



Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report 2022 and other AML/CFT Compliance Matters

Mr. Dickson Chui

Senior Manager, Market Conduct Division

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**Section 1 - Hong Kong Money
Laundering and Terrorist
Financing Risk Assessment
Report
(published in July 2022)**



Risk-based Approach



Hong Kong ML/TF Risk Assessment Report
("HRA")



Institutional ML/TF Risk Assessment ("IRA")



Customer Risk Assessment ("CRA")

Basic requirements of AMLO should be fulfilled when applying an RBA

ML Risk Level of Insurance Sector



ML Threats of Insurance Sector

Breakdown of realizable assets in Restraint Orders:

Type of Assets		Amount (HK\$ in million)	%
Breakdown of Realizable Assets in Restraint Orders (2016-2020)	Categorised Assets	Assets placed in banks ⁹⁷	3,886 42.44%
		Securities ⁹⁸	2,233.2 24.39%
		Insurance policies/products	10.81 0.12%
		Real Estate	2,908.6 31.77% ⁹⁹
		Precious metals and stones, jewellery or wristwatches	12.36 0.14%
		Cash ¹⁰⁰	62.47 0.68%
		Vehicles	8.37 0.09%
	Others ¹⁰¹	34.2 0.37%	
	Sub-total	9,156.01 100%	
	Uncategorised Assets	Uncategorised company assets	0 0%
Total	9,156.0 100.00%		
Note: Total amount of assets owned by third parties (HK\$ in million)		7,729.84	84.42%

Breakdown of realizable assets in Confiscation Orders:

Type of Assets		Amount (HK\$ in million)	%
Breakdown of Realizable Assets in Confiscation Orders (2016-2020)	Categorised Assets	Assets placed in banks ¹⁰²	780.3 54.52%
		Securities ¹⁰³	2.8 0.20%
		Insurance policies/products	12.18 0.85%
		Real Estate ¹⁰⁴	216.11 15.10% ¹⁰⁵
		Precious metals and stones, jewellery or wristwatches	3.26 0.23%
		Cash ¹⁰⁶	75.92 5.30%
		Vehicles	1.38 0.10%
	Vessels	1.24 0.09%	
	Sub-total	1,093.19 76.38%	
	Uncategorised Assets	Uncategorised company assets	338 23.62%
Total	1,431.19 100.00%		
Note: Total amount of assets owned by third parties (HK\$ in million)		628.35	43.90%

Hong Kong Insurance Market Landscape



1st

In 2020, HK ranked first in the world by insurance penetration.

