Guidance for Insurance Sector on the Best Practices for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Compliance
(Subject: Practical Reference Practices for Enhancing and Simplifying Customer Review and Continuous Monitoring Mechanisms by Using Risk-based Approaches in Insurance Industry)

Approved by FSC Letter No. Jin-Guan-Bao-Zong-Zi-10804936310 dated June 24, 2019

Foreword:
These best practices guidance is provided for the reference of insurance enterprises in undertaking anti-money laundering and countering the financing of terrorism (AML/CFT) operation. It is not meant to be mandatory. An insurance enterprise may, based on the nature and size of its business and in consideration of the results of risk assessment in the areas of geographic locations, customers, products and services, transactions and delivery channels, select the most appropriate best practices to prevent or reduce money laundering and terrorist financing (ML/TF) risks.

Practical references for strengthening and simplifying customer due diligence and continuous monitoring mechanisms for the insurance industry through the use of the risk-based approach

I. Customer transaction categorization under the risk-based approach

Insurance companies are advised to establish specific risk assessment items in accordance with the risk-based approach (it is advisable to include at least geographical, customer, product/service, transaction, and channel risk items) to assess risks in transactions and classify them into “high risk transactions”, “average risk transactions”, and “low risk transactions” for additional monitoring and control and to reduce or prevent such risks. For high-risk transactions determined by factors such as high-risk geographical location, customers, products and services, transactions, and channels, insurance companies are advised to adopt enhanced due diligence and continuous monitoring measures. For low-risk geographical location, customers, products and services, transactions, and channels, insurance companies may adopt simplified measures based on their policies, monitoring and control systems, and procedures for risk prevention.

In addition to the characteristics of their businesses, insurance companies should also refer to the threats and weaknesses identified in the National Money Laundering and Terrorist Financing Risk Assessment Report and conduct regular/irregular reviews of the criminal pattern reports, threat risk assessment reports, and statistics distributed by the Criminal Investigation Bureau of the National Police Agency, Ministry of the Interior, Investigation Bureau of the Ministry of Justice, and other law enforcement authorities as the basis for reviewing the adequacy of customer risk classifications.

Insurance companies may consider the following high-risk factors and patterns for a comprehensive assessment of high-risk transactions:

(I) High-risk geographical regions include countries or regions with severe AML/CFT discrepancies announced by the FATF and other countries or regions that fail to comply or comply fully with recommendations made by the FATF and forwarded by the Financial Supervisory Commission.

(II) High-risk customers such as PEPs of foreign governments, terrorists or terrorist organizations under economic sanctions or designated or investigated by foreign governments or the FATF, customers whose profession involves intensive cash transaction businesses (e.g. foreign casinos, offshore companies and banks in tax/financial secrecy havens, foreign currency exchange offices, remittance brokerage companies, check exchange offices, distributors of jewelry, precious stones, and precious metals, restaurants, retailers, parking lots, etc.), non-profit organizations that are not regulated by laws, companies or trust that are susceptible to usage for holding personal assets, and customers who exhibit other high ML/TF risk patterns in business relationships.

(III) High-risk products and services include insurance products with high insurance premiums or high cash value, single-payment or short-period insurance products, and annuity insurance products.

(IV) High-risk transactions and channels include OIUs and online insurance purchases.

II. Identification and verification of customer identity

After assessing the risk of money laundering and terrorism financing comprehensively according to the risk-based approach, insurance companies is suggested to adopt customer identification and verification measures equivalent to the risk level and business characteristics (including business nature, scale and complexity) to mitigate the risk of money laundering and terrorism financing.

In principle, it is advisable for insurance companies to identify and verify the identity of customers with documents, data or information from reliable and independent sources, and to choose to keep copies of identity certificates of the proposer or keep them in record according to the risk levels of money laundering and terrorism financing and business requirements that may arise from the business relationship for identity confirmation in future business contacts.

Under the following circumstances, insurance companies is suggested to consider retaining photocopies of the identity certificate of the proposer:

(I) After comprehensive assessment of the attributes of customers, insurance products with cash value (such as interest-sensitive life insurance, investment-linked insurance, universal insurance and annuity insurance) of which insurance premiums are paid up to a certain amount (set by the insurance company), business sources and payment channel, the risk rating results for new contracts for high-risk transactions, or the proposer of the such insurance policies is later changed to another person.

