

Regulatory Updates and Supervisory Observations on AML/CFT

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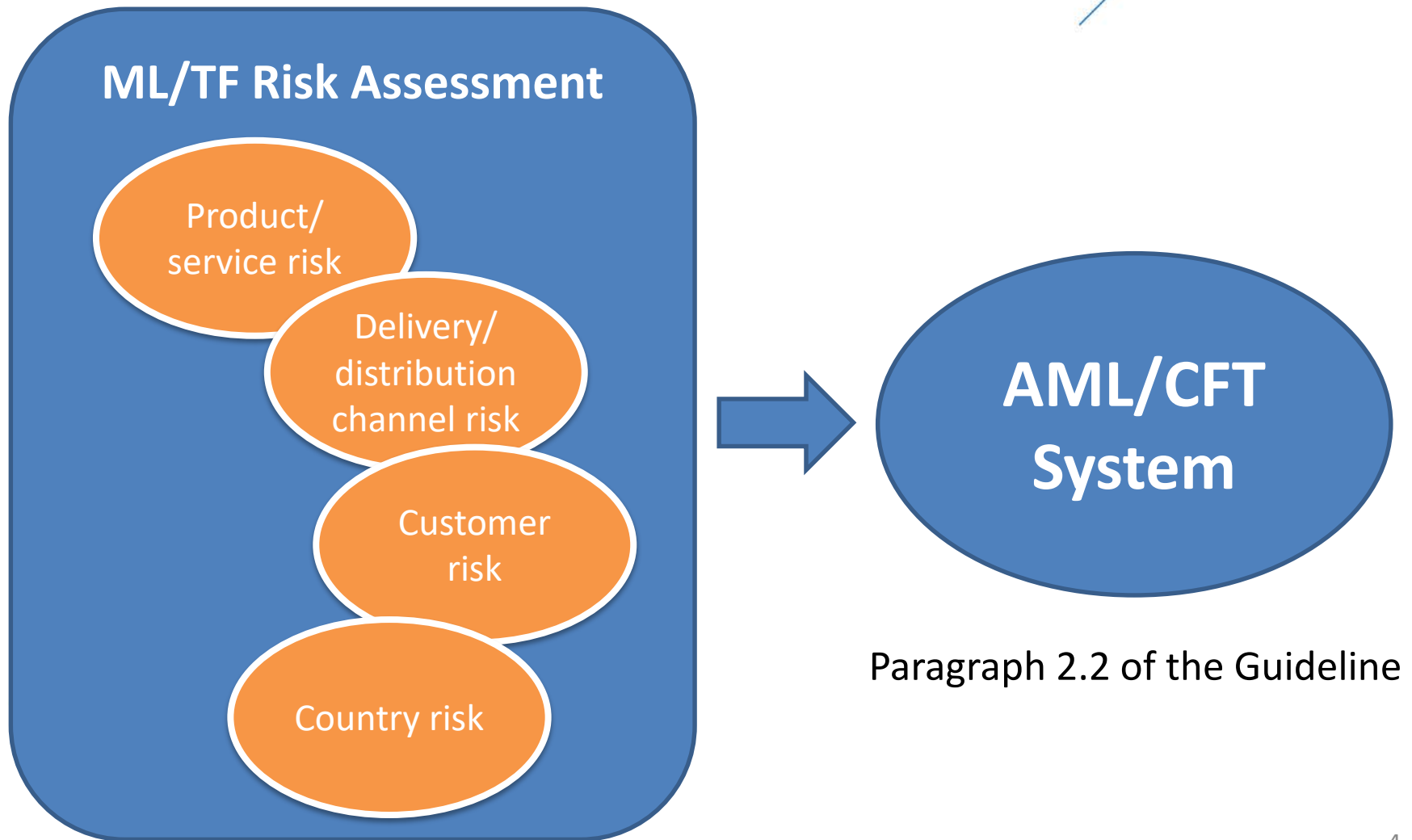
Institutional Risk Assessment (“IRA”)

- Refer to IA’s circular on 2 May 2018 regarding the issuance of HK’s ML/TF Risk Assessment Report (“the Report”) & IRA
- All long-term insurers & insurance intermediaries are reminded to:
 - identify, assess and understand the ML/TF risks they are exposed to
 - determine and implement adequate and appropriate AML/CFT policies, procedures and controls to mitigate the identified ML/TF risks
 - give due consideration to the ML/TF threats and vulnerabilities identified in the Report that are relevant to their own circumstances in their IRA process

IRA (Cont'd)

- documented the IRA process;
- considered all the risks factors before determining the level of overall risk and level & type of mitigation to be applied;
- obtained senior management approval on the IRA results;
- a process to keep IRA up-to-date; and
- appropriate mechanisms to provide IRA to the IA upon request

