

# AML/CFT Transaction Monitoring – Principle and Practice

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The Government of the Hong Kong Special Administrative Region



# Disclaimer

- *This part of presentation aims to enhance the audience's understanding of transaction monitoring. It is not intended to cover all the statutory requirements applicable to insurance institutions. Insurance institution should seek its own professional legal advice in ensuring its compliance with the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and Guideline on Anti-Money Laundering and Counter-Terrorist Financing.*
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# Ongoing Monitoring



# Ongoing Monitoring

**Customer's  
Identities –**  
up-to-date and  
relevant

**Customer's  
Transactions –**  
**Transaction  
Monitoring**

# What is Transaction Monitoring?

Usual - Unusual

Financial - Non-Financial

Insurer - Intermediary

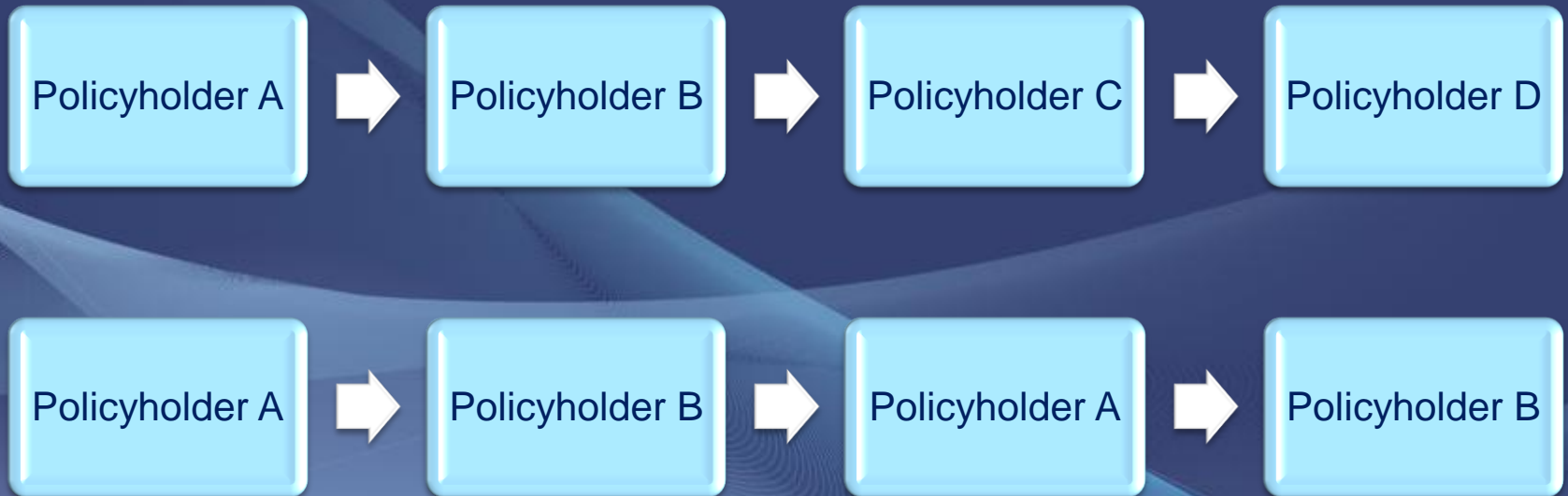
# What is Unusual/Suspicious?

- External reference
  - Guideline on Anti-Money Laundering and Counter-Terrorist Financing (GN3)
  - Feedback reports by JFIU
  - FATF/APGML/IAIS papers
- Internal reference
  - Discrepancy between a transaction and the customer's risk profile, e.g. withdrawal amount exceeds certain percentage when compared with the policyholder's withdrawal history



