reports

192. Given the vulnerabilities identified, the low level of STRs reported does give rise for concern about the level of awareness of both vulnerability and the reporting requirement within the insurance sector. It is unclear why the level of reporting is so low although this may be due to lack of awareness of risk and reluctance on behalf of intermediaries to submit reports. It is hoped that the analysis of vulnerabilities together with the red flags and indicators in this report will be used by authorities to raise awareness of the risks in the insurance industry.

193. A further issue that was identified in the report was the nature of categorisation of STRs. A significant portion of personal lines insurances are marketed via non-insurance businesses (e.g. banks, estate agents, etc) and as such may be categorised by report provider rather than by underlying product.

7.5 Co-operation between supervisory authorities and law enforcement agencies

194. It has already been noted that money launderers may utilise a number of different products in conjunction (e.g. wire transfers to buy investment linked insurances which are converted into securities products). It is therefore important that insurance products are not looked at in isolation and it is considered that countries should implement a unified policy to comply with the requirements of the system for combating money laundering and financing of terrorism across the whole of the financial sector.

195. It is also important that there is a regular exchange of information between financial services supervisors and law enforcement agencies concerning emerging threats but also in sharing technical expertise when required. It is considered that, where the regime permits, the regulator or other body responsible for AML/CFT supervision in the insurance sector, if different from the FIU, should be informed of relevant cases so that they can build up a better understanding of the vulnerabilities of the insurance industry to money laundering. In conjunction with this law enforcement agencies should be able to draw on the technical expertise of regulators when conducting investigations involving insurance products.

7.6 Recommendations for further consideration and action

Scope of AML/CFT regime

196. It is recommended that countries extend the scope of their AML/CFT regime to cover all aspects of insurance business including non-life insurance and reinsurance. Furthermore, it is recommended that countries ensure that all persons and entities involved in the sale of insurance products are included within the AML/CFT regime.

197. It is also recommended that FATF considers extending the scope of the definition of “financial institutions” in the Methodology to include non-life insurance business.

Guidance and awareness raising

198. It is recommended that the analysis of vulnerabilities together with the red flags and indicators in this report be used by authorities to raise awareness of the risks in the insurance industry.
199. It is also considered that it is important to increase the awareness of the reporting entities in the insurance field; the continuous process of training of the reporting entities is a necessity for increasing the awareness on the money laundering and terrorism financing phenomenon and the quality of the STRs sent by the reporting entities. Furthermore, FIUs should consider analysing STRs both by reporting entity and underlying product in order to evaluate the national vulnerability to money laundering.

Literature review

200. It was noted above that the scope of this review is limited due to the fact that the insurance industry is relatively new in a number of MONEYVAL countries. Furthermore, it was noted from the Literature Review, in Section 2 above, that there are no recent international studies available of the vulnerability of the insurance industry to the threat of money laundering and terrorist financing. It is therefore recommended that a broader international review be commissioned to identify vulnerabilities and publish additional case studies.

Co-operation between authorities

201. It is recommended that where national mechanisms are in place to ensure that there is a regular exchange of information between financial services supervisors and law enforcement agencies, that insurance supervisors are included. It is important that a comprehensive AML/CFT regime is developed and that insurance is not considered in isolation but as an integral part of the overall financial sector. Also, it is particularly important that there is adequate feedback provided where STRs have been submitted by the insurance sector.
202. Furthermore, increasingly globalisation of financial services means that criminals can easily move funds between jurisdictions multiple times at low cost, greatly increasing the cost and time of any future investigation. It is therefore important that national FIUs include information on investigations into insurance transactions in their international exchanges of intelligence.

8 ANNEXES

8.1 Red Flags and Indicators⁴¹

The suspicious indicators listed below are being provided here to give law enforcement, regulators and the private sector an overview of the types of activities that can be suspicious. This list is not exhaustive. Furthermore, it should be noted that some of these suspicious indicators and red flags may be not be applicable in all jurisdictions.

It is noted that the occurrence of one or more of these indicators/red flags may be a warning sign of unusual activity that may be indicative of ML/TF and/or the occurrence of an insurance specific designated offence. However, this does not necessarily mean that money laundering, terrorist financing or any other illicit activity is occurring. Further investigation should be conducted if any of these indicators/red flags are present during the course of a transaction or customer interaction.

This list of red flags and indicators is structured to cover:

- a) Account opening
- b) Risk enhancing factors
- c) Payment and settlement of premiums
- d) Post-inception of policy
- e) Claims

a) Account opening

A customer's profile, both financial and personal, represents the main benchmark against which the rationale for the transactions they perform or of the business relationships they entertain can be assessed. Some of the indicators that follow are applicable across all areas of the financial services industry whereas others are highly insurance sector-specific indicators. Clearly there may be innocent reasons why the policyholder acts in a way that initially raises suspicions, but it is for the insurer/intermediary to seek to verify such reasons.

General indicators

Due diligence

It is noted that due to the nature of some types of non-life insurance, it may be necessary to identify the policyholder and the nature of the underlying risk or asset insured.