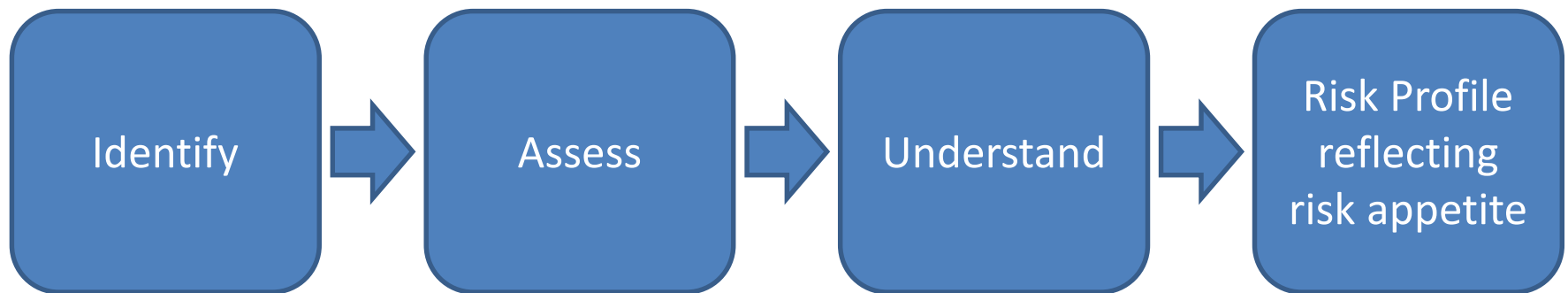
IRA (Cont'd)



IRA (Cont'd) – How to conduct?

- Various approaches to conduct a risk assessment
- Commensurate with nature/ size/ global footprint of business
- Not necessarily complex

Process of ML/TF Risk Assessment:



IRA (Cont'd) – How to conduct? (Cont'd)

- Factors to consider:



Qualitative

- Nature, scale, diversity and complexity of business
- Distribution channels
- Geographical location/Country
- Reliance on third party service providers
- Previous internal audit/regulatory findings



Quantitative

- Products
- Customer base
- Volume/nature of transactions
- AML compliance employee turnover
- Expected client/revenue growth

IRA (Cont'd) –

How to make use of IRA outcome?



AML/CFT system

- Design and implement appropriate AML/CFT system commensurate with the identified risks

Resources and Priorities

- Resources and priorities are aligned with risks
- Time
- Budget
- Manpower

Senior Management

- Ensure senior management are made aware of the key risks which assists them when making strategic commercial decisions

International Development – Proliferation Financing (“PF”)

- Refer to IA’s circular on 12 March 2018 regarding the PF guidance paper issued by the FATF
- Relevant parts of the PF guidance paper include:
 - Taking note of circumstances where customers and transactions are more vulnerable to be involved in PF activities;
 - Identifying high risk customers and transactions, and applying enhanced scrutiny, using a risk-based approach; and
 - Undertaking reasonable effort to collect additional information related to identified high-risk customers and transactions

Early Alert Mechanism

- Refer to IA's circular on 2 February 2018
- Instituted early alert mechanism to draw immediate attention of FIs to the promulgation of UN sanctions and to call for their vigilance and necessary action

When UNSC promulgated new or revised sanctions resolutions/ lists relating to terrorism, terrorist financing and proliferation	<ul style="list-style-type: none">• IA would issue email alert
On the date of Gazettal of sanctions-related notices	<ul style="list-style-type: none">• IA would upload a summary record of the updates to the IA's webpage with hyperlink to the gazette notices• IA would issue email regarding the update

Local Legislative Development – AMLO Amendment

- Commenced on 1 March 2018
- The amendments, which are more relevant to the insurance sector, include –
 - (a) relaxing the threshold of defining beneficial ownership from “not less than 10%” to “more than 25%”;
 - (b) introducing flexibility to measures permitted to be taken for verifying a customer’s identity;
 - (c) permitting financial institutions to rely on foreign financial institutions within the same financial group as intermediaries to carry out CDD measures; and
 - (d) changing the record-keeping period from “six years” to “at least five years”.

Local Legislative Development – Companies (Amendment) Ordinance 2018

- Implemented on 1 March 2018
- To require companies incorporated in Hong Kong:
 - To take reasonable steps to ascertain the individuals who (and where applicable the legal entities which) have significant control over the company and obtain accurate and up-to-date information about their identities
 - To maintain a register of persons with significant control over the company for inspection upon request

Local Legislative Development – United Nations (Anti-Terrorism Measures) (Amendment) Ordinance 2018

- Implemented on 31 May 2018
- Purposes:
Further implementing the United Nations Security Council Resolution 2178 and the Financial Action Task Force's recommendation to combat the threats posed by foreign terrorist fighters and enhance the freezing mechanism on terrorist property.

