

Briefing Session on Key Findings of AML/CFT Onsite Inspection Visits to Long Term Insurers

Market Conduct Division
31 May 2018



Purposes

- Strengthen the awareness on AML/CFT requirements by insurance industry
- Raise the standards of AML/CFT controls in insurance industry
 - Senior management oversight & compliance resources
- Collaboration with the insurance industry



Overview

- Long term insurers should comply with AMLO and GL3
- Onsite inspection visit is an important supervisory tool to gauge the level of compliance by insurers
- Routine and thematic inspection visits conducted to more than 20 insurers since April 2012



Key Areas for Improvement:

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



Way Forward

- Provide AML/CFT guidance to insurance sector through seminars/briefings and circulars
- Assess insurers' compliance on an ongoing basis through conducting inspection visits and other supervisory tools
- Take action against persistent non-compliant firms



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1. Senior Management Oversight

Senior Management Oversight

– Compliance Review & Resources

Findings:

- ✗ Some requisite compliance reviews not timely conducted by compliance function (e.g. delayed by over 9 months)
- ✗ Staff turnover and tight manpower resources in compliance function.

Recommendations:

- ✓ Deploy adequate resources in compliance function at all times
- ✓ Regularly conduct compliance reviews as planned
- ✓ Specify completion timeline and avoid slippage and backlog

Senior Management Oversight

– Rectification of AML/CFT Matters

Findings:

- ✘ Rectification process for certain identified AML/CFT gaps or deficiencies:
 - repeated postponement of target completion timelines (e.g. over 1 year)
 - outstanding for a substantial period of time (e.g. over 1 year)
 - subsequent recurrence of non-compliance

Recommendations:

- ✓ Monitor the rectification progress
- ✓ Ensure the remedial actions are taken timely, delivered on schedule and without undue slippage

Senior Management Oversight

– Policies & Procedures



Findings:

- ✘ Requisite CDD requirements NOT stipulated in P&P:
 - No EDD measures for domestic PEPs with a higher ML/TF risk
 - CO's advice not obtained in the senior management approval process of PEP cases
 - Recording of directors' names of corporate customers not specified

- ✘ CDD requirements incorrectly stipulated:
 - Incorrect/unclear definitions of PEP
 - Customer identification done after establishing the business relationship

Senior Management Oversight

– Policies & Procedures (Cont'd)

Findings:

- ✗ Repealed AML/CFT terms used in P&P:
 - “Fund” instead of “Property” when defining Terrorist Financing
 - Use “Non-Cooperative Countries and Territories” instead of “Jurisdictions that do not or insufficiently apply the FATF Recommendations”

Recommendations:

- ✓ Diligent in approving the AML/CFT P&Ps
- ✓ Ensure AML/CFT P&Ps are complete, accurate & updated

Senior Management Oversight

– EDD Measures for High Risk Customers

Findings:

- ✗ The requisite senior management approvals NOT obtained
- ✗ Approvals only obtained after establishing the business relationship

Recommendations:

- ✓ Pay special attention to higher ML/TF risk situations
- ✓ Ensure appropriate measures in place to obtain approvals timely



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2. Compliance Functions

Compliance Functions



Findings:

- ✘ AML/CFT compliance reports not regularly submitted to senior management/ remained outstanding for a considerable period of time (e.g. over 1 year)
- ✘ Material AML/CFT issues (e.g. inadequate due diligence to identify potential ML/TF transactions) identified under compliance reviews not reported in compliance reports to senior management
- ✘ Inaccurate/Incomplete AML/CFT information (e.g. information of high risk customer) stated in the compliance reports to senior management

Compliance Functions



Recommendations:

- ✓ Adequate control on the regularity of the submission of compliance reports to senior management, accuracy and completeness of relevant updates therein



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3. Customer Risk Assessment

Customer Risk Assessment

Findings:

- ✗ Risk assessment not actually conducted by some insurers
- ✗ Certain risk factors (e.g. product/ service and delivery/ distribution channel risk) not considered in determining overall ML/TF risk rating
- ✗ Certain risk factors NOT/incorrectly rated, e.g.
 - Customer risk not rated & marked as “not applicable”
 - AML risk score not properly assigned to reflect the underlying ML/TF risk

Recommendations:

- ✓ Review the vigilance in risk assessment
- ✓ Ensure all risk factors are considered and accurately rated



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4. Customer Due Diligence (CDD) Process

CDD Process

– Collection of CDD Information/ Documents

Findings:

- ✘ Certain requisite CDD information/ documents of corporate customers not obtained (especially group life insurance), e.g.
 - Certificate of incorporation
 - Memorandum & articles of association
 - Company search report
 - Written authority to verify that account signatory was so authorized to represent the corporate customer

CDD Process

– Collection of CDD Information/ Documents (Cont'd)

Findings:

- ✗ For change of policyownership of individual life business, certain CDD information not obtained for the proposed new policyowners, e.g.
 - Nationality/ Place of incorporation
 - The purpose & intended nature of the business relationship

Recommendations:

- ✓ Tighten the control on CDD compliance
- ✓ Ensure all requisite CDD information/ documents of policyholders are duly obtained before the business relationship is entered into

CDD Process

– Financial Evidence of Policyholders



Findings:

- ✗ Policyholders' financial status evidence (e.g. income/ assets proofs) not required for insurance policies reaching a high premium amount (e.g. premium amount threshold set over HKD6M in some cases)
- ✗ Premium threshold set by most insurers only on a per policy basis, without considering per person basis

Recommendations:

- ✓ Tighten the specification threshold to collect customers' financial status evidence
- ✓ Implement threshold on a per person basis

CDD Process

– Copies of Customer Identification Documents

Findings:

- ✗ Copies of ID documents (e.g. HKID card/ passport images) of policyholders/ beneficial owners/ account signatories kept in some insurers' record systems not in good quality (either blurred or darkened)

Recommendations:

- ✓ Ensure sufficiently clear copies of ID documents received from customers or via insurance intermediaries
- ✓ Ensure the scanned images recorded and maintained in their system are of good quality



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5. Screening of PEPs, Terrorists & Sanction Designations

Screening of PEPs, Terrorists & Sanction Designations

Findings:

- ✗ No/ Incomplete requisite screening on policyholders/ beneficial owners at the time of establishing business relationship or on an ongoing basis
- ✗ No ongoing batch screening on beneficial owners conducted because such information was not captured in most insurers' policy administration system
- ✗ Reviews remained outstanding for a considerable period of time (e.g. about 18 months)

Screening of PEPs, Terrorists & Sanction Designations

Recommendations:

- ✓ Institute procedures to perform comprehensive initial & ongoing screening of its records to identify PEPs, terrorists & sanctioned parties for subsequent action
- ✓ Ensure adequate recourses deployed to timely conduct the requisite reviews on possible matches identified in screening to avoid violation of laws and GL3



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6. Ongoing Monitoring

Ongoing Monitoring

– Customer Transactions & Activities Monitoring

Findings:

- ✗ Requisite ongoing monitoring measures (e.g. exception reports & transaction monitoring system) not conducted
- ✗ Requisite review only conducted recently (e.g. more than 3 years after the commencement of GL3 in 2012)
- ✗ The pre-defined criteria used in monitoring systems NOT capture any transactions across the review period
- ✗ No exception reports generated for suspicious transaction patterns, e.g.
 - Frequent changes of policy ownership;
 - Payout shortly after change of policy ownership;

Ongoing Monitoring

– Customer Transactions & Activities Monitoring (Cont'd)

Findings:

- ✘ Necessary details NOT documented for reviews conducted :
 - Name of staff who conducted the review;
 - Date of review;
 - Matters reviewed;
 - Rationale of conclusion made;
 - Next course of action to be taken

Recommendations:

- ✓ Ensure effective exception reporting mechanism in place
- ✓ Ensure exception reports generated are reviewed accordingly with proper documentation standards

Ongoing Monitoring

– Data Capture on Nationalities, etc. Information

Findings:

- ✗ Information of policyowners' nationalities/ countries of residence/ places of incorporation NOT captured in some insurers' policy administration system even such information was obtained in insurance application forms
- ✗ The list of the above information kept in some insurers' policy administration system NOT comprehensive enough to cover all high risk jurisdictions resulting in such information recorded as "Others" without further details

Recommendations:

- ✓ Ensure the information is input in the policy administration system and should be specific

Ongoing Monitoring

– Annual Review



Findings:

- ✗ Requisite annual review on high-risk customers NOT conducted in actual practice
- ✗ No requisite procedures to ensure information is up-to-date and relevant in the annual review

Recommendations:

- ✓ Institute appropriate controls and procedures for annual review

Ongoing Monitoring

– Trigger Events & Reviews



Findings:

- ✗ Requisite trigger events NOT set out in some insurers
- ✗ Requisite reviews NOT conducted accordingly upon trigger events

Recommendations:

- ✓ Set out the criteria for trigger events
- ✓ Ensure the reviews are carried out in actual practice

7. Suspicious Transaction Reporting & Evaluation

Suspicious Transaction Reporting & Evaluation

– STRs Records

Findings:

- ✗ No rationale for not reporting internal STRs to the JFIU
- ✗ No full record of all STRs made to the JFIU was kept

Recommendations:

- ✓ Keep proper records of MLROs' deliberations & actions taken to demonstrate they have acted in reasonable manner
- ✓ Establish and maintain a record of all STRs made to the JFIU

Suspicious Transaction Reporting & Evaluation

– Timing of STRs

Findings:

- ✗ Considerable delay (i.e. over 1 month) in reviews of some internal STRs without apparent justification

Recommendations:

- ✓ Ensure STRs are reviewed timely
- ✓ Make disclosures to the JFIU on any suspicious transaction as soon as practicable

Suspicious Transaction Reporting & Evaluation

– Acknowledgement of Receipt & Tipping-off Reminder

Findings:

- ✘ No acknowledgement of receipt for STRs and the tipping-off reminder by the MLRO to the reporting staff

Recommendations:

- ✓ Ensure internal controls in place to mitigate the potential risk of committing tipping off offence by staff
- ✓ Communicate to/ remind staff and insurance agents of the tipping-off offence and consequences through induction and refresher training



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8. Staff/ Insurance Agent Training

Staff/ Insurance Agent Training

– Training Policy & Attendance

Findings:

- ✗ No induction and refresher training policy & schedule set out for staff and insurance agents
- ✗ No records of attendance of any AML training for certain insurance agents
- ✗ Requisite training only completed after long period of joining the insurers (e.g. more than 6 months)

Recommendations:

- ✓ Implement a clear and well articulated AML/CFT training policy
- ✓ Ensure staff and insurance agents attend the training timely

Staff/ Insurance Agent Training

– Training Content & Assessment



Findings:

- ✗ The personal statutory obligations and possible consequences for non-reporting of suspicious transactions and breaches of other ML/TF legislations NOT fully covered in the AML/CFT training materials used
- ✗ The assessment quizzes used to test the level of AML/CFT understanding over simplified and NOT cover the essential areas

Recommendations:

- ✓ Review training materials used to ensure they cover all essential knowledge
- ✓ Ensure the depth and coverage of assessment used is appropriate to properly monitor the training effectiveness



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~ THANK YOU ~