- Customers who are reluctant to provide identifying information when purchasing a product, or who provide minimal or seemingly fictitious information and/or suspicious or fraudulent documents or ID.
- Delay in providing or failure to provide information to enable verification to be completed.
- Clients avoid direct contacts with employees, collaborators or the intermediary entity through frequent unjustified issue of mandates or powers of attorney.
- Applicant provides information that is difficult or expensive for the institution to verify.
- The applicant for insurance business uses a mailing address outside the jurisdiction and where during the verification process it is discovered that the home telephone has been disconnected.

⁴¹ This list of red flags and indicators supersedes the list which was adopted at MONEYVAL's 32nd Plenary meeting, held in Strasbourg on 15-18 March 2010 and published on the MONEYVAL website on 15 April 2010

- Reluctance to provide any information or provision of information in general or about the ownership of a risk which is difficult for the insurer to verify.
- Media reports of illegal activity.
- The policy is requested by a seemingly unrelated third party who does not appear to have an insurable interest in the risk being insured.

Abnormal business requests

- Customers who seek or accept very unfavourable account/policy/contract provisions or riders.
- Any transaction involving an undisclosed party.
- Application for a policy from a potential customer in a distant place where a comparable policy could be provided “closer to home”.
- Transactions that imply frequent overseas transactions that do not seem to be justified by the clients’ activity or by other circumstances.
- The beneficiary or the intermediary is an off-shore institution and the orders are inconsistent with the known businesses of the customer.
- Customers who show little concern for the investment performance of a product, but a great deal of concern about the early termination features of the product, including “free look” provisions.
- Insurance policies with premiums that exceed the client’s apparent means.
- The applicant for insurance business appears to have policies with several institutions, particularly if the insurance contracts are concluded within a short time of one another.
- Customer does not know what exactly he wants to insure yet is interested in all options, including the most irrelevant ones (e.g. Insurance against earthquakes in Poland)
- Insurance policies with values that appear to be inconsistent with the client’s insurance needs.
- The customer proposes a higher premium without any economic justification.
- The requested insurance and/or proposed transactions have no apparent purpose, make no obvious economic sense and appear unrealistic, illegal or unethical.
- Purchase of a policy that does not meet the customer’s needs, unrelated to his health or age (e.g. Disabled or elderly person and extreme sports).
- Provision of information on risks to be insured appears to be untrue or lacking in detail.
- Proposal for the risk values that do not equate to the real value of the risk.
- Proposal of unusual or abnormal policy conditions.
- Use of common registration techniques for contracts that involve life insurance policies or change of names of registered persons for no obvious reason.
- Concluding multiple life insurance policies by a customer nominating different beneficiaries with no clear connection between them.
- The dates of opening the policies are constant dates. Additionally new policies are opened during the year on the same dates.
- The customer concludes several contracts below the identification limit.
- The client conducts a transaction that results in a conspicuous increase of investment contributions.
- Unexplained material departure from the normal methods of providing traditional insurance services.

- Repetition of a certain name in a number of insurance contracts that involve insurance policies together with the names of different persons.

Customer behaviour

- Insistence on speedy issue or service without the required paperwork or other requirements.
- Transactions in which customers unusually emphasise the necessity for secrecy, or they ask, force or bribe the insurance agent or intermediary not to report such transactions to the authorities.
- Customer acts in a hurry, does not analyse an offer, is not interested in charges and costs, chooses the most expensive option which may not necessarily be the most appropriate one.
- Appearance and abnormal behaviour of customer (e.g. Nervousness, lack of self-confidence, hesitation, clothing, etc.).
- Companion or other persons who influence and/or control customer's decisions and whose general behaviour appears suspicious.
- Customers accompanied by an apparently unrelated third party.
- Attempts to corrupt an employee (an additional commission promised for loosening requirements and not paying attention to shortcomings of the client).
- The client suggests the duration of the life insurance contract to be shorter than the standard duration offered by the insurance company.
- The customer is unduly concerned about the internal compliance regulations of the insurance company and their possible implications for his policy.
- The customer is interested in all options, including apparently irrelevant ones.
- The client refuses to allow representatives of the insurer to verify the nature of the risk to be insured.

Corporate Customers

- Difficulties and delays in obtaining copies of accounts or other documents of incorporation, where required, about a new corporate/trust client.
- Significant and apparently unnecessary use of offshore accounts, companies/structures in circumstances where the client's needs do not support such economic requirements.
- The use of intermediate corporate vehicles or other structures that have no apparent commercial or other rationale or that unnecessarily increase the complexity of policy ownership or otherwise result in a lack of transparency. The use of such vehicles or structures, without an acceptable explanation, increases the risk.
- Insurance includes risks that are irrelevant to operating range (e.g. insurance against internet theft knowing that the customer has no access to the web).
- The insurance and premium is unreasonably high compared to annual turnover of the company.
- The company has new ownership and the background and appearance of the new owners (homeless people, etc.) does not harmonise with the company profile or the financial activities of the company suddenly change after the change of ownership.
- The financial indicators of the company concerned are significantly different from that of similar companies.
- Submission of financial statements which are not prepared by an accountant (particularly relevant for professional liability classes of insurance).