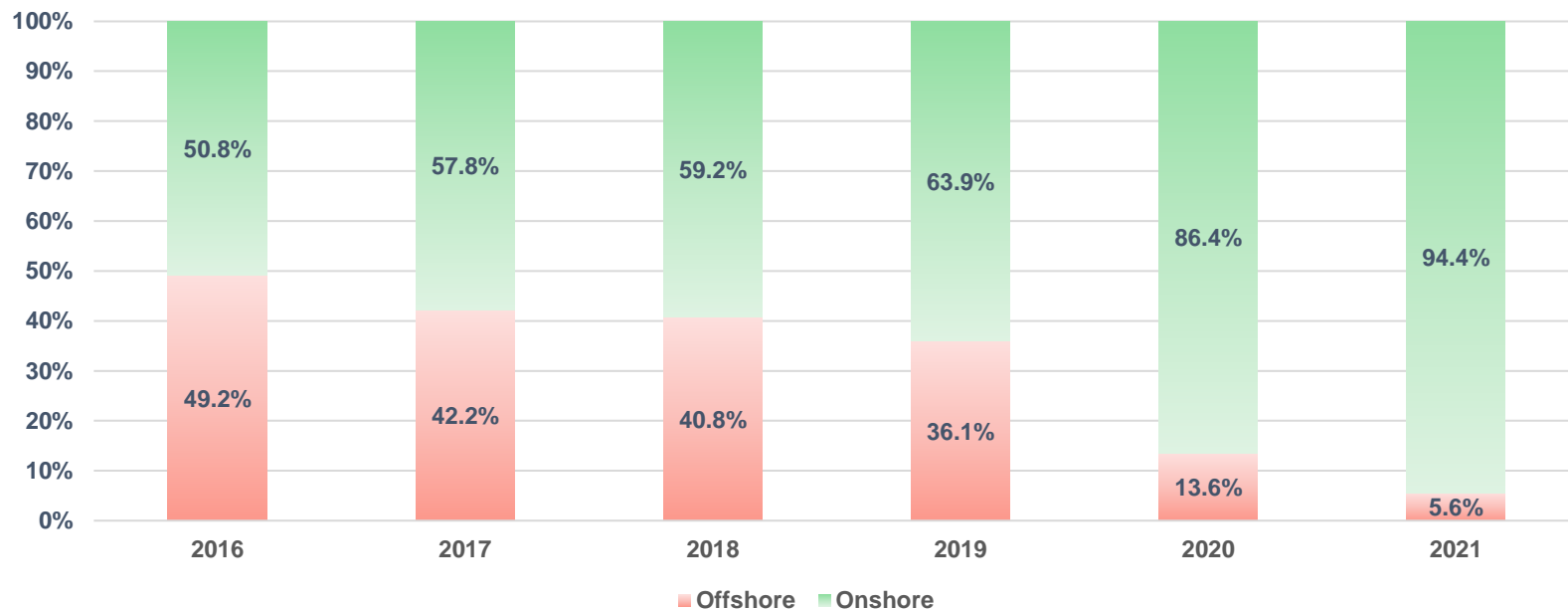
2nd

In 2020, HK ranked second in the world by insurance density.

