

II. MONEY LAUNDERING AND TERRORIST FINANCING IN THE INSURANCE SECTOR²

RED FLAGS FOR INSURANCE SECTOR

- a) A customer borrows against the cash surrender value of permanent life insurance policies, particularly when payments are made to apparently unrelated third parties.
- b) The customer opens and closes accounts with an insurance company only to open a new account shortly thereafter with the same insurance company, but with new ownership information;
- c) A customer purchases insurance products using a single, large premium payment, particularly when payment is made through unusual methods such as currency or currency equivalents.
- d) Policies are purchased that allow for the transfer of beneficial ownership interests without the knowledge and consent of the insurance issuer. This would include secondhand endowment and bearer insurance policies.
- e) A customer uses multiple currency equivalents (e.g., cashier's checks and money orders) from different banks and money services businesses to make insurance policy or annuity payments.
- f) The customer purchases an insurance product with termination features by unknown or unverifiable sources of funds, such as cash, sequentially numbered money orders, traveler's cheques, and/or cashier's cheques;
- g) The customer purchases an insurance contract using a single large premium payment, particularly with an unusual payment method, such as cash or cash equivalent;
- h) The customer cancels an insurance contract and directs that the funds be sent to a third party;
- i) The customer purchases a single premium policy using cash, money orders, traveler's cheques, or cashier's cheques for an amount that is clearly out of proportion to the customer's income;
- j) The customer enters into a contract for a considerable sum subject to payment of the premiums from abroad, particularly from an offshore financial centre;
- k) The customer substitutes, during the life of the contract, the initial beneficiary for a person without any apparent link to the policyholder;
- l) The customer cancels the contract without concern for the considerable tax or other cancellation charges that he or she has to pay as a result; and
- m) The customer secures a policy loan against the cash value soon after the policy is issued and repays the loan with cash or various monetary instruments.

Natural persons

- a) Transactions involving persons residing in tax havens or risk territories³, when the characteristics of the transactions match any of those included in the list of indicators.

² (Source: FATF Report, 29 June 2007, FATF ML/TF Report, October 2009)

- b) Transactions carried out on behalf of minors, incapacitated persons or other persons who, although not included in these categories, appear to lack the economic capacity to make such purchases.
- c) Transactions involving persons who are being tried or have been sentenced for crimes or who are publicly known to be linked to criminal activities involving illegal enrichment, or there are suspicions of involvement in such activities and that these activities may be considered to underlie money laundering
- d) Transactions involving an individual whose address is unknown or is merely a correspondence address (for example, a PO Box, shared office or shared business address, etc.), or where the details are believed or likely to be false.
- e) Individuals who unexpectedly repay problematic loans or mortgages or who repeatedly pay off large loans or mortgages early, particularly if they do so in cash.

Legal persons

- a) Transactions involving legal persons or legal arrangements domiciled in tax havens or risk territories
- b) Transactions involving recently created legal persons, when the amount is large compared to their assets.
- c) Transactions involving foundations, cultural or leisure associations, or non-profit-making entities in general, when the characteristics of the transaction do not match the goals of the entity.
- d) Contribution of real estate to the share capital of a company which has no registered address or permanent establishment which is open to the public in the country.
- e) Transactions in which unusual or unnecessarily complex legal structures are used without any economic logic.

Natural and legal persons

- a) Transactions in which there are signs, or it is certain, that the parties are not acting on their own behalf and are trying to hide the identity of the real customer.
- b) Transactions which are begun in one individual's name and finally completed in others' without a logical explanation for the name change.
- c) Transactions in which the parties:
 - Do not show particular interest in the characteristics of the property (e.g. quality of construction, location, date on which it will be handed over, etc.) which is the object of the transaction.
 - Do not seem particularly interested in obtaining a better price for the transaction or in improving the payment terms.
 - Show a strong interest in completing the transaction quickly, without there being good cause.
- d) Transactions in which the parties are foreign or non-resident for tax purposes

Intermediaries

- a) Transactions performed through intermediaries, when they act on behalf of groups of potentially associated individuals/ legal persons.

³ The definition of a risk territory could be either one that is determined by the financial institution or another entity applying the indicator directly or else one that has been defined by the national authorities of the country in which the institution or entity is located.

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- b) Transactions taking place through intermediaries who are foreign nationals or individuals who are non-resident for tax purposes.

Means of payment

- a) Transactions involving payments in cash or in negotiable instruments which do not state the true payer (for example, bank drafts), where the accumulated amount is considered to be significant in relation to the total amount of the transaction.
- b) Transactions in which a loan granted or an attempt was made to obtain a loan, using cash collateral or where this collateral is deposited abroad.
- c) Transactions in which payment is made in cash, bank notes, bearer cheques or other anonymous instruments, or where payment is made by endorsing a third-party's cheque.
- d) Transactions in which the buyer takes on debt which is considered significant in relation to the value of the property.

Nature of the Transaction

- a) Transactions in the form of a private contract, where there is no intention to notarize the contract, or where this intention is expressed, it does not finally take place.
- b) Transactions which are not completed in seeming disregard of a contract clause penalizing the buyer with loss of the deposit if the sale does not go ahead.
- c) Transactions relating to the same property or rights that follow in rapid succession (for example, purchase and immediate sale of property) and which entail a significant increase or decrease in the price compared with the purchase price.
- d) Transactions entered into at a value significantly different (much higher or much lower) from the real value of the property or differing markedly from market values.