STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Insurance Authority ("**IA**"), pursuant to section 21(2)(b) and (c) of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong) ("**AMLO**"), has ordered AIA International Limited (the "**Company**"),

   (a) to submit to the IA by a date and in a manner to be specified by the IA, a report prepared by an independent external advisor to validate the ongoing effectiveness of the remediation measures implemented by the Company to comply with AMLO; and

   (b) to pay a pecuniary penalty of HK$23 million

2. The disciplinary action follows an on-site inspection by the IA in which the IA identified that between various periods between March 2016 and October 2022, the Company had contravened sections 5(1), 10(1), 10(2), 15, 19(1), 19(3) and 23 of Schedule 2 of AMLO, as summarized in paragraphs 4 to 20 below.

3. Following the inspection, the Company (after significant work and commitment of resources) has satisfied the IA that it has subsequently updated and strengthened its anti-money laundering and counter-terrorist financing systems to remediate all contraventions.

Procedures in relation to customers who were politically exposed persons ("PEPs")

4. The relevant provisions of AMLO relating to PEPs were as follows:

   (a) Section 19(1) of Schedule 2 of AMLO required a financial institution to establish and maintain effective procedures for determining whether a customer or a beneficial owner of a customer is a politically exposed person (as defined under AMLO) ("**foreign PEPs**").

   (b) Section 19(3) of Schedule 2 of AMLO required a financial institution, in respect of each kind of customer, business relationship, product and transaction, to establish and maintain effective procedures not inconsistent with AMLO for the purpose of carrying out the duties under, *inter alia*, sections 10 and 15 of Schedule 2 of AMLO.

   (c) Section 10 of Schedule 2 of AMLO set out special requirements which a financial

institution must comply with in relation to customers who are foreign PEPs, in respect of obtaining senior management approval before establishing (in the case of section 10(1)) or continuing (in the case of section 10(2)) a business relationship and taking reasonable measures to establish the customer's or beneficial owner's source of wealth and source of funds.

(d) Section 15 of Schedule 2 of AMLO set out enhanced due diligence measures which a financial institution must take in any situation that by its nature may present a high risk of money laundering ("**ML**") or terrorist financing ("**TF**"), such as obtaining senior management approval to establish or continue a business relationship and either taking reasonable measures to establish the relevant customer's or beneficial owner's source of wealth and source of funds or taking additional measures to mitigate the risk of ML/TF. Guideline on Anti-Money Laundering and Counter-Terrorist Financing ("**Guideline 3**") issued by the IA pursuant to section 7 of AMLO and section 133 of the Insurance Ordinance (Cap. 41) required an insurance institution to take reasonable measures to determine whether an individual is a domestic PEP or an international organization PEP as defined in Guideline 3, to determine whether the domestic PEP/international organization PEP poses a higher risk of ML/TF and, if so, to carry out the enhanced due diligence required in section 15 of Schedule 2 of AMLO.

5. In March 2016, the Company launched a new system ("**AML System**") to screen information of customers and beneficial owners against relevant PEP lists, for the purpose of identifying whether a customer or a beneficial owner was a PEP. The AML System screened potential "hits" based on a score for the person being screened by reference to the number of attributes of the person (e.g. name, year of birth, gender, ID) that matched attributes of persons on the relevant PEP list. The Company's calibration of the scores combined with the settings enabled and disabled in the AML System, impacted the effectiveness of the AML System in its screening. From the samples taken in the IA's inspection, some examples were found of the AML System not generating potential "hits" for persons who were indeed PEPs. For group life business, the Company conducted screening for PEPs manually (i.e. not through the AML System) and examples were also found of beneficial owners of corporate customers of group life policies not being identified as PEPs through such screening.

6. When potential "hits" were generated either by the AML System or through manual screening, the process for reviewing and determining whether the potential "hit" was a "true" hit (i.e. the person screened was indeed a PEP) was carried out by different business units in the Company or supporting the Company through a shared service platform, depending on the type of insurance policy. In the IA's inspection, examples were found of potential "hits" being closed as "false" without review notes or notes that gave inadequate justification for closure. Some examples were also found of the compliance function clearing "hits" as false, which were in fact "true".

7. Based on the samples and information taken in the IA's inspection, it was found that the

Company had not identified, conducted requisite enhanced due diligence measures and obtained senior management approvals in relation to certain customers who were in fact PEPs. By reason of the matters summarized in paragraphs 4 to 7, the Company contravened sections 10(1), 10(2), 15, 19(1) and 19(3) of Schedule 2 of AMLO.