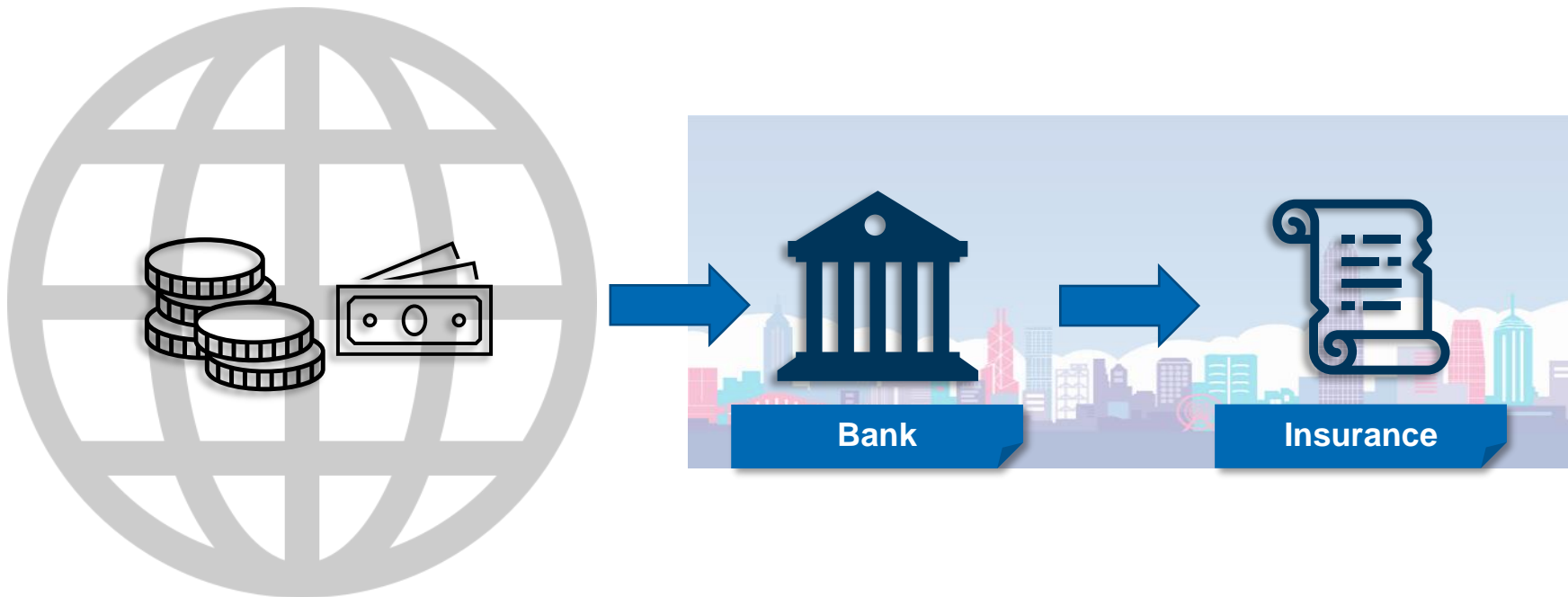
13 out of 20

A total of 13 of the world's top 20 insurers conduct businesses in Hong Kong.

New Business Premiums by Onshore and Offshore between 2016 and 2021



Transnational Threat in Hong Kong



Information Used in the Vulnerability Analysis



- Data and information gathered through routine supervisory work including on-site inspections

- Insurance Statistics (quarterly and annual business returns)



- Survey results from active long-term insurers

- Typology reports published by the FATF and the FATF-style regional bodies



ML Risk Factors of Hong Kong Insurance Sector

Examples of variables:



HRA

Cooling-off statistics

Payment control

Onshore/offshore business statistics

Surrender statistics



IRA

Incoming Payment Control

- Premium payments made directly to insurers
- Limit on acceptance of cash
- Detection of third-party payment and relevant control
- Post-HRA observation

Outgoing Payment

Cooling-off request

- Policyholder has the right to cancel the policy during the cool-off period (i.e., 21 calendar days)
- Money launderer can get a clean cheque from the insurer in a short period of time.

Observations:

- Only 1.7% of total NB premiums are refunded during cool-off period in 2019



Surrender request

- Policyholder has the right to surrender the policy to get a proportion of the benefits.
- Money launderer can get a clean cheque from the insurer in a relatively short period of time.

Observations:

- Surrender benefits paid within 1st - 25th month only account for 2.8% of total in-force premium in 2019





Payout is normally made to the policyholders but not to 3rd parties.



Offshore clients

- Proportion of offshore clients
- Mainland Chinese visitors (“MCVs”)

