
FATF RBA Guidance for the Life Insurance Sector

Highlights

RBA Guidance

- The FATF risk-based approach (RBA) Guidance for the life insurance sector includes a general presentation of the RBA and provides specific guidance both for life insurers and intermediaries, and for life insurance supervisory bodies.
- The RBA is central to the effective implementation of the FATF Recommendations. A RBA means that countries, competent authorities, and life insurers and intermediaries identify, assess, and understand the money laundering and terrorist financing (ML/TF) risks to which they are exposed, and implement appropriate mitigation measures. This approach enables them to focus their resources where the risks are higher.
- The Guidance's objective is to support the design and implementation of the RBA for the life insurance sector, taking into account national ML/TF risk assessments and AML/CFT legal and regulatory frameworks.
- The Guidance is non-binding. It draws on the experiences of countries and of the private sector and may assist competent authorities and life insurers and intermediaries to effectively implement the applicable FATF Recommendations.
- The Guidance covers life insurance activities, which are activities or operations described in the FATF Glossary under "Financial institutions", item 12. It does not target:
 - *non-life insurance activities*, which do not fall under the scope of the FATF requirements as such. However, national authorities may decide to extend the scope of their AML/CFT framework to non-life insurance activities, on the basis of their specific, national risk evaluations.
 - *reinsurance activities*.

What's new?

- The Guidance underlines some of the specificities of the life insurance sector, which need to be taken into consideration when applying a RBA. In particular,
 - it highlights the nature and level of ML/TF risk of life insurance products, which is generally lower than that associated with other financial products, such as loans or payment products. Indicative risk ratings are provided for a set of life insurance products, as well as examples of products' inherent risk factors.
 - it looks at the involvement of intermediaries in the distribution of life insurance and how it affects the split of AML/CFT responsibilities. It also insists on the need for life insurers to factor in their distribution network and channels when performing their ML/TF risk assessment.
- The development of the ML/TF risk assessment is a key starting point for the application of the RBA by life insurers and intermediaries.
 - its key purpose is to understand and mitigate inherent ML/TF risks, and enable the life insurer/intermediary to effectively manage residual risks.
 - it should be commensurate with the nature, size and complexity of the business. This means that a simple risk assessment might suffice for smaller or less complex life insurers or intermediaries, and that where life insurers or intermediaries are part of a

group, risk assessments should take into account group wide risk appetite and framework.

- it should be periodically reviewed and refreshed.
- Regarding the definition of mitigation measures, the Guidance:
 - illustrates how the intensity and depth of customer due diligence (CDD) checks will depend on ML/TF risks, with the requirement to apply enhanced due diligence where there are higher risks, and where simplified due diligence may be applied to lower risk situations. Examples of situations of higher risks and lower risks are provided, together with examples of enhanced or simplified measures.
 - emphasises in particular that the identity and status of parties to life insurance contracts, including the beneficiary and where relevant the beneficial owner(s), will determine the extent of the controls to be performed, in particular if/when a Politically Exposed Person (PEP) is involved.
 - clarifies that, due to some national insurance law requirements governing the termination of life insurance contracts, alternative measures to the termination of a life insurance contract can be applied when CDD measures cannot be successfully conducted.
- The Guidance stresses the importance of life insurance entities' internal controls:
 - the “tone from the top” ie. the involvement of senior management and Board or Directors or equivalent body, plays a central role.
 - their structure and organisation depend on the ML/TF risks identified, but the assessment of their design adequacy and operating effectiveness should occur on a periodic basis and include reporting to the relevant governance body.
 - where relevant, there should be policies and internal controls in place for a consistent approach to AML/CFT controls across the group.
 - best practices' policies and procedures are proposed.
- The Guidance clarifies that the obligation to report suspicious transactions is not risk-based, but applies regardless of the amount of the transactions. The action of reporting suspicious transactions does not discharge a life insurance or intermediary of their other AML/CFT obligations.
- On AML/CFT supervision, the Guidance:
 - provides some examples of risks, threats and vulnerabilities that supervisors could consider when developing their understanding and assessment of the life insurance sector they supervise.
 - presents ways for supervisors to mitigate ML/TF risks, based on the requirement that they allocate and prioritise more supervisory resources to areas of higher ML/TF risks. The Guidance stresses the importance of the group level approach, including the development of group-wide assessment of ML/TF risks, and the sharing of relevant information between supervisors involved. It also highlights the relevance of allocating supervised entities which share similar characteristics and risk profiles into groupings (or clusters) for supervision purposes.
 - provides guidelines on how to supervise that the AML/CFT policies, procedures and controls implemented by life insurers and intermediaries are appropriate and proportionate in view of their risk assessment and risk management.