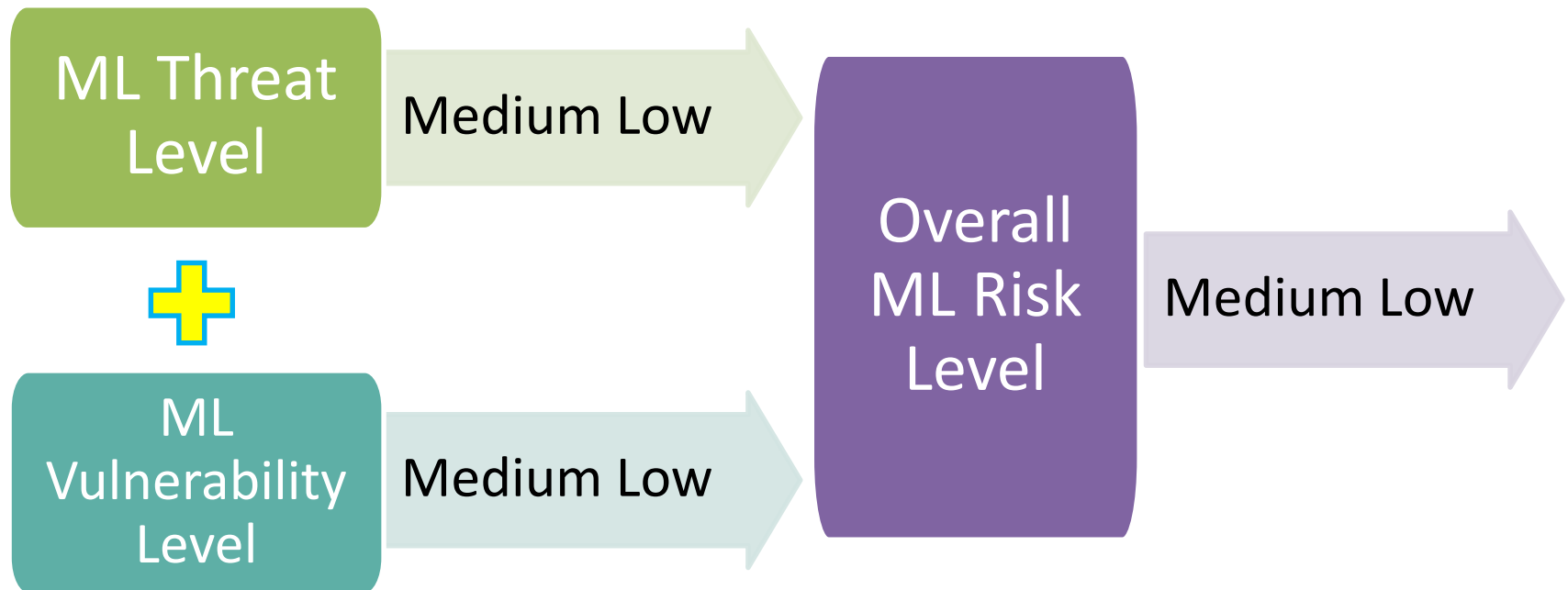


Hong Kong's Money Laundering and Terrorist Financing Risk Assessment Report

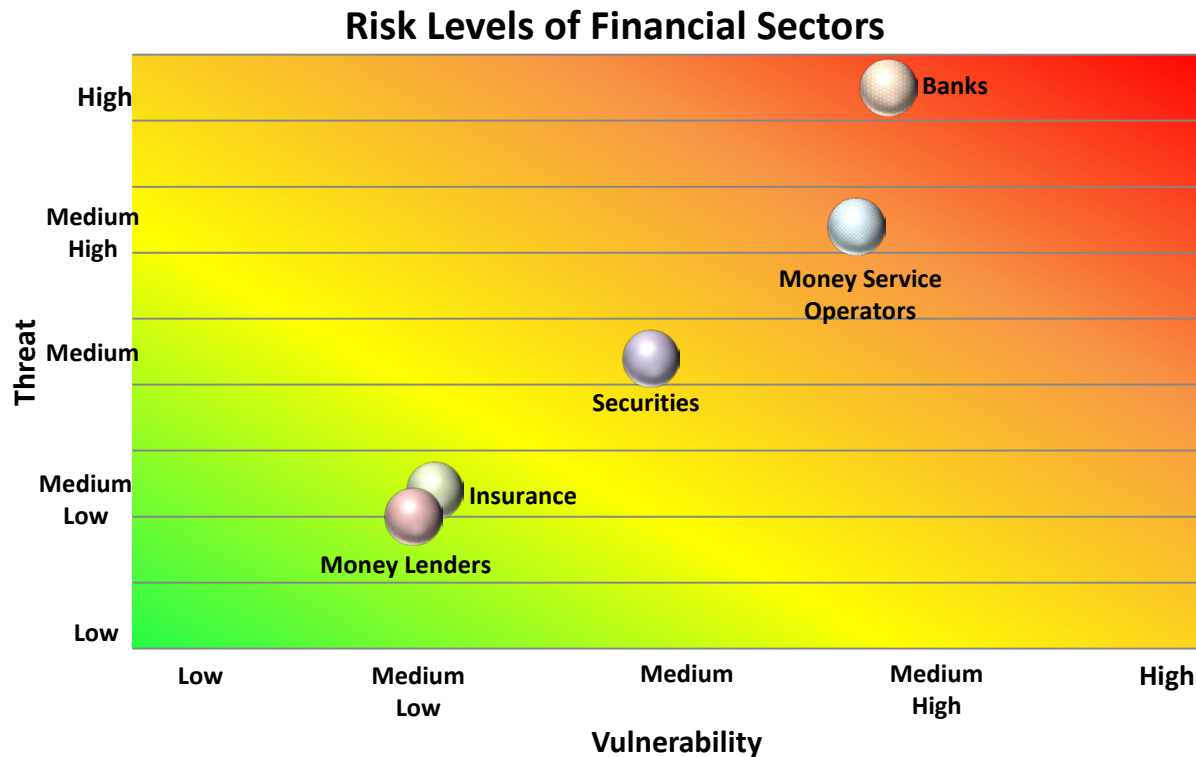
- Sectoral Risk Assessment – Insurance

Dickson Chui – Senior Manager
Steven Ho – Manager
Market Conduct Division
5 June 2018

ML Risk Level of Insurance Sector

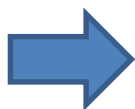


Vulnerability Level, Threat Level and Overall ML Risks of Financial Sectors



ML Threats of Insurance Sector

- Isolated cases involving proceeds of crime generated through theft or fraud of insurance agents or staff
 - Insurance was not used as a conduit to launder crime proceeds
- Insurance being misused in laundering proceeds of crime or insurance products as realisable assets for restraint and confiscation are relatively negligible
- HK is one of the most open insurance centres in the world



ML threat level of insurance sector is medium low



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Vulnerabilities of Insurance Sector

Input Variables

- General AML Control Variables
 - Relate to the effectiveness of the general AML controls
 - Higher ratings **reduce** the vulnerability of the insurance sector
- Inherent Vulnerability Variables
 - Relate to specific product
 - Higher ratings **increase** the vulnerability of the product