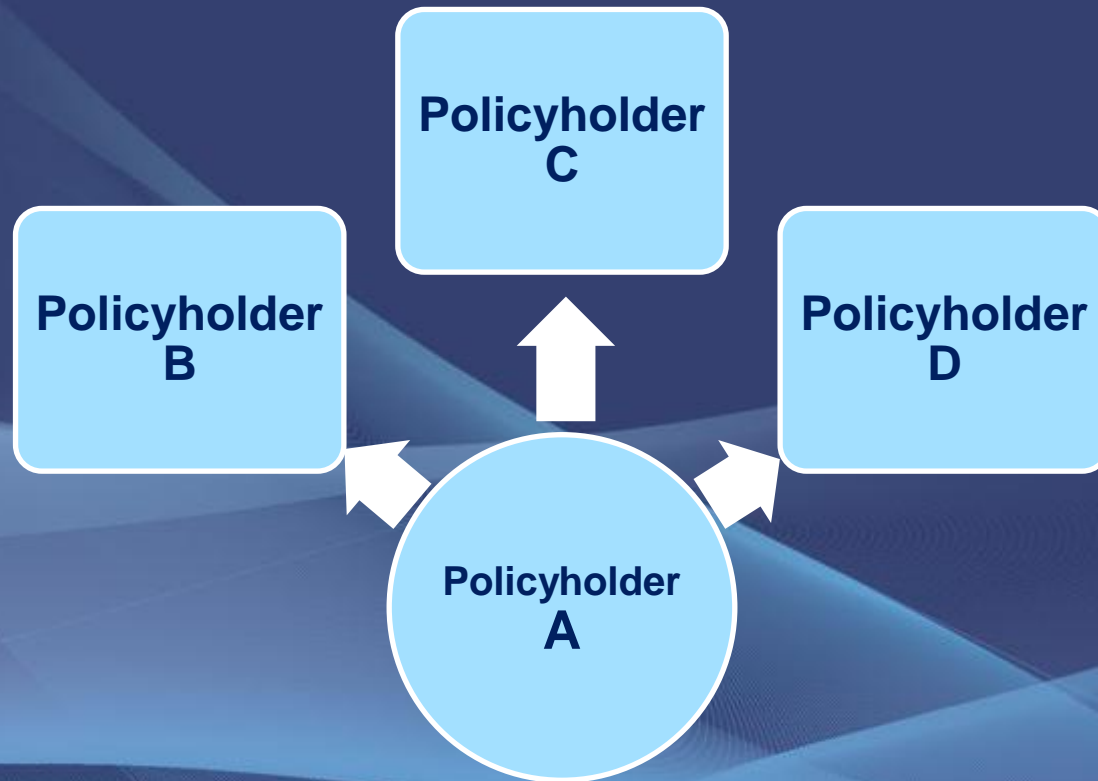
# Non-financial Transactions

## Frequent change of policy ownership



# Non-financial Transactions

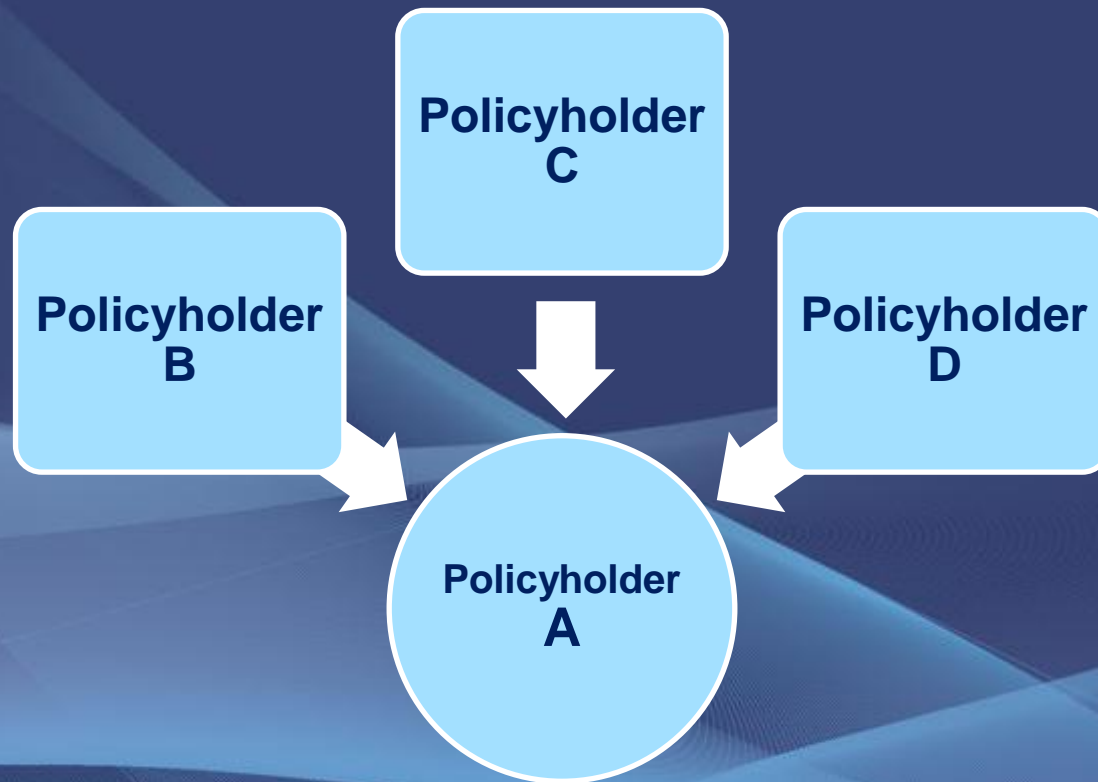
Frequent change of policy ownership





# Non-financial Transactions

Frequent change of policy ownership



# Non-financial Transactions

Policy level – Policyholder level

# Non-financial Transactions

Frequent change of beneficiary

Frequent change of address

# Financial Transactions

Money In – Money Out

# Financial Transactions



Inflow – premium / loan  
repayment / future premium  
deposit

- Large
- Accumulated
- Policy level/policyholder level

# Financial Transactions



Outflow – surrender payment / withdrawal / policy loan / policy refund

- Large
- Accumulated
- Policy level/policyholder level



# Financial Transactions



Large accumulated fund inflow at policy level/policyholder level



Large accumulated fund outflow at policy level/policyholder level

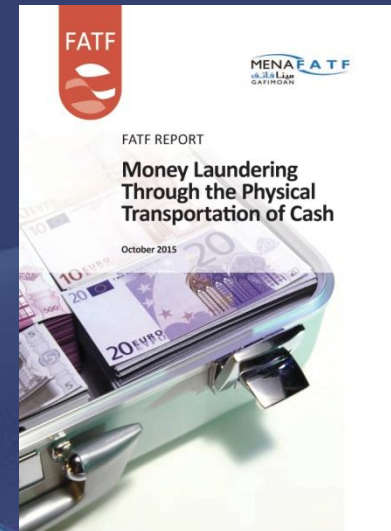


IN + OUT

# Fund Inflow - Cash

Large accumulated cash deposit on policyholder level

- **Structuring/Smurfing** - practice of conducting financial transactions in a specific pattern calculated to avoid the creation of certain records and reports required
- **Cashier/bank/convenience store**
- **Internal control** and transaction monitoring



# Fund Inflow – Premium Payment

Dump in premium amount does not match with the modal premium or its multiples for a regular premium insurance policy



# Fund Outflow

- Timing as a criteria
- Time between policy issued/certain event and payout



# Fund Outflow

Frequent cooling off/policy cancellation  
on policyholder level



# Fund Outflow

Early Surrender

Termination soon after large deposit/  
lump sum top-up

Withdrawal/surrender soon after  
change of policy ownership





# Fund Outflow

Frequent surrender

Surrender loss over certain percentage  
and a defined threshold

Withdrawal over certain percentage  
when compared with the policyholder's  
withdrawal history

# A Few More...

Taking out similar insurance policies from various insurers without valid reasons

Product-specific criteria, e.g. single premium insurance policies

Channel level review

# How to Monitor?

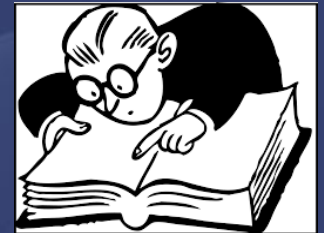
- Scale
  - Demonstrate effectiveness
  - Adequate with respect to the company's size / activities / risk
- Electronic system a must ?

