Guidelines for Insurance Companies Regarding Assessment of Money Laundering and Terrorism Financing Risks and Adoption of Prevention Programs

1. The Guidelines are established in line with the “Regulations Governing Implementation of Internal Control and Audit System for Anti-Money Laundering and Countering Terrorism Financing of Insurance Companies, Post Offices Engaging in Simple Life Insurance Business and Other Financial Institutions Designated by the Financial Supervisory Commission” for the purpose of anti-money laundering and counter the financing of terrorism (AML/CFT). The content covers a domestic insurance company’s identification and assessment of money laundering and terrorist financing risks in business operations, and the development of AML/CFT policy, procedure and control for implementation reference.

2. An insurance company’s internal control system and its amendment should be approved by the board of directors (council). In addition, the internal control system should include relevant policies and procedures for identifying, assessing and managing ML/TF risks, AML/CFT programs based on risk assessment results, and the periodic review of such policies, procedures and programs.
   The purpose of a risk-based approach is to help an insurance company develop prevention and mitigation measures that are commensurate with the ML/TF risks identified, determine the allocation of resources on AML/CFT, establish internal control system, and establish and implement policies, procedures and control measures that are necessary in AML/CFT programs.
   An insurance company should consider the characteristic of business, products and customers, and, thus, conduct appropriate measures and establish a regular and comprehensive risk assessment of money laundering and terrorist financing to be able to timely and effectively understand the overall risk of money laundering and terrorist financing. An insurance company should consider the differences with the characteristic of business, products and customers, when assessing and reducing its risk exposures against money laundering and terrorist financing.
   Each description of examples stated in this Guidelines is not mandatory. An insurance company should setup an adequate risk assessment in line with the characteristic of business, products and customers and business scale and allocate adequate resources based on the results of risks assessment, so as to take effective counter-measures to prevent or reduce risks.

3. An insurance company should take appropriate measures to identify and assess its ML/TF risks, and determine specific risk categories based on the risk identified, in order to further control, mitigate or prevent such risks.
   Specific risk category should cover at least geographic areas, customers, and products, services, transactions or delivery channels, etc. An insurance company should further analyze each risk category to determine detailed risk factors.
   (1) Geographic risk:
      i. An insurance company should identify geographic areas that are exposed to higher ML/TF risks.
      ii. When building up a list of high-risk areas, an insurance company may determine appropriate risk factors based on the practices of its branches (or subsidiaries) and their respective needs.
   (2) Customer risk:
      i. An insurance company should take comprehensive consideration of the background, the occupation, characteristics of socio-economic activities, and region of an individual customer, and the organizational pattern and structure of a non-natural person customer in order to identify risks of money laundering and terrorist financing from the customers.

ii. When identifying the risk of an individual customer and determining his risk rating, an insurance company may take the following risk factors as the basis of assessment:
   (i) Customer's geographic risk: An insurance company should determine the risk rating of a customer's nationality and country of residence in accordance with the list of the regions with ML/TF risks defined by the insurance company.
   (ii) Money laundering risk of the customer's occupation and industry: An insurance company should determine the risk rating of the customer's occupation and industry based on money laundering risk of occupations and industries defined by the insurance company. Examples of high-risk industries include businesses engaging in cash-intensive transactions, or firms or trusts easily applied to hold an individual's assets.
   (iii) The channel from which the customer establishes business relationships.
   (iv) The transaction amount with which the customer establishes business relation.
   (v) Whether the customer has other high ML/TF risk characteristics.

(3) Risk of products with high policy reserves or cash values and money-related services, transactions, or delivery channels:
   i. An insurance company should identify products, services, transactions or delivery channels that have higher ML/TF risk based on the nature of individual product, service, transaction or delivery channel.
   ii. An insurance company should, before launching a new product, a new service or a new business (including new delivery mechanisms, applying new technology on existing or new product or business), perform ML/TF risk assessment and establish corresponding risk management measures to mitigate the risks identified.
   iii. Risk factors for product, service, transaction or delivery channel are exemplified as follows:
      (i) The degree of association with cash.
      (ii) The channel to establish business relationships, including whether it is a face-to-face transaction channel, or new type of transaction channel, such as e-commerce or offshore insurance unit.
      (iii) Whether it is a high premium or high cash value product.
      (iv) Payment received from unknown or unrelated third parties.

4. An insurance company should establish risk ratings and classification rules for different customers. Customer risk should have at least two ratings, i.e. "high-risk" and "standard risk", as the basis to determine the application of enhanced customer due diligence and ongoing monitoring. For an insurance company that adopts only two risk ratings, the insurance company should not take simplified customer due diligence measures to a customer rated as "standard risk" because "standard risk" is still higher than "low risk" provided in Point 5 and 7 of this Guidelines.
   An insurance company should not disclose a customer's risk rating to the customer or any person that is unrelated to AML/CFT obligations.