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

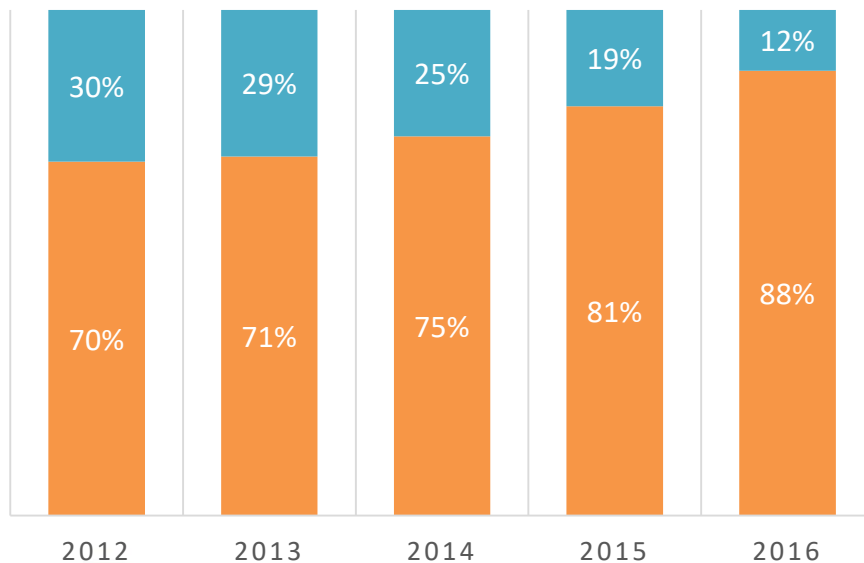
Hong Kong Insurance Market Landscape*

- Insurance sector accounted for around 4% of GDP
- Life insurance business and general insurance business accounted for 90% and 10% of the HK insurance market respectively
- Individual life business remained the dominant line (~ 95%) of life insurance business
- Non-linked and linked business accounted for 88% and 12% of inforce individual life business respectively
- Top 15 life insurers captured 93% of life insurance market

Market Trend: By Non-Linked/Linked Composition

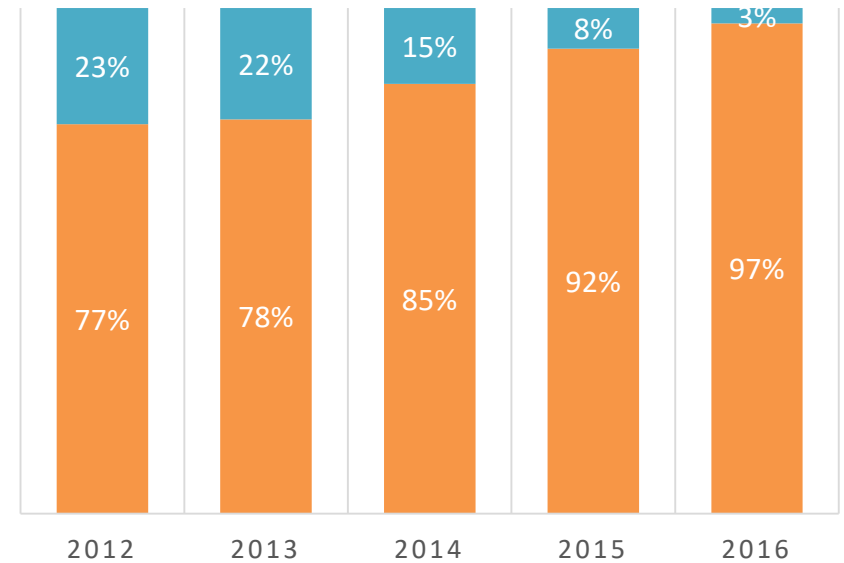
INDIVIDUAL LIFE PREMIUMS (INFORCE BUSINESS)

■ Non-Linked Business ■ Linked Business (ILAS)



INDIVIDUAL LIFE PREMIUMS (NEW BUSINESS)

■ Non-Linked Business ■ Linked Business (ILAS)



Life Insurers and Insurance Intermediaries

As at the end of 2017, 66 life insurers are authorized in HK

Authorization in respect of long term business:

- 62,309 appointed insurance agents
- 418 insurance agencies
- 689 insurance brokers

Vulnerabilities of Insurance Sector

- Authorization Requirements under the Insurance Ordinance
- Regulatory work under Anti-Money Laundering and Counter-Terrorist Financing Ordinance
 - Onsite inspections
 - Off-site reviews
 - Seminars and briefings

Vulnerabilities of Insurance Sector

- IA signed multilateral/bilateral MOUs with different insurance supervisors
- Supervisory colleges
 - Strengthen international supervisory cooperation for effective group wide supervision of multinational insurance groups
 - Share regulatory concerns on AML/CFT matters to identify and address group weaknesses

