PUERTO RICO
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FORUM

Anti Money Laundering in the Insurance Business

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Money laundering and fraud in the insurance sector costs businesses and customers anywhere between 40 billion and 300 billion dollars per year. This high risk of financial crime makes it imperative for insurers to adopt AML guidelines and due diligence best practices to combat money laundering and other illicit activities.

Program Requirements

The US Patriot ACT require insurers to establish AML programs, report suspicious transactions, verify customer identities, and maintain transaction records. Program requirements*:

Compliance Officer

Policies and Procedures

Ongoing Training

Independent Testing

*31 CFR Part 103

Covered Products

For purposes of the final insurance company rule, the term **"covered product"** is defined to mean:

- A permanent life insurance policy, other than a group life insurance policy;
- An annuity contract, other than a group annuity contract; and
- Any other insurance product with cash value or investment features.

Because they pose a lower risk for money laundering, **the following products are not defined as "covered products"** in the final rule:

- group insurance products
- products offered by charitable organizations, e.g. charitable annuities
- term (including credit) life, property, casualty, health, or title insurance
- reinsurance and retrocession contracts.

Contracts of indemnity and structured settlements (including workers' compensation payments) are not within the definition of "covered products" for purposes of the final

Criminals use the insurance industry to legitimize their illicit gains in several ways. Listed below are some examples of insurance products that are of interest to money launderers & terrorist financiers and vulnerable to money laundering include:

Annuity Policies: High regular premium savings products like annuity policies serve as vehicles for money laundering. Criminals purchase the product & pay premiums using fraudulent funds. Once they start receiving income from the insurance contract, they can earn legitimate money.

Policy Ownership Transfer: Another tool money launderers use in the insurance industry is transferring policy ownership. Here, the customer purchases an insurance policy whose ownership he moves to a criminal third party, i.e., the money launderer. The criminal will then be able to withdraw 'clean' money.

Single Premium Policies: Single premium insurance presents yet another opportunity for money laundering. They allow criminals to discharge large amounts of money in one transaction. Criminals use their unlawful funds to purchase a single-premium insurance policy, then attempt to recoup it by filing fraudulent claims.

Top-Ups: Top-ups are another means criminals use to legitimize their illicit funds. They pay a small amount of initial premium so as to avoid attracting regulatory attention. After that, they deposit more illicit funds through top-ups to offload more illegal money.

Cooling-Off Periods: Money launderers can claim a refund for premiums they paid during the cooling-off period, overpay premiums intentionally or surrender their policies at a loss to receive a refund.

Policy Loans: Criminals can use their life insurance policy's cash value as collateral for loans after increasing its value through premium payments.

Take Aways

It is highly critical that insurance provider companies prevent any possibility of money laundering in transactions that take place regularly.

- Tone at the Top is essential
- Understand the institution's responsibilities under the AML program
- Make sure employees and BOD are properly trained

Take reasonable steps & exercise due diligence to prevent the use of the company as a vehicle for money laundering.