

## Insurance Regulatory Commission of Sri Lanka

### Enforcement Procedure for Non-compliances of AML/CFT Obligations

#### Circular to Insurers and Insurance Brokers

30<sup>th</sup> October 2025

No. 02 of 2025

#### 1. Purpose

This Circular sets out the enforcement procedure that the Insurance Regulatory Commission of Sri Lanka (IRCSL) will apply in cases of non-compliance with Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) obligations by insurers and insurance brokers.

The enforcement procedure is designed to ensure that enforcement actions are **effective, proportionate, dissuasive, consistent, and timely**, in line with the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA), Insurers (Customer Due Diligence) Rules, No. 1 of 2019, the Regulation of Insurance Industry Act, No. 43 of 2000 (RII Act), and international standards such as FATF Recommendations and the IAIS Insurance Core Principles.

#### 2. Principles of Enforcement

Enforcement actions by IRCSL will be guided by the following core principles:

- **Risk-Based:** Priority will be given to serious, systemic, or high-risk non-compliance, particularly where ML/TF risks are significant.
- **Effective:** enforcement actions are to influence compliance behavior of Insurers and Brokers and lead to strengthening their AML/CFT controls.
- **Proportionate:** Sanctions will be tailored to the gravity and impact of the breach.
- **Dissuasive:** Measures will be sufficient to prevent recurrence and deter others.
- **Consistent:** Enforcement actions are applied uniformly across similar cases to maintain fairness and predictability.
- **Timely:** Deficiencies must be addressed within specified deadlines to avoid escalation.
- **Transparent and Fair:** Entities will be given the opportunity to respond, and enforcement actions will follow due process.

#### 3. Enforcement Procedure

##### **(A) Non-compliances of AML/CFT Obligations by Insurers and Insurance Brokers observed through onsite inspections and offsite monitoring (Offsite monitoring include thematic reviews and risk assessments conducted by IRCSL periodically)**

Step 1: IRCSL shall convey the observations on the non-compliances along with recommendations, to the Principal Officer, Compliance Officer and to the Board of Directors with copies to the Financial Intelligence Unit (FIU), requiring submission of a response to IRCSL within two weeks by the Principal Officer and by the Compliance Officer collectively, describing

the measures taken to rectify the non-compliances with a detailed time plan within the timelines provided by IRCSL in its recommendations.

- (a) If the company fails to rectify the non-compliances within the timelines recommended, the IRCSL shall call for explanations on the non-compliances from the Principal Officer, the Compliance Officer and from the Board of Directors of the company, giving two weeks' time to respond.
- (b) If the company still fails to rectify the non-compliances the IRCSL shall take one or more of the following actions:
  - 1) Issue warnings to the Principal Officer, Compliance Officer and Board of Directors of the company;
  - 2) Report to the FIU, in terms of Section 23 (a) of the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA), for further action including administrative penalties.

Step 2: If the company rectifies the non-compliances within the timelines recommended, the IRCSL shall conduct a follow-up inspection(s) to verify implementation and effectiveness of such actions.

- (a) IRCSL will convey any non-compliances observed to the Principal Officer, Compliance Officer and to the Board of Directors copied to the FIU, requiring submission of a response to IRCSL within two weeks by the Principal Officer, and by the Compliance Officer collectively describing the measures taken to rectify the non-compliances within the timelines provided by IRCSL.
- (b) If the company fails to rectify the non-compliances within the timelines recommended, the IRCSL shall call for explanations on the non-compliances from the Principal Officer, the Compliance Officer and from the Board of Directors of the company, giving two weeks' time to respond.
- (c) If the company still fails to rectify the non-compliances or any continued non-compliances are observed the IRCSL shall take one or more of the following actions:
  - 1) Issue warnings to the Principal Officer, Compliance Officer and Board of Directors of the company;
  - 2) Report to the FIU, in terms of Section 23 (a) of the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA), for further action including administrative penalties.

**(B) Non-compliances of AML/CFT Obligations by Insurers and Insurance Brokers which is likely to be detrimental to the development of the insurance industry or national interest**

Step 1: Issuance of Directions:

- (a) Non-compliances continued by insurers even after imposition of penalties by FIU and is considered likely to be detrimental to the development of the insurance industry or national interest, the IRCSL shall take one or more of the following actions:
  - 1) issue direction/s in terms of Section 18 (7) of the Regulation of Insurance Industry Act, No. 43 of 2000 (RII Act);
  - 2) issue direction/s in terms of Section 57 of the RII Act.
- (b) Non-compliances continued by insurance brokers even after imposition of penalties by FIU and have been already warned or cautioned in writing by the IRCSL on at least three

separate occasions for non-compliances on AML/CFT; the IRCSL shall issue direction/s in terms of Section 84A of the RII Act.

Step 2: Inform FIU and co-operate with law enforcement agencies and the FIU, in terms of Section 23 (b) of the FTRA, in any investigation, prosecution or proceedings relating to any offence constituting an unlawful activity.

Step 3: Escalated Enforcement:

- (a) If the insurer fails to comply with the directions issued in step 1(a) above, the IRCSL shall take one or more of the following actions:
- 1) Take steps in terms of Sections 57(3) or 93 of the RII Act, where applicable, for any insurer who fails to comply with the directions issued, who shall be liable on a conviction after summary trial before a Magistrate to a fine not less than fifty thousand rupees;
  - 2) Suspend or cancel the registration granted to the insurer in terms of Sections 18 of the RII Act.
- (b) If the broker fails to comply with the directions issued in step 1(b) above, the IRCSL shall take one or more of the following actions:
- 1) Take steps in terms of Section 93 of the RII Act, for any broker who fails to comply with the directions issued, who shall be liable on a conviction after summary trial before a Magistrate to a fine not less than fifty thousand rupees;
  - 2) Suspend or cancel the registration or refuse to renew a certificate issued to the broker in terms of Sections 84 of the RII Act.

#### 4. Publication and Transparency

- i. IRCSL may publish enforcement actions (warnings, suspensions, etc.) in anonymized or named form, where appropriate, to promote industry-wide compliance and deterrence.
- ii. Aggregate statistics on AML/CFT enforcement actions will be included in the FIU/IRCSL annual report.

#### 5. Right to be heard

Before enforcement measures beyond warnings are imposed, the entity will be given the opportunity to provide written representations to IRCSL or FIU. An internal review mechanism will be available, without prejudice to judicial remedies under applicable law.

#### 6. These procedures are applicable to Insurers and Insurance Brokers and shall come into effect immediately.



**Director General**

**Signed for and on behalf of the Commission**