(II) Customers engaged in Offshore Insurance Unit (OIU) business transactions (excluding reinsurance business) may be high-risk customers after comprehensive evaluation (such as customer attributes, product nature, premium amount and payment channel, etc.).

(III) For other transactions the insurance company considers high-risk or appropriate to keep a copy of the identity certificate of the proposer because of business needs, the insurance company may keep a copy of the identity certificate of the customer at an appropriate time.

In standard and low risk transactions other than those mentioned in the preceding paragraph or in cases where keeping the identity information records of the proposer is sufficient(e.g. having adopted other measures to assist in verifying the identity of the customer), the insurance company may keep the identity information of the proposer in the form of record:

(I) Purchases of new insurance policies with low or no cash policy value or making changes of the proposer of such insurance policies.

(II) Existing customers with no suspicious transaction activity records purchase new insurance policies.

(III) For online insurance, the insurance premiums are paid by the proposer's credit card or savings account, and insurance policies are with low or no cash value.

(IV) For telemarketing, the identity of the proposer, who purchase insurance policies with low or no cash value, is verified by the telemarketer and the sales process is recorded.

(V) A proposer who is referred by a third party entity and whose identity has been verified by a third party entity (e.g. a bank customer, who has applied for housing loans from a bank, purchases mortgage life or fire insurance from the bank; a bank customer who buys insurance products through a bank insurance agent or brokerage department).

(VI) Those who are insured by law or by government insurance policies (e.g. compulsory automobile liability insurance, student group insurance, micro-whole-life insurance, etc.).

(VII) Other transactions evaluated by insurance companies as standard or low-risk transactions or transaction where keeping the information of the proposer is sufficient due to business characteristics.

Identity certificates include valid passports, photo identity certificates issued by government agencies, photo driving licenses issued by government agencies or other fully qualified identity certificates issued by government agencies.

Copies of identity certificates can be retained in hard copy or in electronic format, and the insurance company may file the identity certificates of the same proposer in the same account for all proposer-related policies.

In order to establish the correct risk awareness of front-line staff in solicitation, underwriting, claims and customer service units, insurance companies is suggested to prepare an FAQ for staff to explain to customers according to the business attributes of each unit, and strengthen the educational training of employees in dealing with customers.

III. Enhanced customer due diligence and continuous monitoring measures

(I) Conditions applicable for enhanced customer due diligence and continuous monitoring

The following conditions are common high-risk transaction settings in the insurance industry and insurance companies are advised to carry out enhanced review and continuous monitoring measures:

1. Where the customer is a current PEP in a foreign government and intends to or has established a business relationship with the insurance company;
2. Where the customer is a current PEP in the domestic government or an international organization and intends to or has established a high-risk business relationship with the insurance company;
3. Where the customer is from a country or region with high ML/TF risks and intends to or has established a high-risk business relationship with the insurance company;
4. Where the customer's cumulative insurance policy preparatory fund or account value has exceeded the threshold of high-asset customers of the insurance company by, as an example, NT$30 million;
5. Where the customer has been reported for conducting suspicious transactions by the insurance company and intends to establish a new high-risk business relationship with the insurance company;
6. Where suspected ML/TF transactions have appeared in the customer's high-risk business relationships such as:
   (1) The customer has mostly purchased insurance policies with low insurance amounts and pays insurance premiums on a regular basis but suddenly purchased large sums of single-payment insurance policies;
   (2) The customer does not pay any attention to the content of the insurance or claim payments and only focuses on

procedures for insurance policy loans, contract termination, or changing the beneficiary in the insurance product during the purchase;

(3)The customer uses cash to pay a large sum of insurance premiums when purchasing insurance products with high preparatory funds for the insurance value;

(4)The customer purchases insurance products with high preparatory funds for the insurance value intensively within a short period of time and the insurance policies do not appear to be commensurate with the customer's status and income or are unrelated to the nature of the customer's business;

(5)The customer deliberately evades related procedures for completing identity verification.