- The company is represented by a person (authorised to sign) whose appearance and skills obviously make him unsuitable for this, especially if such person is not an employee of the company.
- A company representative who is reluctant to reveal or is not fully aware of the nature of the company's underlying business.
- Transactions with insurance policies entered into on behalf of non-existent or fictitious companies.
- Legal entities which purchase life insurance policies for a greater number of employees than the actual number of employees
- Legal entities which purchase life insurance policies for persons who are not employed in legal entity.
- Legal entities which purchase life insurance policies for their employees as insured individuals yet indicating the legal entity as insurance beneficiary.
- Transactions with small or independent entities with names that are very similar to that of a large and legal financial institution.
- Transactions with off-shore or shell banks with names that are very similar to that of a large and legal financial institution.

Customer type

The fact that a customer falls into one of the categories listed below does not in itself mean that the object of the transaction is money laundering or the financing of terrorism. It does, however, indicate that extra care needs to be taken in accepting the customer and in subsequent monitoring of the performance of the policy.

- Customers that are legal persons whose structure makes it difficult to identify the ultimate beneficial owner or controlling interests.
- Charities and other "not for profit" organisations which are not subject to monitoring or supervision (especially those operating on a "cross-border" basis).
- "Gatekeepers" such as accountants, lawyers, or other professionals holding accounts, policies or contracts at an insurance company, acting on behalf of their clients, and where the insurance company places unreasonable reliance on the gatekeeper.
- Customers who are Politically Exposed Persons (PEPs).
- Customers where the beneficial owner of the contract is not known (e.g. trusts, charities, etc.).
- Customers who are introduced through non face-to-face channels.
- A company is unreliable, involved in fraud and shady transactions, registered as an unreliable debtor.
- Where the policyholder is a known criminal, a relative or an associate of a known criminal.⁴²

⁴² It would be unfair to relate a transaction or a business relation to ML only because it is connected to someone with criminal precedents, but such connections can certainly be used as an indicator of risk. Clearly it is not always possible for insurers and intermediaries to gain relevant information, such as the personal criminal records of their own customers or of their relatives or associates, which are rightly deemed to be confidential. However, effective customer due diligence procedures and the use of differentiated sources of information may provide a deeper insight of both actual and potential customers. To this end, the implementation of channels for the exchange of information, to the extent permitted by legislation, within the insurance sector (or even wider) is desirable.

b) Risk enhancing factors

Intermediaries

Both life and non-life insurance carriers rely heavily on intermediaries to introduce insurance business. This may mean that the insurer has to rely on the intermediary to conduct CDD and verification with the customer. Furthermore, intermediaries frequently control the cashflow between the insurer and the client. Although this is normal insurance business practice it does present opportunities for money laundering and the financing of terrorism.

- Reluctance by the intermediary to provide ownership details and other relevant company documentation.
- Business introduced by an agent/intermediary in an unregulated or loosely regulated jurisdiction or where organised criminal activities (e.g. Drug trafficking or terrorist activity) or corruption are prevalent.
- The overseas intermediary is based in a jurisdiction which has ineffective, poorly enforced or no money laundering legislation.
- Transactions involving third parties, whose involvement only becomes apparent at a later stage.
- Unnecessarily complex placing chains.
- Excessive commission paid to an intermediary or the involvement of an intermediary whose role appears superfluous.⁴³
- Commission paid into a bank account in a different jurisdiction to the intermediary.
- Unusually high level of refunds and cancellations.
- Overpayments of premium with a request to repay the excess to a separate bank account.
- Resistance to audit of client money account.
- Results of an audit which reveals premium financing arrangements between policyholders and intermediaries, which may obscure source of funds or large unusual cash payments.
- Fraudulent documents presented by agent.
- Establishment of an independent unauthorised or bogus intermediary who sells some legitimate insurance products, yet also channels illegitimate funds to insurers and draws up unfavourable agreements (= blending).

Geographical

Country risk may refer to the nationality/domicile/contact details of the policyholder, the location of the risk insured or the location of any intermediary involved in the transaction. It may also refer to the country of origin/destination regarding the risks made in the policy. In certain circumstances it may also relate to beneficiaries of life insurance policies.

Certain specialised insurance risks may only be possible to be insured in certain jurisdictions (e.g. specialist property and casualty risks at Lloyd's in London). Likewise, in order to spread a large risk an insurer may chose to reinsure in another jurisdiction. These are normal commercial transactions and should not of themselves give rise to a suspicion on money laundering or financing of terrorism.

⁴³ Situations where intermediaries apply particularly high commission charges, i.e. in excess of the usual commission or fee charged for that type of product, to the policyholder are an indicator of enhanced ML risk. In such situations, the intermediary may be directly or indirectly involved in a ML operation., or simply knows that funds of dubious origin are involved in the transaction or since he can sense that the transactions featured a higher risk to himself, and thus demanded a higher than normal commission.

Insurance companies and intermediaries should take into account warnings issued by competent authorities about risks applicable to countries or geographic areas, including the specificity as to the particular risks posed⁴⁴. The fact that the insured risk is situated in or in transit to or through a country as set out below does not in itself mean that money laundering or terrorist financing is involved, nonetheless particular care should be exercised in taking on such business and a combination of other indicators could indicate that there is a suspicious transaction to report.

