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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

இலாச இல்டி ஸீகரெஸி
நிதியியல் உளவறிதற் பிரிவு
FINANCIAL INTELLIGENCE UNIT

අංක 30, ජනාධිපති මාවත, කොළඹ 01, ශ්‍රී ලංකාව
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No. 30, Janadhipathi Mawatha, Colombo 01, Sri Lanka

November 03, 2023

Mr. Razik Zarook
Chairman
Insurance Regulatory Commission of Sri Lanka
World Trade Center
WTC East Tower, Level 11
Colombo 01

Dear Mr. Zarook,

Red Flag Indicators No. 03 of 2023 - Identification of Suspicious Transactions relating to the Insurance Sector

The Financial Intelligence Unit (FIU) regularly issues red flag indicators to the financial sector from 2020 to guide them in identifying possible money laundering/terrorism financing (ML/TF) and other criminal activities and to report suspicious transactions by identifying any transaction patterns, activity, or customer behavior.

The FIU has developed attached insurance sector specific red flags to increase the awareness of the sector in identifying such suspicious transactions and activities. The red flags already have been shared with the sector and is also forwarded for your information, please.

Yours sincerely,


Enoka Məhottay
Director
Financial Intelligence Unit

Cc. Mrs. Damayanthi Fernando, Director General, Insurance Regulatory Commission of Sri Lanka

Red Flag Indicators for the Insurance Sector

Introduction

The global insurance industry caters to diverse clients, offering risk management and financial solutions to individuals, businesses, and governments. Intermediaries like agents and brokers play a pivotal role in its operation. While the industry is less susceptible to ML than other financial sectors, specific areas, notably life insurance and annuities, draw the attention of criminals involved in money laundering (ML) and terrorism financing (TF). Life insurance is a primary target for money launderers, offering investment potential and attractive returns. International transactions are common in insurance-related ML. Policies with cash surrender options and early beneficiary nominations pose the highest risk, as do annuities, which allow for the conversion of illicit funds into future income. Unit-linked policies and insurance wrappers are also high-risk products due to their asset management flexibility. In summary, while the insurance sector generally has lower ML vulnerability, certain products, particularly life insurance and annuities, are attractive avenues for criminals seeking to legitimize their ill-gotten gains.

Life insurance companies, like other financial institutions, are subject to regulations to prevent ML and TF. They must implement anti money laundering and countering of financing of terrorism (AML/CFT) and Know-Your Customer (KYC)/Customer Due Diligence (CDD) procedures as required by the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA) to identify and report suspicious activities.

Summary of NRA Findings

National Risk Assessment (NRA) on ML/TF 2021/22 was conducted by the Financial Intelligence Unit of Sri Lanka (FIU) of the Central Bank of Sri Lanka (CBSL) together with public and private sector stakeholders. The assessment was aimed at identifying the ML/TF risks in the country. The assessment highlights the most significant ML/TF threats, vulnerabilities, and risks faced by Sri Lanka.

Identified ML Threats of Sri Lanka

Predicate Offence	ML Threat
Drug trafficking	Medium High
Bribery and corruption	Medium High
Customs related offences including laundering of trade-based proceeds	Medium High
Fraud	Medium
Robbery	Medium
Environmental and natural resource crimes	Medium
Human smuggling/trafficking	Medium Low
Tax offences	Medium Low
Illegal, unreported and unregulated fishing related unlawful activities	Medium Low
Counterfeiting of currency	Low

Overall ML/TF Risk in Sri Lanka

Overall Threat	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
		Overall Vulnerability				

Further, the 2021/22 NRA identified the ML risk of the insurance sector as **Medium Low**. It was the same in 2014 where first of such assessment was conducted.

Red Flags

The following list outlines various suspicious activities related to insurance policies that may indicate potential ML or illicit financial activities. These activities can raise red flags for insurance companies when assessing the risk of ML/TF of transactions of their customers.