Local Legislative Development – Cross-boundary Movement of Physical Currency and Bearer Negotiable Instruments Ordinance

- Purposes:
 - To establish a declaration and disclosure system to detect cross-boundary movement of currency and bearer negotiable instruments of a total value above HKD120,000 into and out of HK; and
 - To provide for the powers to restrain the movement of physical currency and bearer negotiable instruments suspected to be related to ML/TF
- The Customs and Excise Department will be the major enforcement agency
- Target to implement in 2nd half of 2018

Amendment to GL3

- To align with the latest FATF Standard
- To better facilitate implementation of the risk-based approach
- To reduce unintentional barriers to the use of technology
- Target timeline: 2nd half of 2018

Onsite Inspection Visits – Key AML/CFT Findings on Long Term Insurers

- Briefing session & circular to long term insurers on 31 May 2018
 - Share AML/CFT key findings observed in previous onsite inspection visits
 - Strengthen the awareness on AML/CFT requirements by insurance industry
 - Raise the standards of AML/CFT controls in insurance industry
 - Collaboration with the insurance industry

Key Areas for Improvement: (Long Term Insurers)



1. Senior Management Oversight
2. Compliance Functions
3. Customer Risk Assessment
4. CDD Process
5. Screening of PEPs, Terrorists and Sanction Designations
6. Ongoing Monitoring
7. Suspicious Transaction Reporting
8. Staff/ Insurance Agent Training

Onsite Inspection Visits – Key AML/CFT Findings on Insurance Brokers

- Onsite inspection visit is an important supervisory tool to gauge the level of compliance
- Requested to take remedial actions on issues identified
- Circular to insurance brokers on 27 April 2018
 - Share AML/CFT key findings observed in previous onsite inspection visits

Key Areas for Improvement: (Insurance brokers advising on long term business)



1. Policies and Procedures
2. Risk Assessment
3. Record Keeping
4. Screening of PEPs, Terrorists and Sanction Designations
5. Suspicious Transaction Monitoring and Reporting
6. AML/CFT Training

1. Policies and Procedures

Findings:

- ✗ No written internal AML/CFT policies and procedures
 - Unclear guidance to staff and technical representatives (“TRs”) to perform AML/CFT tasks
- ✗ Very limited information in written AML/CFT policies and procedures
 - Quoted the AML/CFT requirements under the relevant ordinances
 - No specific AML/CFT controls and procedures for daily operations
- ✗ AML/CFT policies and procedures not regularly reviewed or updated

Recommendations:

- ✓ Devise own AML/CFT policies and procedures with sufficient details
- ✓ Keep AML/CFT policies and procedures under regular review

2. Risk Assessment

Findings:

- ❌ Solely relied on insurers' AML/CFT controls and procedures
 - No ML/TF risk assessment on customers
 - CDD measures not based on the ML/TF risk rating assigned

Recommendations:

- ✓ Take appropriate steps to identify the ML/TF risks exposed
 - Consider various risk factors (including country risk, customer risk, product/service risk and delivery/distribution channel risk)
 - Assign a ML/TF risk rating to each customer
 - Extent of CDD measures based on the ML/TF risk rating assigned

3. Record Keeping

Findings:

- ✗ Failed to keep copies of customers' identification documents
 - Insurance applications handled directly at insurers' offices
 - Responsible TRs missed to retain copies of customers' identification documents
- ✗ customers' identification document images kept in their records not in good quality (i.e. either blurred or darkened)

Recommendations:

- ✓ Establish and maintain proper controls and procedures
 - Collect requisite identification documents from customers for each business transaction
 - Retained in good quality

4. Screening of PEPs, Terrorists and Sanction Designations

Findings:

- ❌ No proper screening mechanism at the establishment of business relationship or on an ongoing basis
- ❌ No proper documentation for name screening exercises
 - No name screening mechanism set out in procedural manuals
 - No screening results retained for customers

Recommendations:

- ✓ Establish and maintain an effective screening mechanism
- ✓ Document all the name screening results properly

5. Suspicious Transaction Monitoring and Reporting

Findings:

- ❌ Insufficient procedures to ensure all staff and TRs made aware of the identity of the Money Laundering Reporting Officer (“MLRO”)
 - Not aware of the function and identity of the appointed MLRO
 - Unclear reporting procedures concerning suspicious transactions

Recommendations:

- ✓ Establish and maintain proper controls and procedures
 - All staff made aware of the identity of the MLRO
 - All suspicious transaction reports reach the MLRO without undue delay

6. AML/CFT Training

Findings:

- ✗ No AML/CFT training to staff and TRs
- ✗ No arrangement for staff and TRs to attend any AML/CFT training organized by external parties
 - Inadequately trained to carry out AML/CFT related duties

Recommendations:

- ✓ Implement a clear and well-articulated training policy
- ✓ Frequency of training sufficient to maintain AML/CFT knowledge
- ✓ Use a mix of training techniques and tools in delivering training
- ✓ Monitor and maintain training records

Mutual Evaluation

- As a joint member of FATF and APG, HK will be evaluated jointly by both (led by FATF)
- Will be Hong Kong's 4th evaluation – last one was in 2008
- Onsite visits in Oct/Nov 2018
- Report will be published around August/September 2019



保險業監管局
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~ THANK YOU ~