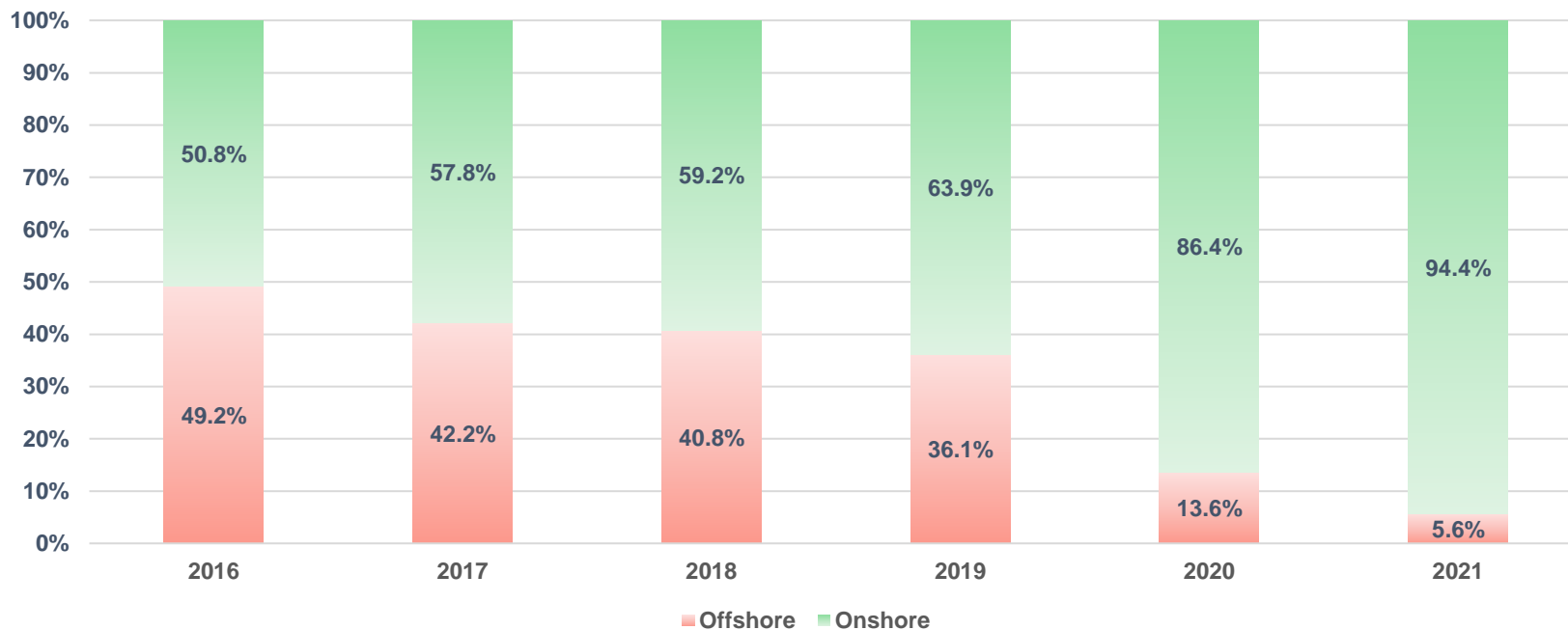


International remittances

- Proportion of incoming/ outgoing international remittances

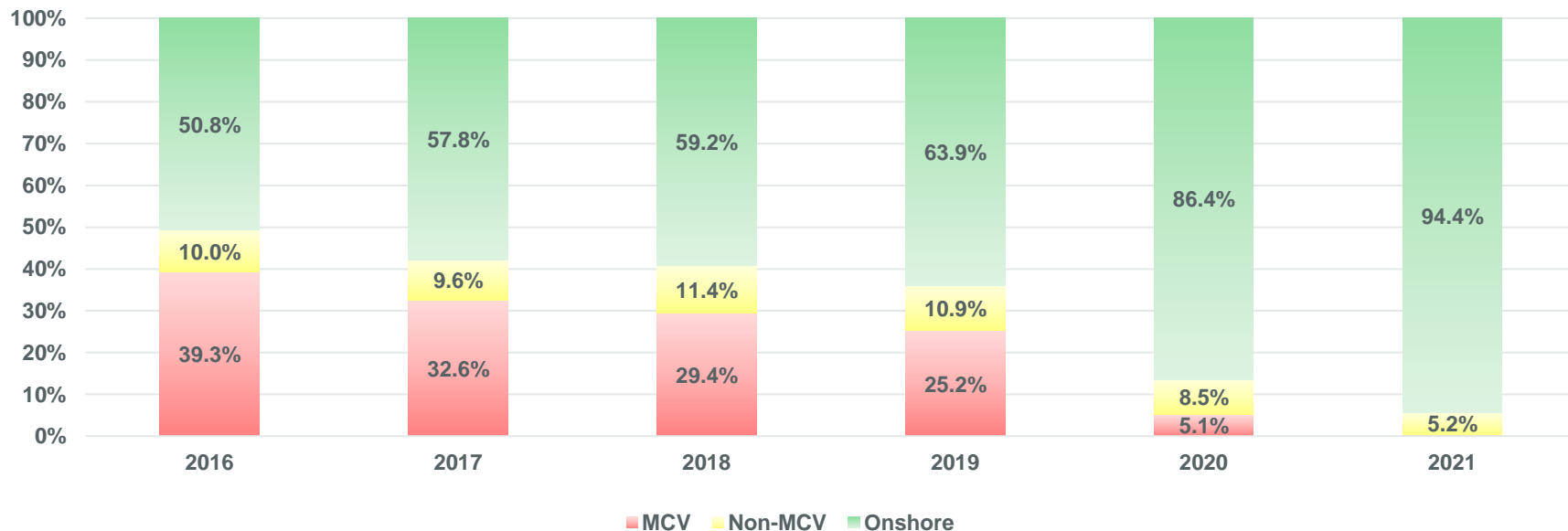
Hong Kong Insurance Market Landscape

New Business Premiums by Onshore and Offshore between 2016 and 2021



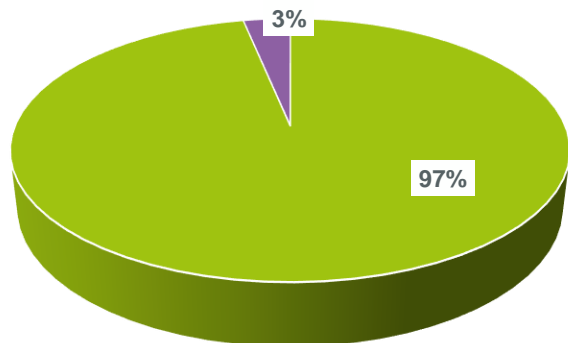
Offshore Clients: MCV

New Business Premiums by Onshore and Offshore (MCV and non-MCV)
between 2016 and 2021



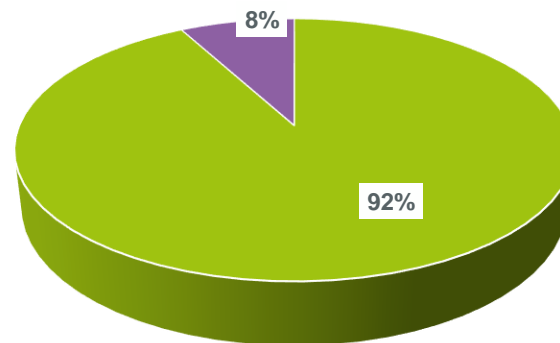
International Remittances

Amount of benefit payments in 2019



■ To Hong Kong ■ To other jurisdictions

Amount of premiums received in 2019



■ From Hong Kong ■ From other jurisdictions

Universal Life Insurance Products and Investment-linked Assurance Scheme Products

Ulife

and

ILAS

- Ulife and ILAS are vulnerable to ML risk due to their product features.
- Insurers should understand the rationale behind risk classifications of different products.
- Insurers can then design corresponding control to mitigate the relevant risks. (refer to GL3 paragraph 2.11)
- Refer to FATF paper “Guidance for a Risk-based Approach – Life Insurance Sector”

Risk-based Approach – Life Insurance Sector

Example of Product Description	Typical Features	Indicative Risk Rating
