



Characteristics of an effective AML/CFT System

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Disclaimer

- *This part of presentation aims to raise the audience's awareness of the characteristics of an effective AML/CFT system. It does not 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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AML/CFT Systems and Senior Management Oversight

How well do insurance institutions understand their ML/TF risks and apply mitigating measures commensurate with their risks?

AML/CFT Systems and Senior Management Oversight

Country risk – whether countries / geographical locations connected with its customers and intermediaries are subject to high levels of organized crimes, corruption and inadequate AML/CFT systems

Customer risk – who the customers are, what they do and other information that may suggest the customer is of higher risk



AML/CFT Systems and Senior Management Oversight

Product/service risk – what are the characteristics of the products and services offered and the associated ML/TF risks

Delivery/distribution channel risk – whether they are direct sales, through intermediaries, or non-face-to-face channels



AML/CFT Systems and Senior Management Oversight

ML/TF Risk
Assessment at
Insurance
Institution Level

- Detailed analysis of data identified within each of the categories of ML/TF risks
- Document the risk assessment with periodic review and update
- Communicate the risk assessment to the Board, senior management and relevant staff

AML/CFT Systems and Senior Management Oversight

Are the AML/CFT policies and procedures reviewed and updated on a regular basis by the management of insurance institutions to take account of changing environment and legislation?

Do insurance institutions have adequate resources to implement AML/CFT policies and controls relative to their size, complexity, business and risk profile?

AML/CFT Systems and Senior Management Oversight

DOs

- Senior management commitment on AML/CFT compliance
- Dedicated manpower and resources to focus on AML/CFT compliance
- Regular review of AML/CFT systems to ensure effectiveness

AML/CFT Systems and Senior Management Oversight

DON'Ts

- AML/CFT policy not updated to reflect changes in legislation
- No deputy Compliance Officer or Money Laundering Reporting Officer
- Undue slippage in rectification progress on AML/CFT matters

Customer Due Diligence and Record-Keeping



How well are insurance institutions documenting their customers' ML/TF risk assessments, and keeping them up to date?

Customer Due Diligence and Record-Keeping



How well do insurance institutions apply the CDD and record-keeping measures? To what extent is business refused when CDD is incomplete?

How well do insurance institutions apply the EDD measures for high-risk situations, including PEPs?

Customer Due Diligence and Record-Keeping



DOs

- Records of risk assessment setting out the ratings for each risk factors with an overall ML/TF risk rating to each customer
- Periodic review on the CDD process performed by Operations
- No/low cash acceptance at cashier counter
- Payment related documents scanned into policy administration system

Customer Due Diligence and Record-Keeping



DON'Ts

- Inconsistent financial information of customers captured in different forms submitted without clarification
- Inadequate CDD on group life insurance policies
- Third party payment form not collected from customers
- Unclear copies of identification documents kept

Ongoing Monitoring



Have the insurance institutions taken steps from time to time to ensure that the customer information that has been obtained are up-to-date and relevant?

Do internal policies and controls of the insurance institutions enable timely review of complex or unusual transactions?

Ongoing Monitoring



DOs

- On-screen alerts for transactions made by high risk customers
- Regular review of criteria for generating exception reports
- Periodic review of the accuracy and completeness of flagging of high risk customers in policy administration system

Ongoing Monitoring



DON'Ts

- No action taken during annual review of high risk cases to ensure CDD information obtained was up-to-date and relevant
- Review on exception reports not properly documented with necessary details



Screening

Have the insurance institutions conducted comprehensive ongoing screening of its complete customer database to prevent terrorist financing and sanction violations?

Have the insurance institutions put in place proper procedures to establish whether or not a customer or a beneficial owner of a customer is a PEP?

Screening



DOs

- Periodic review of quality and timeliness of clearance of screening alerts
- Periodic review of lists for screening to ensure completeness

Screening



DON'Ts

- Criteria/threshold based screening
- No field to record beneficial owner in policy administration system for ongoing batch PEP screening
- Backlog of potential matches against PEP awaiting clearance
- Incorrect entry in manual screening



STR

Do internal policies and controls of the insurance institutions enable timely review of potential STRs for reporting to the JFIU?

To what extent do the STRs reported contain complete, accurate and adequate information relating to suspicious transaction?

STR



DOs

- Review on policyholder level instead of policy level
- Dedicated email account for internal STR reporting with automatic acknowledgement of receipt and reminder of the obligation not to tip off

STR



DON'Ts

- Unnecessary delay in reporting suspicious transactions
- Inaccurate reporting to senior management on STRs filed to the JFIU

Staff Training



Have the insurance institutions implemented a clear and well articulated policy for ensuring that relevant staff receive adequate AML/CFT training?

Have the insurance institutions monitored who have been trained, when the staff received the training, the type of the training provided and the effectiveness of the training?

Staff Training



DOs

- Training materials regularly reviewed for update
- E-platform of training system used for systematic monitoring of attendance and assessment result
- Use of case studies for illustration of AML/CFT requirements

Staff Training



DON'Ts

- No training/delayed training
- No assessment/assessment not comprehensive/ineffective to test understanding
- Statutory obligations and possible consequences of breaches under various ML/TF legislations not fully covered in training materials
- No induction/refresher training policy and schedules

Thank You

**For further enquiries,
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