7. Where the customer exhibits irregular changes that are inconsistent with transactions and the nature of business in high-risk business relationships such as:

(1)An individual involved in major criminal cases reported on television, print media, or posted on the Internet attempts to purchase insurance contract products with high cash value or one who is already the proposer, insured, or beneficiary of such insurance contracts attempts to change the proposer or beneficiary or conduct transactions that involve money flow;

(2)A customer who applies for termination of contracts intensively within a short period of time or terminates contracts with a value exceeding a certain amount and request cash payments;

(3)A customer who pays for multiple additional insurance premiums intensively within a short period of time with the sum of payments exceed a certain amount and applies for the redemption of certain parts, cancellation of contracts, termination of contracts or insurance policy loans exceeding a certain amount;

(4)A customer who apply for large sums of insurance policy loans and pays them back intensively within a short period of time and the loan amounts and repayment amounts are similar;

(5) After a change in the proposer of an insurance policy, the new proposer applies for a change of the beneficiary within a short period of time and requests a large insurance policy loan or terminates the contract;

(6)The total currency transactions of multiple cash payments and receipts (from the same account on the same business day) for the same customer exceed NT$500,000 (or the equivalent in foreign currencies);

(7)A customer who purchases a long-term life insurance policy with a large single payment and applies for a large insurance policy loan or terminates the contract within a short period of time;

(8)A customer who pays a large insurance premiums payment (including cross-border payment of insurance premiums) and applies for a large insurance policy loan or terminates the contract within a short period of time;

(9)A large insurance premiums payment that is not paid by the parties to the insurance contract or a related party;

(10)A customer with an unusually large payment or refund that is not commensurate with his/her status and income or unrelated to the nature of his/her business;

(11)A customer who uses cash or uses multiple bank accounts to pay for insurance premiums, repay insurance policy loans, or mortgages in payments that are slightly lower than the amount that requires reporting and the payments are commensurate with his/her status and income or unrelated to the nature of his/her business.

(II) Enhanced due diligence and continuous monitoring methods for high-risk customers

1. Enhanced due diligence for high-risk customers

The following items should be executed when performing enhanced due diligence on high-risk customers:

(1)Obtain additional identity verification information

a. When performing enhanced due diligence, it is advisable to consider whether additional identification information should be obtained. Examples include:

(a) Insurance application documents;

(b) Identity certification documents such as photocopies or records of passports, identity cards, driver's licenses, or similar official identity certification documents or photocopies or records of the identity certification documents of the customer or customer’s agent;

(c) Establishment documents of legal persons such as the company’s registration documents, government-issued business license, partnership agreement, trust instrument, or certification of incumbency;

(d) Information on the beneficial owners of the legal-person customer;

(e) Any name(s) or alias(es) previously used;

(f) Contact information such as telephone or mobile phone number, work address, post office box address, and email address;

(g) The nature, scope, and geographical location of the customer’s profession or industry;

(h) Other information for identity verification.

b. When performing enhanced customer verification, it is advisable to consider whether additional identity verification information should be obtained. Examples include:

(a) Onsite visits or telephone call records;

(b) Past insurance transaction information;

(c) Special investigation documents such as signed records of face-to-face interviews, survival survey records, and investigation reports issued by third-parties;

(d) Reply letters which signed by the customer himself/herself or by an authorized person of the customer, legal person, or organization, and which is in reply to a letter mailed to the address provided by the customer;

(e) Background or purpose information and analysis data for complex and unusual transactions, purpose and nature of business relationships, and information on the customer's wealth and sources of funding.

c. When executing enhanced customer identification and verification measures, it is advisable to verify the additional identity verification information obtained through methods used for documents or non-documents. Examples include:

(a) Cross-verification with the identity information documents provided by the customer;

(b) Cross-reference the information provided by the customer with information from other reliable public sources, official websites, and paid databases;

(c) Onsite visits to the customer;

(d) Communicate with the customer via telephone or mail.

(2)Obtain related information for the purpose of insurance purchases and transactions

It is advisable to learn about the customer's purpose of insurance purchases and transactions to determine whether they are reasonable.

(3)Understand the customer's sources of wealth and funding

It is advisable to obtain certificates of wealth (e.g. certificates of bank deposits, salary certificates, deeds, or statements of investment proceeds), financial disclosure statements, and other documents for taking reasonable measures to understand the sources of the customer's wealth and funds as well as the beneficial owners. Source of funds refers to actual sources which generate specific funds (e.g. salary, investment income, purchase and sale of real estate property).