Some of these suspicious activities include:

1. **Large, unexplained premium payments** – when a policyholder makes unusually large premium payments without a clear source of funds.
2. **Cash payments** – policies purchased with cash or through third parties, especially in high amounts, are often indicators of ML.
3. **Purchase of large single premium insurance** - Suspicion is warranted when customers buy insurance contracts with a single large premium payment, especially if unusual payment methods like cash or cash equivalents are employed.
4. **Disproportionate premium payment** - Purchasing a single premium policy with cash, money orders, traveler's cheques, or cashier's cheques for an amount significantly disproportionate to the customer's income is suspicious.
5. **Offshore premium payments** - Entering into a substantial insurance contract with premiums paid from abroad, particularly from offshore financial centers, can raise red flags.
6. **Third-party premium payments** – payments made by a third party who is not the policyholder may be an attempt to obscure the true source of funds.
7. **Unknown Source of Funds** - Suspicion is raised when customers purchase insurance products with termination features using unknown or unverifiable sources of funds, such as cash, sequentially numbered money orders, traveler's cheques, and cashier's cheques.
8. **Frequent policy changes** – frequent alternations to a policy, such as increasing the death benefits or changing the beneficiary, may suggest an attempt to obscure the true nature of the policy.
9. **Changing beneficiary without apparent connection** - Changing the initial beneficiary during the life of the policy without an apparent connection to the policyholder can be suspicious.
10. **Transferable ownership interests** - Suspicion is warranted when policies allow the transfer of ownership interests without the insurance issuer's knowledge or consent, including secondhand endowment and bearer insurance policies.

11. **Unclear beneficial ownership** – in situations where the true owner or beneficiary is not easily identifiable, further scrutiny may be necessary. Suspicion arises when there are indications or certainties that the involved parties are not acting on their own behalf and are attempting to conceal the identity of the actual customer.
12. **Unusual policyholders** – policies owned by shell companies, trusts or individuals with no obvious connection to the insured can be suspected.
13. **Complex ownership structures** – policies owned by complex corporate structures or chains of ownership can be used to obfuscate the beneficial owner.
14. **Transactions involving tax havens or risk territories** - Suspicion arises when transactions involve legal persons or arrangements domiciled in tax havens or high-risk regions, as these locations can be used to conceal financial activities.
15. **Large transactions by recently created legal entities** - Suspicion is warranted when recently established legal entities engage in large transactions that are disproportionate to their declared assets, as this may indicate an attempt to move or launder significant funds.
16. **Policies in the name of minors** – policies owned by or for minors that involve large sums of money may be used to launder funds.
17. **Multiple small policies** – money launderers may try to avoid detection by purchasing multiple small policies instead of one large one.
18. **Sudden cancellation** – a policy that is abruptly canceled after a short period may indicate a scheme to legitimize illicit funds. Cancelling an insurance contract and directing the funds to a third party can indicate suspicious activity. A potential policyholder is more interested in a policy's cancellation terms than its benefits.
19. **Disregarding tax or cancellation charges** - Cancelling an insurance contract without concern for substantial tax or cancellation charges can indicate potential ML.
20. **Repeated account opening** - Suspicion arises when customers repeatedly open and close accounts with the same insurance company but under new ownership information.
21. **Frequent policy lapses** – policies that are frequently allowed to lapse without reason can indicate an attempt to launder money.
22. **Lack of insurable interest** – if there's no legitimate insurable interest between the policyholder and the insured, it could be a sign of ML.
23. **No personal interaction** – lack of any personal interaction with the insured, especially in cases of stranger-owned life insurance can be suspicious.
24. **Inconsistent or missing documentation** – discrepancies in the documentation submitted for policy applications, like identity documents or financial records, should raise concerns.
25. **Securing policy loan and repaying with cash or monetary instruments** - Suspicion arises when customers secure a policy loan against the cash value of a life insurance policy shortly after the policy is issued and repay the loan with cash or various monetary instruments.
26. **Frequent policy loans** - Suspicion is warranted if the customer obtains policy loans frequently and settles them within a short interval.
27. **Repaying the policy loans using a third party** - repayments of the policy loans are made by third parties and/or using methods to which the customer might not have proper authorization such as corporate credit cards.

Please note that the above is not an exhaustive list of possible indicators of transactions relating to ML/TF in the insurance sector. Accordingly, you are required to have robust CDD processes in place to identify these red flags and report suspicious transactions to the FIU. You are also required to train the staff to be vigilant in detecting potential ML/TF activities and to establish clear policies and procedures to address these issues. Therefore, insurance companies are required to take note of these red flags indicators to take appropriate actions to reduce the possible ML/TF risks, if any.