

Supervisory Framework

AML/CFT/CPF Supervision

Insurance Sector



INSURANCE
REGULATORY
COMMISSION OF
SRI LANKA

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Abbreviations

AML	-	Anti-Money Laundering
BO	-	Beneficial Ownership
CDD	-	Customer Due Diligence
CFT	-	Countering for Terrorism Financing
CPF	-	Countering for Proliferation Financing of weapons of mass destruction
FATF	-	Financial Action Task Force
FIU	-	Financial Intelligence Unit of the Central Bank of Sri Lanka
FTRA	-	Financial Transaction Reporting Act, No. 6 of 2006
IRCSL	-	Insurance Regulatory Commission of Sri Lanka
ML	-	Money Laundering
MoU	-	Memorandum of Understanding
NRA	-	National Risk Assessment
PEPs	-	Politically Exposed Persons
PF	-	Proliferation Financing
RBS	-	Risk Based Supervision
RII Act	-	Regulation of Insurance Industry Act, No. 43 of 2000
STRs	-	Suspicious Transactions Reports
TF	-	Terrorism Financing
UBOs	-	Ultimate Beneficial Owners

1 Introduction

The Insurance Regulatory Commission of Sri Lanka (IRCSL) is the statutory body which is responsible for the development, supervision and regulation of the insurance industry in Sri Lanka, established under the Regulation of Insurance Industry Act, No. 43 of 2000 (RII Act). The obligation of IRCSL to supervise operations of the insurance sector for compliance with Anti-Money Laundering, Countering the Financing of Terrorism and Countering for Proliferation Financing of Weapons of Mass Destruction (AML/CFT/CPF) legislation arises in terms of the Sections 22 & 23 of the Financial Transaction Reporting Act, No. 6 of 2006 (FTRA).

The Financial Action Task Force (FATF) Recommendations require countries to adopt a risk-based approach for combatting Money Laundering, Terrorist Financing and Proliferation Financing of Weapons of Mass Destruction (ML/TF/PF). By adopting a risk-based approach to supervision, the IRCSL is able to effectively and efficiently allocate resources. The IRCSL assesses the AML/CFT/CPF risks posed by the supervised entities based on the factors below and determines the intensity, frequency and scope of supervision based on that assessment and ongoing compliance performance.

The IRCSL assesses AML/CFT/CPF risk of the supervised entities are assessed in accordance with the FATF global standards covering products/services, customers, delivery channels and geographic locations, business structure, shareholding and risk mitigation process is assessed using the quality of corporate governance, policies and procedures, risk management, internal controls, compliance, training, and reporting. Risk assessment is conducted using the World Bank developed Risk Tool and the examination plan for each year is designed based on the institutional risk profiles.

The framework sets out the supervisory approach of IRCSL for AML/CFT/CPF supervision, in line with the findings of the National Risk Assessment (NRA) findings of Sri Lanka, findings of the Annual Risk Assessment conducted by IRCSL on AML/CFT/CPF, National AML/CFT Policy of Sri Lanka, FATF Guidance on Risk-Based Supervision (2021), FATF 40 Recommendations, AML/CFT/CPF Laws and regulations issued by the Financial Intelligence Unit of the Central Bank of Sri Lanka (FIU) and the provisions of the RII Act and any subordinate laws made thereunder.

2 Supervisory Framework & Approach

The framework provides a roadmap for applying risk-based supervision (RBS) to the insurance sector, focusing supervisory resources proportionately on higher-risk products, entities, and distribution channels, while ensuring proportionate oversight of lower-risk areas.

The insurance sector in Sri Lanka is an important part of the financial system, providing risk transfer and investment products. The total asset portfolio of the insurance industry is only 3.4 per cent of the total assets of major financial sectors of Sri Lanka. While insurance is less attractive than banking for ML/TF/PF, certain products (particularly life insurance and investment-linked products) can be used for layering and integration of illicit funds.

The objectives of IRCSL's supervisory approach are:

- Protect the insurance sector from ML/TF/PF risk
- Apply a proportionate, risk-based allocation of supervisory resources
- Improve insurer compliance with AML/CFT/CPF Laws and obligations
- Enhance institutional capacity and promote AML/CFT/CPF awareness of the sector
- Strengthen domestic and international cooperation
- Enhance supervisory capacity, including use and maintenance of updated data

2.1 Legal and Regulatory Framework

IRCSL conducts AML/CFT/CPF supervision of the insurance sector in terms of Section 23(1) of the Financial Transactions Reporting Act, No. 06 of 2006 within the existing legal and regulatory environment, including:

- Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005, as amended thereafter;
- Prevention of Money Laundering Act, No. 05 of 2006, as amended thereafter;
- Financial Transactions Reporting Act, No. 06 of 2006; and
- Insurers Customer Due Diligence Rules, No. 1 of 2019.