<p>Complex products with potential multiple investment accounts; and / or products with returns linked to the performance of an underlying financial asset</p> <ul style="list-style-type: none"> Examples: Ulife, Variable Ulife, Wrapper Insurance, Investment Linked Policies, Unit Linked Policies, ILAS 	<ul style="list-style-type: none"> Offers the ability to hold funds and / or assets May offer the option of asset transfers into the policy Full or partial underlying investments under control of the customer May have a high upper limit for the amounts of funds held 	<p>Higher risk compared with other life insurance products</p>
<p>Products designed for High Net Worth (HNW) persons or products for individual generally with guaranteed returns</p> <ul style="list-style-type: none"> Examples: HNW Individual Life Insurance, Traditional Whole Life 	<ul style="list-style-type: none"> Offers the ability to hold funds Only with high limit for funds held Underlying investments managed by the insurer 	<p>Higher/ moderately high risk compared with other life insurance products</p>
<p>Product that pays a periodic income benefit for the life of a person</p> <ul style="list-style-type: none"> Example: Fixed and Variable Annuities 	<ul style="list-style-type: none"> Offers the ability to hold funds May have a high limit for funds held Accumulation period followed by a liquidation period Underlying investments managed by the insurer 	<p>Moderate risk compared with other life insurance products</p>

Risk-based Approach – Life Insurance Sector (Cont'd)