# How to Monitor?

Dedicated automatic transaction monitoring system / System generated exception reports



Manual incident report/log



# How to Monitor?

## On screen alerts

- Real-time monitoring transactions of high risk customers

## Event-driven reviews

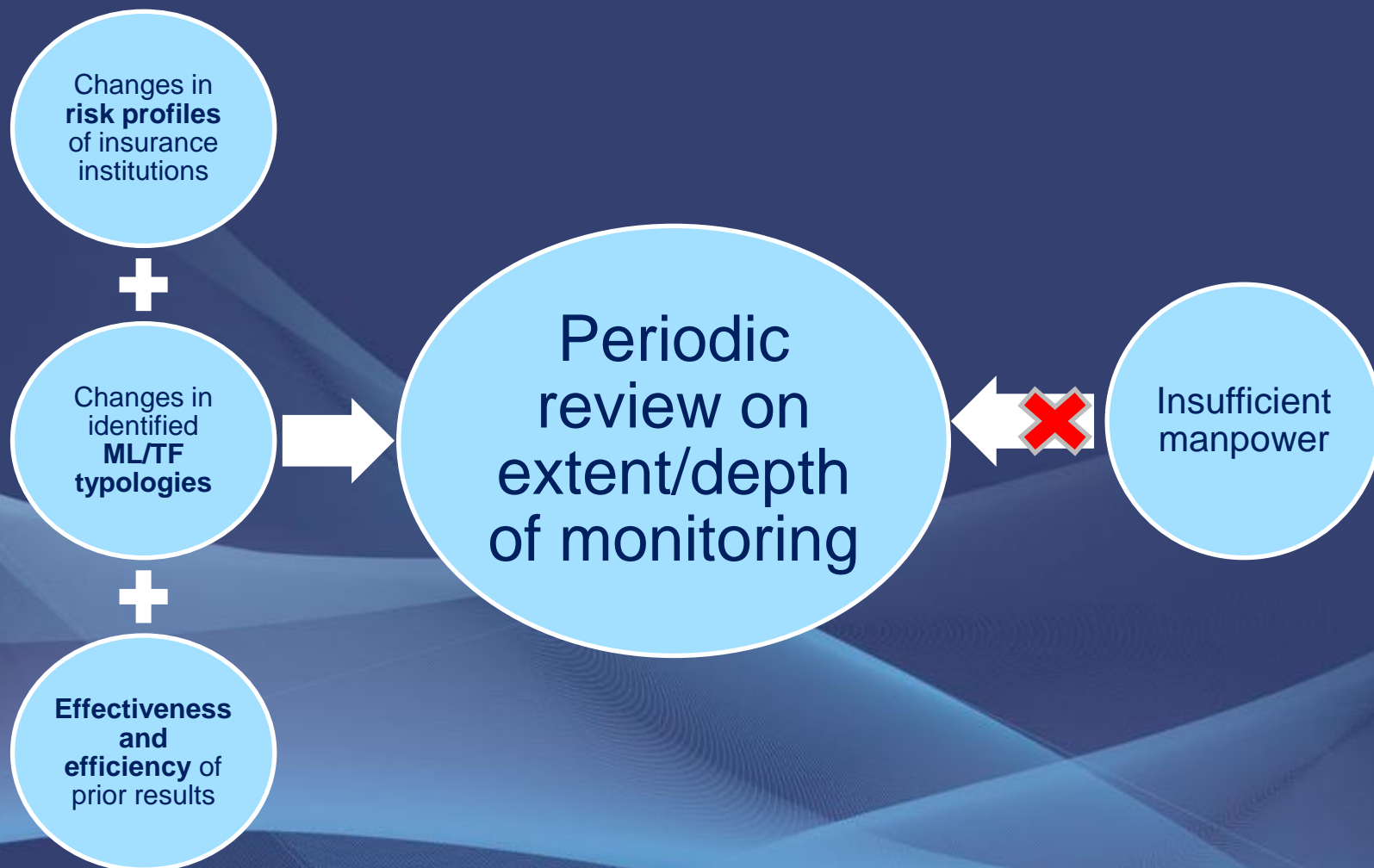
- Ad hoc basis

# Transaction Monitoring - Implementation





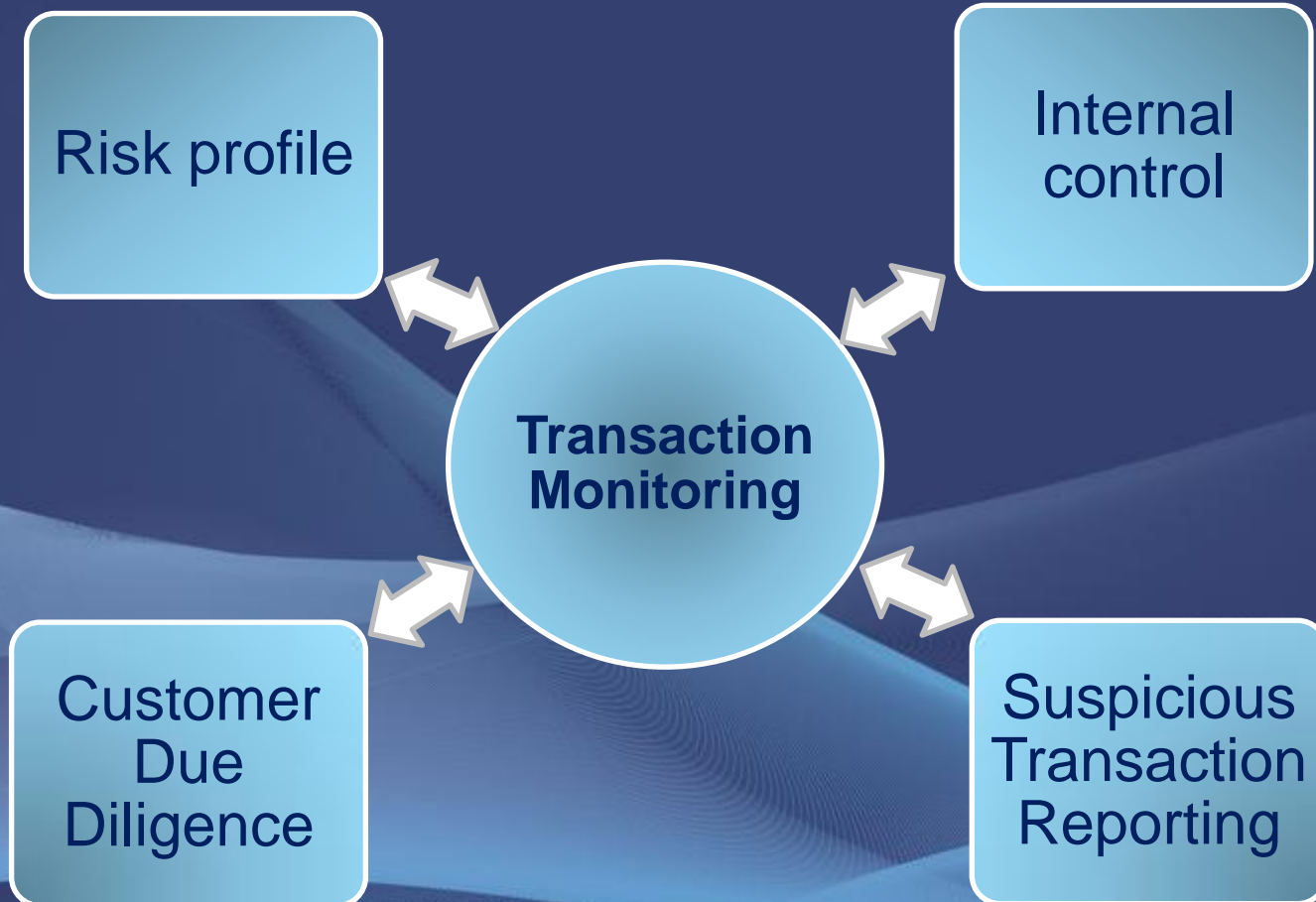
# Transaction Monitoring - Maintenance



# Transaction Monitoring - Alerts Handling

- Written **guidance and procedures** on handling alerts
- **Documentation** of assessment conclusions with rationale
- **Adequate resources** allocated – demonstrate commitment of senior management
- Outsource arrangement and **quality control**

# Transaction Monitoring



# *Thank You*



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