In addition to the above the IRCSL has issued the following to the industry:

- Circular No.01 of 2026 (3rd March 2026) - Enforcement procedure for Non-compliances of AML/CFT obligations
- Guidelines on AML-CFT Program for Insurers and Brokers, dated 25th July 2025

2.2 Dedicated Unit on AML/CFT/CPF Supervision

The AML/CFT Unit of IRCSL is a dedicated unit established for AML/CFT/CPF supervision. The Unit is occupied with relevant resources ensuring independence, providing continuous training and maintaining adequate staffing levels to identify risks. In addition, the IRCSL conducts joint on-site examinations with the Financial Intelligence Unit of the Central Bank of Sri Lanka (FIU) under the mandate of the Terms of Reference entered on the same.

2.3 Risk-Based Approach to Supervision

The IRCSL employs a risk-based supervisory methodology for the companies, focusing on AML/CFT/CPF risks. The supervisory methodology involves the continuous monitoring and recording of AML/CFT/CPF risks of companies. The supervisory framework sets out the approach of the IRCSL in applying its supervisory tools to address the ML/TF/PF risks of the reporting entities.

2.3.1 Risk Tool

IRCSL assesses the ML/TF/PF risk of all companies carrying on life insurance business based on the World Bank tool. The Risk tool mainly consists of two risk categories namely “Structural Risk” and “Inherent Risk” along with the “Controls & Mitigants” which includes both qualitative and quantitative data as tabulated below. Based on the information provided by companies Net Risk Profile is calculated.

Main Factors	Sub factors	Description
Structural Risk	Structural factors	Size, Corporate Structure and Group (Financial)
Inherent Risks	Significant activities	Client Risk, PEPs Risk, Currency Risk, Geographic Location Risk and Delivery Channel Risk
Controls & Mitigants	Qualitative data	Corporate Governance, Policies and Procedures, Risk Management, Internal Controls, Compliance Function, Training and Reporting

2.3.2 Risk Assessment

Assessing ML/TF/PF risk of an entity involves circulating questionnaires, data analysis, identifying gaps in risk management, assessing the effectiveness of control and ensuring compliance by allowing for a risk-based approach to supervision using the risk tool. IRCSL uses the risk-scoring model to classify entities as High, Medium or Low risk for AML/CFT/CPF supervisory purposes. Initial risk assessment of an entity is conducted subsequent to licencing and thereafter, the entity is subjected to annual offsite risk assessment based on the based on the World Bank tool.

2.3.3 Supervisory Strategy and Plans

The entities are subject to Risk Based Supervision based on the annual supervisory plans developed in terms of the Supervisory Strategy. The frequency as well as the nature and scope of examinations are aligned with the company risk profile as tabulated below:

Risk Rating	Frequency of onsite assessment (years)	Frequency of Thematic reviews per year	Frequency of Offsite assessments per year
High	1	Annual	Annual
Medium High	1	Annual	Annual
Medium	3	Bi - Annual	Bi - Annual
Medium Low	5	Bi - Annual	Quarterly
Low	5	Quarterly	Quarterly

Ongoing monitoring systems, provide triggers for ad hoc or unscheduled examinations or increase risk ratings which may lead to more frequent and greater scope inspections based on the following:

- Changes to Ultimate Beneficial Ownership (UBO) of companies
- Findings of the National Risk Assessment
- Sectoral and institutional risk observed during annual AML/CFT/CPF risk assessment
- Suspicious Transaction Report (STR) trends
- Time gap from the last on-site inspection conducted
- Emerging risks and typologies
- complaints, whistleblowing, social media/news and intelligence conduits
- Sanctions/penalties imposed on companies

3 Supervisory Tools

IRCSL uses a range of supervisory tools aligned with entity risk levels namely; onsite inspections, off site monitoring, thematic reviews, guidance and enforcement / corrective action.