- Countries identified by FATF and FSRB Statements as having weak AML/CFT regimes, and for which financial institutions should give special attention to business relationships and transactions.
- Countries or geographic areas subject to sanctions, embargoes, or statements of concern issued by international bodies such as the United Nations (“UN”), FATF, FSRBs or governments. In addition, in some circumstances, countries subject to sanctions or measures similar to those issued by bodies such as the UN, but which may not be universally recognised, may be given credence by a life insurance company or intermediary because of the standing of the issuing body and the nature of the measures.
- Countries or geographic areas identified by credible sources as lacking appropriate AML/CFT laws, regulations and other measures.
- Countries or geographic areas identified by credible sources as providing funding or support for terrorist activities or that have designated terrorist organisations operating within them.
- Countries or geographic areas identified by credible sources as having significant levels of corruption, or other criminal activity.
- Countries or geographic areas where protection for customers “privacy” prevents the effective implementation of AML/CFT requirements and/or facilitates the framework for the establishment of shell-companies or the issuance of bearer shares.
- Cross border elements such as the insurer, the customer and the beneficiary of the contract being in separate jurisdictions (but see comments above).
- A request to insure goods, assets etc, in transit to or situated in countries where terrorism, the production of drugs, drug trafficking or an organised criminal activity may be prevalent or which are the subject of Financial Action Task Force warning notices or on the Transparency International Corruption Perceptions List.

c) Payment and settlement of premium

It is to be noted that many economies are still largely cash based for small transactions and elderly people are frequently more comfortable with cash than with other forms of payment. Therefore, the use of cash in itself does not necessarily mean that the transaction is linked to money laundering. This is particularly true with regard to savings products with small regular premium payments. The following factors may, however indicate that the transactions are being used for money laundering or terrorist financing:

- Funds received from a country regarded as high risk (see under Geographical above).
- The receipt of premiums from offshore and/or lightly or unregulated financial intermediaries.
- The applicant for insurance business requests to make a lump sum payment by a wire transfer or with foreign currency.
- Premium paid from a foreign account in a different jurisdiction to the domicile or residence of the policyholder.
- Customers who use unusual payment methods, such as cash, cash equivalents (when such a usage of cash or cash equivalents is, in fact, unusual), endorsed money orders, cashier cheques or structured

⁴⁴ The requirements of FATF Recommendation 21 should also be taken into account.

monetary instruments when the type of business transaction in question would normally be settled by cheques, credit or debit cards or other methods of payment.

- Premium is paid by an unrelated third party (e.g. cheques deposited drawn on account not related to the entities involved in the policy) or funds received where the origin is unknown or disguised.
- Attempts to use a third party cheque when purchasing a policy.
- The client (as a natural person) performs payment of the insurance premium with funds from a legal person⁴⁵.
- A single account paying a premium of different apparently unrelated policies.
- Multiple sources of funds to pay premiums.⁴⁶
- Acceptance of very high value or unlimited value payments or large volumes of lower value payments.
- Payment of a very large insurance premium which does not correspond to client's assets or income.
- Acceptance of frequent payments outside of a normal premium policy or payment schedule.
- An atypical incidence of pre-payment of insurance premiums.
- Insurance party requests a large purchase of a lump sum contract when the party usually makes small, regular payments.
- Significant changes proposed by policy holder to alter the agreed premium payments following inception of the policy.
- Money passing through a number of different persons and entities may introduce numerous layers to a transaction to create opacity and disguise the source of funds.
- Overpayment of premium and unwillingness to take it for a next premium instalment.
- One or several overpayments of the policy premiums followed by request that any reimbursement be paid to a third party.
- Multiple payments of premium from different accounts that do not exceed a reportable threshold.
- No further payments following the first few instalments on policies requiring regular payments coupled with difficulties in contact the customer.
- Proposal by the insured person to replace the monthly insurance payments with annual or bullet payments.
- Payments made or received significantly exceed the threshold set by a financial institution as a result of the due diligence of the customer's economic/personal activity.
- Premium paid exceeds total value of assets in order to maximise the premium.
- Payments from one policy of insurance on maturity used to fund the premium on another policy for the same customer⁴⁷.
- Payments from one policy of insurance used to fund the premium on another policy for an unrelated customer.

⁴⁵ The exception to this would be circumstances where a legal person pays funds into an employee investment or pension policy as part of a "save as you earn" scheme.

⁴⁶ It is unusual for funds used to pay policy premiums to originate from different sources, such as different banking institutions, even if all sources could eventually be referred to the policyholder himself. Accordingly, the purchase of the insurance policy in this manner may indicate operations at the layering or integration stage of ML.

⁴⁷ It should, however, be noted that life insurance policies with investment features may be reinvested in new policies upon maturity.