Risk assessments to identify high risk customers prior to entering into a business relationship

8. Section 15(a) of Schedule 2 of AMLO required a financial institution, where a business relationship is to be established in a situation that by its nature may present a high risk of money laundering or terrorist financing ("**ML/TF**"), to obtain approval from senior management to establish the business relationship, and either take reasonable measures to establish the relevant customer's or beneficial owner's source of wealth and source of funds that will be involved in the business relationship, or take additional measures to mitigate the ML/TF risk involved. Section 15(b) of Schedule 2 of AMLO imposed the same obligations on the financial institution as per section 15(a) of Schedule 2, where the high risk of ML/TF was identified after a business relationship had been established. Section 19(3) of Schedule 2 of AMLO required a financial institution to establish and maintain effective procedures not inconsistent with AMLO for the purpose of carrying out its duties, *inter alia*, under section 15 of Schedule 2 of AMLO.

9. In February 2017, the Company began to use the customer due diligence module in its new AML System to carry out risk assessments of its customers for ML/TF risk. The AML System would assign a level of ML/TF risk to a customer based on a risk score and the intention was for customers classified as high risk based on their score to be subject to the enhanced due diligence measures and senior management approvals that accorded with the Company's obligations under section 15 of Schedule 2 of AMLO.

10. The risk scores for customers in the AML System were generally not available until after the customers had been onboarded and a business relationship established, so the Company continued to use its original customer risk assessment methodology for onboarding customers which utilized a different risk assessment methodology to the AML System. Customers who were onboarded by the Company and assessed as not having a high ML/TF risk in accordance with the original risk assessment methodology, but then who were subsequently identified as having high ML/TF risk by the AML System after onboarding, were not subjected to the requisite enhanced due diligence measures and senior management approvals. The Company, nevertheless, continued the business relationship with them. By reason of these matters, the Company contravened sections 15(b) and 19(3) of Schedule 2 of AMLO.

Suspicious transaction monitoring

11. Section 5(1)(c) of Schedule 2 of AMLO set out a financial institution's duty to continuously monitor its business relationships with customers by identifying transactions that (a) are complex, unusually large in amount or of an unusual pattern; and (b) have no apparent economic or lawful purpose, and to examine the background and purposes of such

transactions and set out its findings in writing. Section 19(3) of Schedule 2 of AMLO required a financial institution, in respect of each kind of customer, business relationship, product and transaction, to establish and maintain effective procedures not inconsistent with AMLO for the purpose of carrying out its duties, *inter alia*, under section 5 of Schedule 2 of AMLO.

12. During the relevant inspection period (from March 2016 to October 2022), the Company used its AML System to detect suspicious transactions. The AML System would generate alerts for transactions that met pre-set criteria and thresholds identifying them as potentially suspicious. They would then be reviewed by the Company's compliance function for further actions.

13. The Company applied an additional level of filtering on top of the criteria and thresholds in its AML System, so certain alerts were cleared with automated conclusions as to their absence of suspicion but with insufficient rationale justifying how conclusions had been reached by reference to the relevant customer profiles and information on the transactions. These comments fell short of the requirement to state "findings in writing" in sections 5(1)(c) and 19(3) of Schedule 2 of AMLO.

Annual reviews of high risk customers

14. Section 5(1)(a) of Schedule 2 of AMLO required a financial institution to continuously monitor the business relationship with customers by reviewing from time to time documents, data and information relating to its customers that had been obtained by the financial institution for the purpose of complying with the requirements imposed under Part 2 of Schedule 2 of AMLO. Guideline 3 provided guidance on section 5(1)(a) of Schedule 2 of AMLO to the effect that all customers assessed as presenting high ML/TF risk should be subject to a minimum of an annual review to ensure the customer due diligence information retained by the insurer on the customer remained up-to-date and relevant.

15. During the IA's inspection it was observed that during the relevant period, the Company had missed carrying out the requisite annual review on several customers classified as having high ML/TF risk. The vast majority of these, however, had only missed one annual review. These examples, nevertheless , meant the Company fell short of the requirements in section 5(1)(a) of Schedule 2 of AMLO.

Controls on third party payments

16. Section 23(b) of Schedule 2 of AMLO required a financial institution to take all reasonable measures to mitigate ML/TF risks. Guideline 3 cited, in the context of suspicious transaction reporting, examples of situations that might give rise to suspicion and which should prompt further investigation. These situations included unnecessary routing of funds or other property from/to third parties or through third party accounts; a proposal to

purchase by utilizing a cheque drawn from an account other than the personal account of the proposer; and any transaction involving an undisclosed party.