Vulnerabilities of Insurance Sector

- Level of non-compliance or integrity breaches amongst insurers is low
- Dedicated Compliance Function
- IT-based ongoing monitoring systems
- Suspicious activity monitoring and reporting
- AML knowledge of the sector

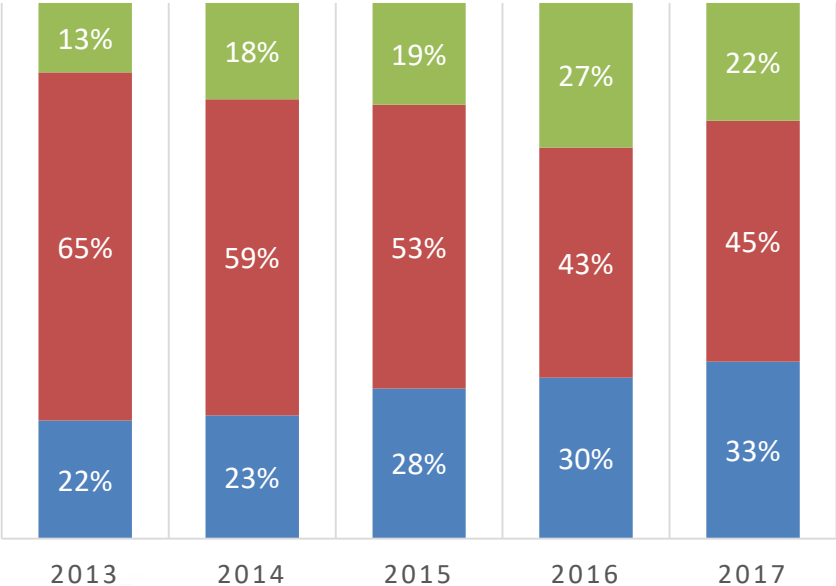
Distribution Channels

- Agents (other than banks)
- Banks
- Brokers
- Direct (e.g. direct mail, telesales and internet sales)

Market Trend: By Distribution Channels

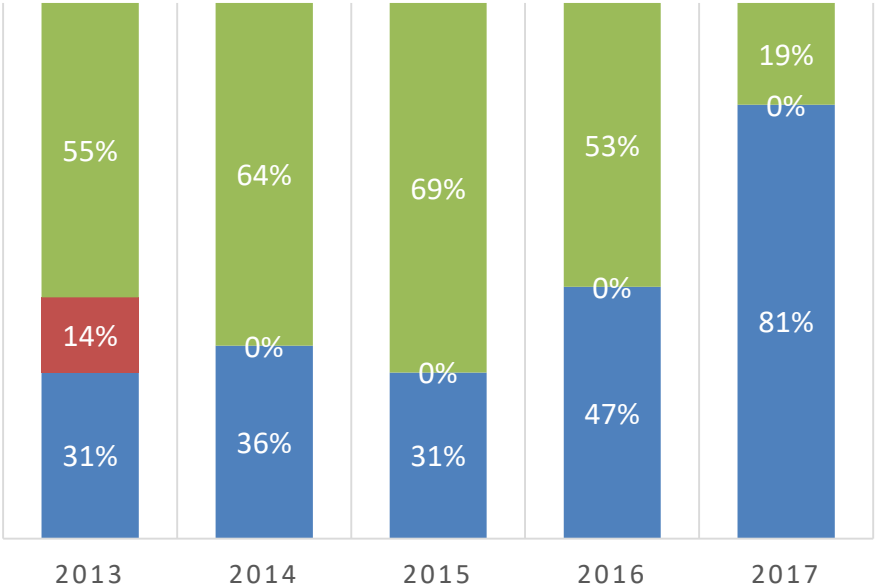
INDIVIDUAL NEW BUSINESS PREMIUMS (NON-LINKED)

■ Agents (Other than Banks) ■ Banks ■ Brokers



INDIVIDUAL NEW BUSINESS PREMIUMS (LINKED)

■ Agents (Other than Banks) ■ Banks ■ Brokers



Note: Individual NB premiums by direct distribution channels (e.g. direct mail, telesales & internet sales) are NEGLIGIBLE for both non-linked and linked business during the period