- Customer pays the insurance premium in cash among others also with the bunch of banknotes wrapped in an unusual way.

d) Post-inception of policy

Customer behaviour

- Customers who transfer or assign the benefit of a product to an apparently unrelated third party.
- Policyholder changes beneficiaries simply by signing an endorsement on the policy; particularly in cases where there is an abnormally high initial premium.
- Policyholders who assign a life insurance policy as collateral for a loan immediately after inception of policy.
- Life insurance policy assigned to a discretionary or other increased risk trust.
- Assignment of life insurance policy with defined beneficiary without the insurer being aware that the beneficiary of the contract has been changed until such time as a claim is made.
- Policyholder substitutes the ultimate beneficiary with an apparently unrelated third party.
- Change of beneficiaries immediately before the policy matures with no apparent reason.
- A client who cancels a policy soon after concluding the insurance contract and then requests a new policy by filing different ownership documents.
- The applicant for insurance business wants to borrow the maximum cash value of a single premium policy, soon after paying for the policy.
- Unusual viatical⁴⁸ sales.
- Frequent and unexplained movement of accounts/policies/contracts/funds to different insurance companies or other financial institutions.
- Using an insurer or insurance intermediary like a bank to move funds around.⁴⁹
- The subsequent activity of the customer does not correspond to the information given to the insurer during the account opening process. This may include changes in details of the nature of the insured risk (e.g. requesting cargo insurance with high premium rates for risks that would not normally fall within the customer's business profile) or premium instalments that diverge substantially from the risk profile of the customer at inception of policy.
- Unusual financial activity of the customer in the context of his own usual activities
- Where regular premium payments are being made, untypical or unclear change of accounts from which premiums are paid.
- Legal entities which take out policies in the name of the employees who then paying high premiums subsequently cancelling policies in a short time period after the date when the contract on insurance is concluded.

⁴⁸ A viatical settlement is the sale of a life insurance policy by the policy owner before the policy matures. Such a sale, at a price discounted from the face amount of the policy but usually in excess of the premiums paid or current cash surrender value, provides the seller an immediate cash settlement. Generally, viatical settlements involve insured individuals with a shorter life expectancy.

⁴⁹ Insurers are now in the position of offering ever increasingly sophisticated products to their customers, increasingly competing with other parts of the financial sector. Many investment type life policies offer considerable flexibility in the making of additional premiums and early redemption. However where such products are used by a policyholder in a fashion similar to the way one would make use of a bank account, namely making additional premium payments and frequent partial redemptions, this is an indicator of possible ML. This risk is increased when transferring funds are received or paid to numerous accounts or to foreign jurisdictions (especially if a risky/non cooperative jurisdiction is involved or foreign exchange restrictions are in force in the receiving jurisdiction).

Refunds and cancellations

- Customers who seek early termination of a product, particularly those with investment and savings features, (including during the "free look"/"cooling-off" period), especially at a cost to the customer and to do so defies economic logic.
- A number of policies taken out by the same insured for relatively small premiums (normally paid with cash) which are then quickly cancelled.
- Cancellation of the policy and a request for the refund to be paid to a third party.
- Overpayment of premium with a request to pay the excess to a third party or in a foreign currency.
- Request for a negotiable cheque, particularly for high amounts.
- In cases where policies have been deposited as collateral against loans early redemption of policy and repayment of loan.
- Customer unconditionally accepts lower reimbursement following early cancellation.
- Request to cancel the insurance policy or using the right of exercising the exoneration clause in case of policies having high value premium without giving a valid explanation for so doing.
- Cancellation of a property casualty policy where the policyholder retains an interest in the underlying insured risks/assets.
- Request to terminate the an insurance contract taken out by a legal person on behalf of individuals (employees) with reimbursement of the insurance premium for the unexpired period of the insurance contract in cash or in the name and/or to the account of the legal entity.
- Customer cancels the request for early redemption or cancellation of the policy when they are asked for identification.
- On the redemption date, the money is transferred to the policy holder (the company) instead of being paid to the insured after an approval by the irrevocable beneficiary. (Israel)
- Depositing funds and then cancelling the policy as a result of deliberate failure to make full declaration of risk at inception of policy.

e) Claims

All insurance companies are vulnerable to insurance fraud and have mechanisms and procedures designed to identify and avoid fraudulent claims. The claims process can, however, be utilised to facilitate money laundering.

Nature of the Claim

- Apparently legitimate claims, by the same or related policyholders, that occur with abnormal regularity e.g. Regular small claims within the premium limit from the same insured or intermediary.
- Small claims, within premium limit, occurring close to inception of policy.
- A change of ownership/assignment of the policy just prior to a loss occurring.
- Abnormal loss ratios for the class of risk bound under a binding authority, especially where the intermediary has claims settling authority (possible evidence of claims being fabricated and reported to underwriters, or under-reporting of claims where the intermediary is acting as unauthorised insurer, or even not paying claims).

- The customer withdraws a claim and gives up his rights when the insurance company requires additional documents.
- The client represents himself/herself as the authorised person of the claimant with no justified reasons (he/she is not a relative, guardian, professional adviser, etc.).

Settlement

- “Cash only⁵⁰” reimbursement required.
- Claims paid to persons who are the subject of law enforcement or regulatory investigation.
- The customer readily accepts prompt payment of smaller than expected amount when the insurance company postpones payment of compensation or questions the amount of the claim.
- Request for payment of claim without presentation of required documents necessary to substantiate claim.
- Customer unconditionally accepts an offer of a lower amount of reimbursement.
- Request for cash payments or issuance of several cheques in structured amounts under the reporting threshold, at maturity date.
- Reimbursement into a foreign account in currencies different to the original premium.

Payment to third parties

It is in the nature of insurance products that claims are frequently paid to persons other than the policyholder. This applies both to life (e.g. on the death of the policyholder) and to non-life (e.g. repairers, accident victims, etc.). It is nonetheless important to ensure that all payments are made to legitimate third parties.