Example of Product Description	Typical Features	Indicative Risk Rating
<p>Product designed to provide endowments for an individual or an institution</p> <ul style="list-style-type: none"> Example: Endowments 	<ul style="list-style-type: none"> May offer the ability to hold funds Underlying investments managed by the insurer 	<p>Moderate risk compared with other life insurance products</p>
<p>Product subscribed by a company to pay a periodic income benefit for the life of employees</p> <ul style="list-style-type: none"> Example: Group Annuities 	<ul style="list-style-type: none"> Typically used for retirement savings and pension schemes Generally subscribed by a company in order to provide a future benefit to its employees Underlying investments managed by the insurer 	<p>Lower risk compared with other life insurance products</p>
<p>Product that pays a lump sum, or a regular payout (annuity) to the beneficiary, in the event of the death of the insured, in the event of a long-term care or critical illness</p> <ul style="list-style-type: none"> Examples: Term Life Individual, Group Long-term Care, Critical Illness 	<ul style="list-style-type: none"> No ability to hold funds Generally payments only in case of a specific external event 	<p>Lower risk compared with other life insurance products</p>

Virtual Insurers and Virtual Onboarding

Favour anonymity

Non-Face-to-Face business relationships or transactions are traditionally considered by the FATF to be higher risk situations.

Virtual Insurers

- 2 virtual insurers carrying on long term business have been authorized under the Fast Track.



- Sandbox facilitates a pilot run of innovative Insurtech applications.
- Most application were related to virtual onboarding.

Sandbox

Covid-19

- Difficult to carry out Face-to-Face meeting.



Non-Face-to-Face selling through intermediaries

Insurers should confirm whether the intermediaries have Face-to-Face meeting with customers. If not, additional measures should be applied to mitigate relevant risks.

Observations on conducting IRA

- ❑ The IRA did not consider any **higher risks identified** in other relevant risk assessments which may be issued from time to time, such as the Hong Kong's jurisdiction-wide ML/TF risk assessment.
- ❑ For an insurer that is a part of a financial group with an IRA conducted at group level, the group-level IRA did not adequately reflect ML/TF risks posed to the II in the local context.
- ❑ A locally-incorporated insurer did not perform a group-wide ML/TF risk assessment on its branches or subsidiaries, including those located outside Hong Kong.
- ❑ Absence of proper risk assessment methodology, including the documentation of quantitative and qualitative analysis in conducting the IRA.
- ❑ No documentary evidence demonstrating that the IRA results were tabled for senior management's approval.

Section 2 - Other AML/ CFT Compliance Matters





Observations:

- Insurers/ agents are not satisfied that they have tighter control in place than other competitors (e.g., threshold over which income/ asset proof is required).




Point to note:

- The IRA forms the basis of the RBA, enabling an insurer to understand how and to what extent it is vulnerable to ML/TF. An insurer's AML/CFT systems, including the internal control thresholds, should be derived **as a result of the Company's IRA, instead of benchmarking with market players**, the ML/TF risk exposure of whom were different from the II.

Supervisory Measures

#	Supervisory Measures	Severity
1	Management Letter alone	the non-compliance is considered not serious
2	Compliance Advice Letter	the non-compliance is considered less serious, inadvertent and/or technical in nature
3	Letter of Concern	more severe than a Compliance Advice Letter and is deployed where the non-compliance highlights an issue of concern which it is imperative for the insurance institutions to rectify and never repeat
4	Proposal for investigation actions by Enforcement Team of Market Conduct Division	the non-compliance is considered more serious and potentially compelling for formal disciplinary action

 Depending on the severity of non-compliance, the requisite remedial actions could include an independent review:

- 1) by the insurer's own/group internal audit; or
- 2) by an external party.

Good Practices


- ❑ **Policy & procedures on**
 - the use of systems and the parameters used;
 - resolution of alerts and process to track ageing of unresolved alerts;
 - retention period of enhanced checking result;
 - Documentation of the assessment
- ❑ **Assess regularly the adequacy of the screening systems used, and to ensure the screening parameters applied remain appropriate and effective for the insurers' risk and business profiles.**

Inspection approach on screening


- ❑ **progressively pursuing usage of supervisory technology (Suptech) to assess insurer's screening system**



Thank You

 (852) 3899 9983

 www.ia.org.hk

 (852) 3899 9993

 KoiSaiPoKam

 enquiry@ia.org.hk