Higher ML Risk Customers

- Politically Exposed Persons (“PEP”)
- Customers in or from High Risk Jurisdictions (“HRJs”)

Based on surveys conducted by the IA:

PEPs

- % of PEP customers and relevant inforce premiums in years 2014, 2015 and 2016 are low (<2%)
- Mostly domestic PEPs
- Subject to enhanced due diligence (“EDD”) requirements

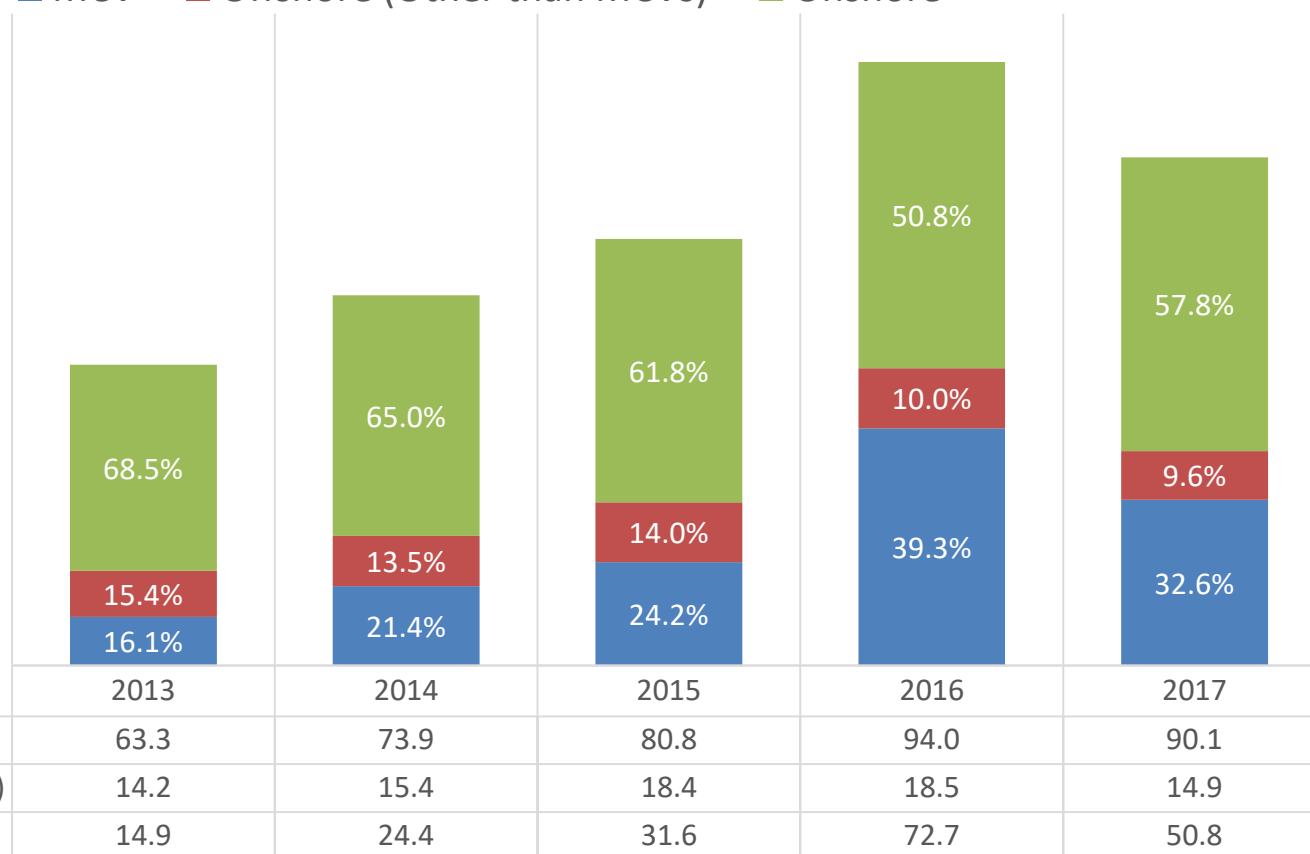
HRJs

- % of customers from HRJs and relevant new business premiums in years 2014, 2015 and 2016 are low (<3%)
- Subject to EDD requirements