3.1 On-Site Inspections

A full scope of AML/CFT/CPF inspection carried out at the premises of the company. It includes a detailed assessment of AML/CFT/CPF policies, procedures, systems, and controls; assessing the effectiveness of their risk assessment and customer due diligence (CDD) processes; verifying that controls are in place for complex transactions, high-risk clients like Politically Exposed Persons (PEPs), and sanctions screening; and evaluating employee training and record-keeping.

In addition, there can be spot inspections or focused on-site inspections carried out at the premises to assess any specific risk triggered during on-going monitoring.

3.2 Off-Site Monitoring

Offsite inspection is a type of regulatory review that analyzes an entity's AML/CFT/CPF compliance remotely, without visiting the premises.

- **Follow-up inspections** - IRCSL conducts follow-up inspections to assess the effectiveness of rectification measures adapted by the entities subsequent to on-site inspections. Follow-up inspections are mostly off-site inspections. However, based on further observations, IRCSL may conduct spot inspections by visiting the premises.
- **Annual Risk Assessment** - Offsite risk assessment, involves circulating questionnaires, data analysis, identifying gaps in risk management, assessing the effectiveness of control and ensuring compliance by allowing for a risk-based approach to supervision using the risk-tool. Annual offsite risk assessment is the basis for developing supervisory plan of the following year.
- **Offsite Reviews** - IRCSL conducts offsite reviews on a frequency based on risk ratings of the entities by circulating a questionnaire to collect statistics/ information for supervisory purposes.

3.3 Thematic Reviews

Thematic review is a targeted assessment by IRCSL to examine a specific risk or issue across the insurance sector, identifying areas for improvement and setting clear expectations. It is an in-depth analysis of a specific topic or theme, carried out in a structured and comprehensive way to identify patterns, trends, and gaps across the sector.

3.4 Enforcement and Corrective Actions

Enforcement and corrective action for AML/CFT/CPF non-compliances involve a process where IRCSL investigates non-compliance and implement a range of measures, from warnings to entity specific directions, fines, cancellations or suspensions. The enforcement actions are risk based, proportionate, dissuasive, timely, transparent and fair. IRCSL in terms of the FTRA, may escalate the non-compliances observed to FIU and other law enforcement agencies for further investigations. The goal is not only to punish but also to compel entities to improve their systems, procedures and risk culture, and ultimately to protect the public. The enforcement procedure of IRCSL for AML/CFT/CPF non-compliances, published in the website of IRCSL, sets out the standard procedure followed in this regard.

3.5 Reporting and Feedback

Supervisory outcomes are documented in inspection reports, thematic review reports and annual risk assessment reports. Based on the outcomes IRCSL may provide feedback to the industry by way of inspection reports, observations/ recommendations, issuance of guidelines or conduct workshops / seminars.

3.6 Capacity Building & Stakeholder Engagement

- **Capacity Building** – IRCSL provides continuous AML/CFT/CPF training for supervision staff on FATF Standards, ML/TF/PF typologies and emerging risks.
- **Guidance & Outreach** - Issuing guidelines on AML/CFT/CPF aspects / obligations, conducting workshops / seminars to improve sector understanding of AML/CFT/CPF obligations
- **Industry Engagement** - Hosting meetings / discussions with the industry representatives are the most common means used by the IRCSL.
- **Public Awareness** – IRCSL publishes notices to general public from time to time and a separate tab has been allocated for AML/CFT on IRCSL website to provide updated information.

4 Cooperation & Coordination

4.1 Domestic Cooperation

IRCSL has entered into a Memorandum of Understanding (MoU) and a Terms of Reference (TOR) with the Financial Intelligence Unit (FIU) to facilitate joint supervision and to exchange information, particularly in relation to supervisory findings and other related matters.

In addition, the IRCSL has entered into an MoU with the Sri Lanka Police in order to facilitate information sharing and cooperation on investigations and prosecutions of money laundering, terrorist financing and other related offences.

4.2 International Cooperation

IRCSL is legally empowered to engage in both domestic and international cooperation to effectively discharge its regulatory functions. In terms of Section 5(dd) of the RII Act, the IRCSL may enter into bilateral or multilateral Memoranda of Understanding with local or foreign parties for the purpose of information exchange, in line with its objectives and responsibilities. Further, under s. 5(g) of the same Act, the IRCSL is authorized to enter into contracts necessary for the exercise, performance, and discharge of its powers, duties, and functions.

5 Review Process of the Framework

This framework shall be reviewed periodically to ensure its continued relevance and effectiveness based on emerging risks, findings of national risk assessments, or FATF guidance changes, global best practices of the insurance sector and supervisory exposure.