17. The Company accepted bank drafts without accompanying receipts showing the details of the purchaser of the bank draft, as payment of premium under insurance policies. As these were cash equivalents and thereby enabled payment anonymity, the Company established a risk-based approach based on thresholds for the information it would accept as proof that the person who had purchased the bank draft to pay premium was the policy holder (or in the case of new business, applicant for the policy). According to this risk-based approach, proof from the bank identifying the person who had purchased the bank draft, was required for bank drafts with values above certain thresholds. For bank drafts below these thresholds, the Company would generally accept a self-declaration form from the policy holder declaring that he or she had purchased the bank draft (which form had to be witnessed).

18. During the inspection, the IA found that based on a selected sample of bank drafts, a number of these had not in fact been purchased by the policy holder (contrary to the self-declaration), with some of them having been purchased by the insurance agent who had witnessed the self-declaration by the policy holder. The measures established by the Company in relation to third party payments were therefore not sufficiently effective to identify third party payments and this thereby contravened section 23(b) of Schedule 2 of AMLO.

Compliance and Governance

19. Section 23 of Schedule 2 of AMLO required a financial institution to take all reasonable measures (a) to ensure that proper safeguards exist to prevent a contravention of any requirement under Part 2 of Schedule 2 of AMLO; and (b) to mitigate ML and TF risks. Guideline 3 supplemented this by identifying the senior management of an authorized long term insurer as having responsibility to implement effective anti-money laundering and counter-terrorist financing ("**AML/CFT**") systems and, for this purpose, the senior management should appoint a compliance function with responsibility, *inter alia*, for overseeing all aspects of the insurer's AML/CFT systems, including monitoring their effectiveness and enhancing the controls and procedures where necessary. In further supplementation, Guideline 3 also stated that an authorized long term insurer should carry out an internal risk assessment ("**IRA**") so that it understood how and to what extent it was vulnerable to ML/TF risk thereby enabling it to calibrate its risk-based approach to implementing an effective AML/CFT regime. Guideline 3 identified obtaining senior management approval for the assessment results as a key step in the IRA process.

20. The issues identified during the IA's inspection in paragraphs 4 to 19 above, shows shortcomings in the compliance function's implementation and monitoring of the Company's AML/CFT compliance controls and processes and in the operation of the governance processes in place to escalate such issues to senior management resulting in the oversight from senior management not operating to the level it should have done. Accordingly, the Company did not take all reasonable measures to ensure that proper

safeguards existed to prevent a contravention of requirements under Part 2 of Schedule 2 of AMLO and to mitigate ML/TF risks, and thereby contravened section 23 of Schedule 2 of AMLO.

Conclusion

21. For the reasons stated in paragraphs 4 to 20 above, at certain periods between March 2016 and October 2022, the Company contravened sections 5(1), 10(1), 10(2), 15, 19(1), 19(3) and 23 of Schedule 2 of AMLO.

22. In deciding the disciplinary action set out in paragraph 1 above, the IA had regard to the Guideline on Exercising Power to Impose Pecuniary Penalty in Respect of Anti-Money Laundering and Counter-Terrorist Financing ("**Guideline 3A**")[1], and took account of all relevant circumstances including but not limited to the following:

    (a) certain of the contraventions a result of system issues of which the Company lacked awareness;

    (b) the duration of the contraventions;

    (c) following remediation, the Company found that there had been no onboarding of customers that ought not to have ultimately been accepted as a result of delayed detection or enhanced reviews;

    (d) the high level of cooperation shown by the Company during the inspection process and the process resulting in this disciplinary action;

    (e) the remedial steps taken by the Company to address the deficiencies identified and to further strengthen its AML/CFT systems, controls and processes;

    (f) the fact that the Company has a clean disciplinary record;

    (g) the need to send a clear deterrent message about the importance of effective internal anti-money laundering and counter-terrorist financing controls and procedures;

23. To supplement paragraph 22(d) and (e), it is observed that the Company has dedicated significant resources (financial, human and time commitment) to addressing the issues, remediating all matters to the IA's satisfaction, accepting accountability for past shortcomings and, indicating a commitment to maintain strengthened AML/CFT controls and processes going forward in accordance with the results of the inspection process. This includes a commitment by the group to which the Company belongs voluntarily to engage an independent expert advisor, to validate the ongoing effectiveness of its anti-money laundering controls across the group's businesses.

[1] Published under, *inter alia*, section 23(1) of the AMLO setting out the considerations the IA will take into account in exercising its power to impose a pecuniary penalty.