- Claims requested to be paid to persons other than the insured or legitimate third parties.
- Claims requested to be paid to persons not naturally associated with the claim.
- Repayments on unrelated policies into a single account
- Ceding of rights in favour of a third party (e.g. located in tax haven).

f) Special types of transaction and product

Reinsurance

- Establishment of bogus insurers, which may be used to place the proceeds of crime or terrorist funds with legitimate reinsurers.
- Establishment of bogus reinsurers, which may be used to receive the proceeds of crime or terrorist funds from insurers or insurance intermediaries.
- Involvement of recently established insurance or reinsurance companies or companies whose background does not appear particularly transparent.⁵¹
- Treaty reinsurance policies with a level of claims at below the annual premium.

⁵⁰ See introduction under Payment and Settlement above.

⁵¹ Whenever insurers or intermediaries have as their counterparts companies that are relatively new or have an opaque corporate and ownership structure, they should investigate more accurately their counterparts' background, with a view to ascertaining whether it is real companies they are dealing with and not fake undertakings or shell companies, which may be effectively used for ML purposes.

- Conclusion of reinsurance contracts with reinsurers in an off-shore centre with a reputation for low standards of supervision or in countries with high risk of money laundering or financing of terrorism.

Private pension schemes

The vulnerabilities of pensions are similar to those of life insurance policies and it is particularly that third tier pensions have a very similar risk profile to life insurance products, therefore, many of the indicators set out above may also apply to pension schemes. The following indicators are specific to private pension schemes/voluntary pension funds (pension scheme).

- Large cash sums deposited in Pension schemes by members of the scheme, particularly when followed by substantial withdrawals of funds.
- Deposit of securities or other assets whose possession is not justified by the contractor's or policyholder's income-earning capacity and/or type of business payment into a capitalisation scheme.
- Transfer of assets from an unrelated third party into a capitalisation scheme.
- Insistence on depositing securities or other assets into a capitalisation scheme that would not normally be allowed by the scheme rules.
- Unrelated third party paying contributions cash on behalf of a member of a pension scheme.
- Unemployed person paying contributions into an employee pension scheme.
- Funds or other assets deposited into a pension scheme which are inconsistent with the profile of the policyholder.
- The type or volume of the transaction, which is untypical of the economic activity of the client and explanatory notes to transactions conducted by the client arise reasonable suspicion.
- The client performs a large number of identical transactions involving amounts immediately below or close to the threshold for reporting large transactions.
- The transaction is related to another transaction, which has already been reported to the FIU by a credit institution, credit union, investment brokerage company, investment management company, depository, organiser of a regulated market or pension fund.

8.2 Regulatory framework of insurance and reinsurance in MONEYVAL Member States and Observers

Country	Licensing/Registration	Licensing Institution/ Authorities Responsible For Registration
Albania	Yes (licensing)	Financial Supervisory Authority
Armenia	Yes (licensing)	Central Bank of Armenia (Financial Supervision Department)
Azerbaijan	Yes (licensing)	Ministry of Finance
Bosnia and Herzegovina	Yes (licensing and registration)	State Insurance Agency ⁵²
Bulgaria	Yes (licensing for insurers and reinsurers, registration for intermediaries)	Financial Supervision Commission
Cyprus	Yes (licensing for insurance companies and registration for insurance intermediaries)	Superintended of Insurance
Croatia	N/A	Croatian Financial Services Supervisory Agency
Estonia	Yes (licensing and registration)	The Financial Supervision Authority
Georgia	Yes (licensing)	National bank of Georgia
Hungary	Yes (licensing)	Hungarian Financial Supervisory Authorities
Israel	Yes (licensing)	Capital Market Insurance and Savings Division (CMISD)
Latvia	Yes (licensing for insurance and reinsurance and registration for insurance and reinsurance intermediaries)	Financial and Capital Market Commission
Lithuania	Yes (licensing insurance undertakings, independent intermediaries and reinsurance, registration is foreseen for dependent insurance intermediaries)	Insurance Supervisory Commission
Malta	Yes (licensing)	Malta Financial Service Authority
Moldova	Yes (licensing)	National Commission of Financial Market of Republic of Moldova
Montenegro	Yes (licensing and registration)	Insurance supervision Agency
Poland	Yes (licensing and registration)	Financial Supervision Authority
Romania	Yes (licensing)	Insurance Supervision Commission
Russia	Yes (licensing)	Russian Insurance Supervision Service

⁵² The Federation of Bosnia and Herzegovina, Republic of Srpska and Brčko District all operate separate insurance supervisory authorities.