(4)Obtain the approval of senior management personnel

Before establishing or entering a new business relationship, insurance companies are advised to obtain the approval of senior management personnel with the appropriate level of approval authorization based on internal risk considerations.

2. Continuous monitoring of high-risk customers

Insurance companies should adopt the following measures for continuous monitoring of business relationships of high-risk customers:

(1)Insurance companies should continue to monitor and comprehensively consider the business relationships with customers including customer due diligence, enhanced review of customer information and transaction activities with customers, and pay attention to any changes in transactions or unusual transaction contents.

(2) Insurance companies should verify the names and titles of customers and related transaction counterparties to detect, compare, and screen customers, customers' senior management personnel, beneficial owners, and related transaction counterparties for individuals involved in material cases in media reports, current or former PEPs in domestic and foreign governments or international organizations, individuals, legal persons, or groups designated for sanctions in accordance with the Counter-Terrorism Financing Act, and terrorists or terrorist organizations designated or investigated by foreign governments or international organizations. They shall freeze assets, file suspected ML/TF transaction reports, or take other corresponding risk management measures.

(3) Insurance companies shall conduct periodic reviews (at least once each year) of whether the information obtained for verifying the identity of high-risk customers is sufficient and ensure that updates of such information are provided. They shall also verify the contents of the identity information for processing changes to contracts or insurance payments for high-risk customers.

IV. Simplified customer due diligence and continuous monitoring measures

(I) Where a customer does not exhibit the aforementioned high-risk factors or patterns, insurance companies may consider the following low-risk factors and patterns for a comprehensive assessment of low-risk transactions:

1. A customer and related transaction counterparty who are citizens residing within the borders of the Republic of China for long periods of time;

2. A customer who has not appointed an agent or a trustee of a trust to process insurance purchases, claims, contract changes, or other transactions;
3. A customer whose profession does not involve cash-intensive transactions (e.g. general office and field personnel and engineering personnel);
4. A customer whose transaction items do not include cash transactions or cross-border transactions;
5. The insurance products purchased by the customer involves low insurance premiums and no cash value;
6. A customer who conduct transactions through face-to-face sales channels.

(II) Conditions applicable for simplified customer due diligence and continuous monitoring

The following conditions are common low-risk transaction settings in the insurance industry and insurance companies may carry out simplified review and continuous monitoring measures:

1. Where the customer purchases insurance products with no preparatory funds for the insurance value such as short-term life insurance policies, injury insurance, or health insurance;
2. Where the customer purchases small-sum elderly care insurance or micro-insurance;
3. Where the customer purchases group annuity insurance, group periodic life insurance, group injury insurance, group health insurance, and group medical insurance;
4. Where the customer does not exhibit patterns of high ML/TF risks and the insurance premiums for purchased policies does not exceed a certain amount (e.g. NT$30,000) or where single-payment insurance premiums do no exceed a certain amount (e.g. NT$75,000);
5. Other cases deemed by the insurance company as low-risk

transactions in accordance with the risk-based approach.

(III) Simplified due diligence and continuous monitoring measures for low-risk customers

Although due diligence procedures cannot be exempted for customers with lower risks, insurance companies may adopt simplified due diligence and continuous monitoring measures:

1. The simplified due diligence and continuous monitoring measures that can be adopted based on insurance companies' risk prevention policies, monitoring and control, and procedures are as follows:
   (1)Reduce the frequency of updating customers' identity information;
   (2)Reduce the level of continuous monitoring measures and adopt a reasonable threshold for the insurance policy preparatory funds or value of accounts as a basis of transaction review.
   (3)If the purpose and the nature of a transaction can be inferred by the transaction type or the existing business relationship, there is no need to collect specific information or carry out specific measures to understand the purpose and the nature of the business relationship.
2. However, the simplified due diligence process cannot be applied to customers who exhibit any of the following circumstances:
   (1)The customer comes from a high-risk country or region that has not adopted effective anti-money laundering means or means of combating terrorism financing, including without limitation those identified by the FSC and notified to FATF, and other countries or regions which do not comply with or fully comply with the recommendations of FATF.
   (2)Where the Bank has sufficient reasons to suspect the

customer or transaction is involved in money laundering or terrorism financing activities.