5. An insurance company should directly treat foreign politically exposed persons, terrorists or terrorist groups that are sanctioned, identified or investigated by foreign governments or international AML organizations, and designated individuals or entities sanctioned under Terrorism Financing Prevention Act as high-risk customers. In addition, an insurance company may determine the types of customers that should be directly treated as high-risk customers based on its business type and relevant risk factors.
   An insurance company may, based on the results of an overall risk analysis, define the types of customers that can be treated as low-risk customers. The results of the risk analysis should be sufficient to explain that such types of customers are commensurate with lower risk factors.

6. For customers to establish new business relationship, an insurance company should determine their risk ratings when establishing business relationship.

For existing customers with assigned risk ratings, an insurance company should conduct a risk re-assessment of the customers based on its policies and procedures.

Although an insurance company has assessed risks of the customers when establishing a business relationship, for some customers, their overall risk levels become clear when they apply for claims. Therefore, an insurance company should apply CDD requirements to existing customers on the basis of materiality and risk, and conduct due diligence on such existing relationships at appropriate times, taking into account when CDD measures was previously undertaken and the adequacy of data obtained therefrom. The aforementioned appropriate times include at least:

(1) When the customer increases the sum assured irregularly or enters new business relationships with the insurance company.
(2) When it is time for periodic review of the customer in line with the customer's materiality and risk.
(3) When an insurance company knows that there is a material change to customer's identity and background information.

An insurance company should periodically review the existing records to ensure that information of the customer and its beneficial owner(s) collected under the CDD process is kept up to date, particularly for higher risk customers, whose reviews should be conducted at least once every year.

7. An insurance company should establish the corresponding control measures according to identified risks to reduce or prevent risks of money laundering. An insurance company should determine different control measures applicable to customers with different risk ratings based on risk level of customers.

   For higher risk situations, an insurance company should perform enhanced CDD or ongoing due diligence measures by adopting at least the following enhanced measures:

   (1) Conduct the Enhanced Due Diligence on customers, for example:
       i. Obtain relevant information about the purpose of insurance.
       ii. Obtain the beneficial owner's information of the legal person customer.
   (2) Obtain the approval of the senior management before establishing or increasing new business relationships.
   (3) An insurance company should take reasonable measures to understand customer's source of wealth and the source of funds of the customer. The source of funds refers to the original source that generates such funds.
   (4) Conduct enhanced ongoing monitoring of the business relationship.

   Except for situations provided in the proviso of Subparagraph 1, Paragraph 3 of Article 6 of the Model Guidelines, for lower risk circumstances, an insurance company may apply simplified CDD measures in accordance with its risk prevention policies, controls, and procedures. Such simplified measures should be commensurate with the lower-risk factors. Examples of simplified measures that may be applied includes:

   (1) Reducing the frequency in updating the customer identity information.
   (2) Reducing the level of ongoing monitoring and use reasonable threshold amount of policy reserves or account value as a basis for transaction review.
   (3) If the purpose and nature of business can be inferred from the type of transaction or the established business relationship, it is not necessary to re-collect specific information or implement special measures to understand the purpose and nature of the business relationship.

8. An insurance company should establish a procedure for periodic assessment of overall ML/TF risks and produce a risk assessment report for the senior management to timely and effectively understand the insurance company's overall ML/TF risks, determine necessary mechanisms to be established, and develop appropriate mitigation measures.

   An insurance company should build a regular and comprehensive risk assessment of money laundering and terrorist financing based on the following indicators:

   (1) The nature, scale, diversity and complexity of businesses.

(2) Management data and reports associated with high risks: such as the number and percentage of high-risk customers; the amount, numbers or percentage of high-risk products or business; the amount, numbers or percentage of customer's nationality, place of registration or place of business or product transactions involving high-risk areas, etc.
(3) Business and products, including the channel and manner to provide services and products to customers, the way to implement the customers review measures, such as the extent to use of information systems, and whether the customers review is outsourced to a third person, etc.
(4) The inspection results from internal audit and the supervisory authority.

When an insurance company conducts a comprehensive risk assessment of money laundering and terrorist financing, in addition to considering the above indicators, the information obtained from other internal and external sources is recommended as supporting information. For example:

(1) The management reports provided by an insurance company's internal management (such as supervisors of business units, or customer relationship managers, etc.).
(2) Relevant AML/CFT reports released by international AML organizations and other countries.
(3) Information released by the competent authorities on risks of money laundering and terrorist financing.

The results of an insurance company's comprehensive risk assessment of money laundering and terrorist financing should be used as a basis for the development of an AML/CFT program. An insurance company should allocate adequate personnel and resources based on the results of risks assessment and take effective countermeasures to prevent or reduce risks.

An insurance company should re-conduct its ML/TF assessment when there's any major change in the insurance company itself, such as the occurrence of major events, major development of management and operation, or the occurrence of new associated threats.

An insurance company should file the risk assessment report to the Financial Supervisory Commission (FSC) when it is completed or updated.

9. The policy enacted by an insurance company in accordance with the Guidelines should be approved by the board of directors/council (or delegated dedicated unit) before implementation. An insurance company should perform annual review of the policy. In the case of amendment of the Guidelines, the requirements of herein also apply.