Country	Licensing/Registration	Licensing Institution/Authorities Responsible For Registration
San Marino	Yes (registration and authorisation)	Central Bank
Serbia	Yes (licensing)	National Bank of Serbia
Slovakia	Yes (licensing)	National Bank of Slovakia
Slovenia	Yes (authorisation and registration)	Insurance Supervision Agency
“the former Yugoslav Republic of Macedonia”	Yes (licensing and registration)	Insurance Supervision Agency
Ukraine	Yes (licensing)	State Commission for Financial Services Regulation

8.3 Regulatory framework of private pension funds in MONEYVAL Member States and Observers

Country	Licensing/Registration	Licensing Institution/Authorities Responsible For Registration
Albania	Yes (licensing)	Financial Supervisory Authorities
Armenia	N/A	N/A
Azerbaijan	Yes (licensing)	Ministry of Finance
Bosnia and Herzegovina	Yes (licensing)	(SIPA) and The insurance Agency of Republic of Srpska
Bulgaria	Yes (licensing)	Financial Supervision Commission
Cyprus	Yes (licensing and registration)	Superintendent of Insurance
Croatia	N/A	N/A
Estonia	Yes	Financial Supervision Authority
Georgia	Yes (registration)	National Bank of Georgia
Hungary	Yes (licensing)	Hungarian Financial Supervisory Authorities
Israel	Yes (licensing)	Capital Market Insurance and Savings Division (CMISD)
Latvia	Yes (licensing and registration)	Financial and Capital Market Commission
Lithuania	Yes (licensing and registration for management company and licensing for insurance company for activities in annuities, occupational pension and private pension funds)	The Securities Commission of The Republic of Lithuania Insurance Supervisory Commission
Malta	Yes (registration)	Malta Financial Service Authority
Republic of Moldova	Yes (licensing)	National Commission of Financial Market of Republic of Moldova
Montenegro	N/A	N/A
Poland	Yes (licensing)	N/A
Romania	Yes (licensing)	Private Pensions System Supervisory Commission
Russia	N/A	N/A
San Marino	N/A	N/A
Serbia	Yes (licensing)	National Bank of Serbia
Slovakia	Yes (licensing and registration)	National Bank of Slovakia

Country	Licensing/ Registration	Licensing Institution/ Authorities Responsible For Registration
	registration)	
Slovenia	Yes (authorisation and registration)	Insurance Supervision Agency
“the former Yugoslav Republic of Macedonia”	Yes (licensing)	Agency for fully funded pension insurance
Ukraine	Yes (licensing)	State Commission for Financial Services Regulation

8.4 AML/CFT regulatory framework for insurance, reinsurance and private pension funds in MONEYVAL Member States and Observers

Country	Insurance /Reinsurance			Private Pension Funds		
	FIU	Financial Supervisory Authority	Others	FIU	Financial Supervisory Authority	Others
Albania		Financial Supervisory Authority			Yes	
Armenia			Central Bank of Armenia	N/A	N/A	N/A
Azerbaijan			Ministry of Finance	N/A	N/A	N/A
Bosnia and Herzegovina		1 - Insurance Supervisory Agency of Federation of BiH and 2 - Republika Srpska Insurance Agency	State Investigation and Protection Agency		The Insurance Agency of Republic of Srpska	State Investigation and Protection Agency
Bulgaria	Yes			Yes		
Cyprus		Superintendent of Insurance			Superintendent of Insurance	
Croatia		Croatian Financial Services Supervisory Agency			Croatian Financial Services Supervisory Agency	
Estonia		Estonian Financial Supervision Authority			Estonian Financial Supervision Authority	
Georgia	Yes		National Bank of Georgia	Yes		National Bank of Georgia
Hungary		Hungarian Financial Supervisory Authority			Hungarian Financial Supervisory Authority	
Israel			Capital Market division of the Ministry of Finance			Capital Market division of the Ministry of Finance
Latvia		Financial and Capital Market Commission			Financial and Capital Market Commission	

Country	Insurance / Reinsurance			Private Pension Funds		
	FIU	Financial Supervisory Authority	Others	FIU	Financial Supervisory Authority	Others
Lithuania		Insurance Supervisory Commission of the Republic of Lithuania	Financial Crime Investigation Centre		1 - Insurance Supervisory Commission of the Republic of Lithuania and 2 - Securities Commission of the Republic of Lithuania	Financial Crime Investigation Centre
Malta	Yes			Yes		
Moldova		National Commission of Financial Market		N/A	N/A	N/A
Montenegro		Insurance Supervision Agency		N/A	N/A	N/A
Poland	Yes			N/A	N/A	N/A
Romania		Insurance Supervision Commission			Private Pensions System Supervisory Commission	
Russia		Russian Insurance Supervision Service		N/A	N/A	N/A
San Marino	Yes			N/A	N/A	N/A
Serbia			National Bank of Serbia			National Bank of Serbia
Slovakia	Yes		National Bank of Slovakia	Yes		National Bank of Slovakia
Slovenia	Yes	Insurance Supervision Agency		Yes	Insurance Supervision Agency	
“the former Yugoslav Republic of Macedonia”		Insurance Supervision Agency	Office for Prevention of Money Laundering and Terrorism Financing		Agency for Fully Funded Pension Insurance	Office for Prevention of Money Laundering and Terrorism Financing
Ukraine		State Commission for Financial Services Regulation			State Commission for Financial Services Regulation	

8.5 Sanctions available for unlicensed/unregistered insurance and reinsurance business in MONEYVAL Member States and Observers