Market Trend: By Onshore/ Offshore (including Mainland China Visitors (“MCVs”))

TOTAL INDIVIDUAL NEW BUSINESS PREMIUM (IN HK\$B)

■ MCV ■ Offshore (Other than MCVs) ■ Onshore



Type of Policies Taken Out by MCVs



New Business Premiums

Types of Policies	2014 (based on 2015 survey)	2016 (based on revamped quarterly returns)	2017 (based on revamped quarterly returns)
Medical/Protection (e.g. whole life, term life, annuity, critical illness, medical etc.)	42%	55%	64%
Savings/Investment (e.g. endowment, universal life, ILAS etc.)	58%	45%	36%
Total Premiums	100%	100%	100%

MCVs

- Accounted for high proportion of offshore new business (~ 80% in 2016)
- Reasons for MCVs took out insurance products in HK
 - Effective legal and regulatory mechanism
 - Lower premiums
 - Wider choice of products/attractive product features
 - Currency options other than RMB
 - Better policy returns

MCVs

- Insurer's Controls for MCVs
 - Sold and underwritten in Hong Kong
 - Insurers are required to keep documentary proof of MCV's entry to demonstrate that MCVs are physically present in Hong Kong when signing the insurance applications as part of CDD
 - MCVs assessed as higher risk are subject to enhanced due diligence and ongoing monitoring, including ascertaining source of funds and wealth
 - For payments represents the proceeds of crime or terrorist property, a disclosure must be made to the JFIU

MCVs – IA's Initiatives



Important Facts Statement

- AML/CFT related implications:
 - Insurers have the responsibility to verify the source of funds
 - Provision of documentary proof on legitimate source of funds and income proof commensurate with sum assured applied
 - Obligated to transfer information to law enforcement agencies on suspicious cases or upon requirements from law enforcement agencies in Hong Kong without prior consent

Thematic Onsite Inspections

- Insurance Institutions with material long term insurance business including MCVs.

Pay-in/ Pay-out

- Premium receipts
 - Direct to insurers
 - Limit on cash payment
- Policy Payouts
 - Cooling-off period - % of premium refund is low
 - Lapse/early surrender - % of lapse/surrender benefits paid within 25 months after policy issuance is low
 - Third Party
- International remittances – low proportion, whether incoming or outgoing

Insurance Products – More Inherent ML Risks



- Universal Life Products
- Investment-Linked Assurance Schemes (“ILAS”)

Insurance Products – Universal Life

- With savings elements that provides a cash value buildup
- Flexible in respect of premium payment and withdrawal from policy account
- Notable growth in recent years and predominantly in single premium
- Usually aimed at high-net worth private banking clients and distributed by banks and brokers
 - Premium financing with banks as a source of funding for the policy

Insurance Products – ILAS

- Hybrid product with both insurance and investment elements
- Used to be a vehicle for tax planning or estate planning for expatriates
- On a declining trend from mid 2013 to 2016 due to:
 - (i) Withdrawal of bancassurance distribution channel;
 - (ii) Suspension of Capital Investment Entrant Scheme; and
 - (iii) Promulgation of the IA's Guideline on underwriting ILAS business

Insurance Products – IA's Supervision



- ILAS
 - Guideline on Underwriting Class C Business (Effective on 1 January 2015)

- Universal Life Insurance Product
 - Guideline on Underwriting Long Term Insurance Business (Other than Class C Business) (Effective on 1 April 2016)

Insurance Products – Non-Linked Individual Life Insurance and Other Insurance Plans (with no or very low cash value)

- Term life and pure protection plans (e.g. critical illness and permanent health products)
- No or very low cash value
- Mostly regular premium
- Lower ML risk

Long Term Business Statistics



Statistics Collation

- Revamp Long Term Business Statistics Collation (i.e. Form HKLQ6-1)
 - Facilitate ongoing risk assessment process



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~ THANK YOU ~