Country	Sanction
Albania	Unlicensed operations constitute a criminal offence
Armenia	Fine or imprisonment of up to 3 years
Azerbaijan	Fine or restriction of freedom for the term up to two years or imprisonment for the term up to six months
Bosnia and Herzegovina	Fine/application of the Law on Criminal Procedure
Bulgaria	Fine (natural person – up to 10.000 BGN – app.5.000 euros, legal person – up to 200.000 BGN – app. 50.000 euros and agent or broker – up to 400.000 BGN – app. 200.000 euros)
Cyprus	Fine not exceeding €17.000 euros and/or imprisonment not exceeding 5 years
Croatia	N/A
Estonia	Fine up to 500,000 kroons – app. 30.000 euros
Georgia	Sanctions according to the Criminal Code of Georgia
Hungary	Fine (vary from 100.000 HUF to 500 million. HUF – app. 350 euros – 1.800.000 euros) and imprisonment up to 3 years
Israel	Fine up to 303.000 NIS app. 65.000 euros or imprisonment up to three or two years
Latvia	Fine (200 to 500 lats app. 285 – 715 euro for natural persons and 500 – 3000 lats app. 715 – 4285 euro) and/or confiscation of property
Lithuania	Fine up to 30 000 euro and/or imprisonment and/or confiscation of products
Malta	Fine (not less than €2,329.37 but not more than € 23,293.73) and imprisonment (not less than one month but not more than six months)
Moldova	Unlicensed operations constitute a criminal offence
Montenegro	N/A
Poland	Unlicensed operations constitute a criminal offence
Romania	Fine (20.000 RON – 100.000 RON, app. 5.000 euros – 25.000 euros) or imprisonment (up to 3 years)
Russia	Unlicensed is subject to Administrative Code (fine vary from 500 rubles to 500.-000 rubles, app. 15 euros – 13.000 euro) or Criminal Code
San Marino	Fine and imprisonment
Serbia	Imprisonment (of three to six years)
Slovakia	Fine (from 666,66 EURO to 666 666 EURO)
Slovenia	Administrative order
“the former Yugoslav Republic of Macedonia”	Fine (3.000 – 5.000 EUR, and 600 – 800 EUR are the fines for natural persons)
Ukraine	Fine (of 1700 UAH app. \$212,5 to 82500 UAH app. \$10 600) or correctional labour or restraint of liberty for the same term

8.6 Sanctions applied to unlicensed/unregistered private pension funds in MONEYVAL Member States

Country	Sanction
Albania	Unlicensed operations constitute a criminal offence
Armenia	N/A
Azerbaijan	Fine or restriction of freedom for the term up to two years or imprisonment for the term up to six months
Bosnia and Herzegovina	Fine
Bulgaria	Fine (natural person – up to 10.000 BGN – app.5.000 euros, legal person – up to 200.000 BGN – app. 50.000 euros and agent or broker – up to 400.000 BGN – app. 200.000 euros)
Cyprus	Fine not exceeding €17.000 euros and/or imprisonment not exceeding 5 years
Croatia	N/A
Estonia	Fine up to 500,000 kroons – app. 30.000 euros
Georgia	Sanctions according to the Criminal Code of Georgia
Hungary	Fine (vary from 100.000,-HUF to 500 million.-HUF – app. 350 euros – 1.800.000 euros) and imprisonment up to 3 years
Israel	Fine up to 303.000 NIS app. 65.000 euros or imprisonment up to three or two years
Latvia	Fine (200 to 500 lats app. 285 – 715 euro for natural persons and 500 – 3000 lats app. 715 – 4285 euro) and/or confiscation of property
Lithuania	Fine (to 30 000 euro up to 60.000) and/or imprisonment and/or confiscation of products
Malta	Fine (not less than €2,329.37 but not more than € 23,293.73) and imprisonment (not less than one month but not more than six months)
Moldova	Unlicensed operations constitute a criminal offence
Montenegro	N/A
Poland	Unlicensed operations constitute a criminal offence
Romania	Imprisonment (not less than 1 year but not more than 5 years)
Russia	N/A
San Marino	N/A
Serbia	Fine (500,000 (app. 5.000 EUR) to 3,000,000 dinars (app. 30.000 EUR))
Slovakia	Fine or may be considered as a criminal act
Slovenia	Administrative order
“the former Yugoslav Republic of Macedonia”	Penalty
Ukraine	Fine (of 1700 UAH app. \$212,5 to 82500 UAH app. \$10 600) or correctional labour or restraint of liberty for the same term

8.7 List of jurisdictions which have submitted information

- Albania
- Armenia
- Azerbaijan
- Bosnia and Herzegovina
- Bulgaria
- Cyprus
- Croatia
- Estonia
- Georgia
- Hungary
- Israel
- Latvia
- Liechtenstein
- Lithuania
- Malta
- Moldova
- Montenegro
- Poland
- Romania
- Russia
- San Marino
- Serbia
- Slovakia
- Slovenia
- “the former Yugoslav Republic of Macedonia”
- Ukraine
- United Kingdom

8.8 List of acronyms

AML/CFT	Anti Money laundering and countering the financing of terrorism
CDD	Customer due diligence
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
IAIS	International Association of Insurance Supervisors
IMLSG	Joint Money Laundering Steering Group
ML	Money laundering
N/A	Not applicable
STR	Suspicious transactions report
TF	Terrorism financing
UN	United Nations
UTR	Unusual transaction reports