Guidance for Insurance Sector on the Best Practices for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Compliance
(Subject：Risk assessment)

Approved by FSC Letter No. Jin-Guan-Bao-Zong-Zi-10704956240 dated October 18, 2018

Foreword:
The best practices guidance is provided for the reference of insurance companies in undertaking anti-money laundering and countering the financing of terrorism (AML/CFT) operation. It is not meant to be mandatory. An insurance company 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.

Risk assessment

I. Foreword

Institutions' awareness of risks includes threats and weaknesses. Individual institutions should refer to the criminal pattern reports, threat and risk assessment reports, and statistics published by law enforcement authorities (e.g. Criminal Investigation Bureau of the National Police Agency, Ministry of the Interior, Investigation Bureau of the Ministry of Justice, Customs Administration of the Ministry of Finance, and Agency Against Corruption of the Ministry of Justice) to strengthen their knowledge of suspicious transaction patterns of ML/TF activities that may be carried out in high-threat criminal activity types and by criminals identified in the National Money Laundering and Terrorist Financing Risk Assessment Report. They shall establish individual institutions' knowledge of the patterns of predicate offenses and their use of the insurance system for ML/TF activities in order to strengthen transaction monitoring procedures and the identification of threats based on the National Money Laundering and Terrorist Financing Risk Assessment Report for the purpose of improving the quality of risk assessments for institutions and the adequacy of customer risk classifications.

When institutions assess inherent risks, it is advisable to conduct assessments on the basis of geography, customers, product and services, transactions, and channels to identify the threats in all aspects before constructing the status of inherent risks of the institution based on an analysis of weaknesses in current laws and company policies. In addition, it is advisable to implement risk reviews at suitable intervals based on the nature and changes of risks (e.g. implement regular reviews, irregular reviews, or both) in order to adopt suitable risk mitigation measures.

II. Geographical risk:

(I) Assessment Content

Insurance companies are advised to identify regions with higher ML/TF risks based on the actual operations and experience of their subsidiary companies (or branch companies) while considering their individual requirements (e.g. business development policies) and using the information provided by the Anti-Money Laundering Division of the Investigation Bureau, Ministry of Justice, contents of the National Money Laundering and Terrorist Financing Risk Assessment Report, and information distributed by international anti-money laundering and counter terrorist financing organizations.

(II) Review frequency

1. Regular reviews: Insurance companies may review and update geographical risks based on the update frequency of their sources of reference information such as quarterly updates of

the countries or regions which do not comply, or do not fully comply, with the recommendations of international anti-money laundering organizations as announced by the Financial Action Task Force (FATF).

2. Irregular reviews: Insurance companies shall review geographical risks regularly based on reference sources and they may also use real-time negative news review, National Risk Assessments, and communication with law enforcement agencies (e.g. cases where specific countries or regions are involved in money laundering, terrorist financing, and proliferation of weapons of mass destruction) to assess the geographical risk.

III. Customer risks:

(I) Assessment content:

1. Insurance companies may refer to the Anti-Money Laundering Annual Report published by the Anti-Money Laundering Division of the Investigation Bureau, Ministry of Justice, the National Risk Assessment Report published by the Anti Money-Laundering Office of the Executive Yuan, and other official information to understand the threats of criminal activities and industry weaknesses of the insurance industry. They shall also analyze the companies' weaknesses for abuse by customers and consider the background information, nature of professional and socioeconomic activities, organization type and structure of non-natural-person customers, and the customers' transaction amount and methods to identify the customer's ML/TF risks.

2. Insurance companies are advised to include high-risk factors such as whether customers are PEPs, individuals involved in adverse news, non-citizen customers, and high-wealth/net worth individuals into account for the assessment and

mitigation of its ML/TF risk exposure.

(II) Review frequency:

1. Insurance companies are advised to verify customers' identity and assess their ML/TF risks when initiating business relationships with customers such as purchase of new insurance contracts and changes in contract contents.
2. Insurance companies are required to screen customers' names when they establish business relationships with customers and to conduct regular database name screening to learn about changes in customers' identity and adjust customer risks when required.
3. Insurance companies are advised to perform one regular review for high-risk customers each year. They shall determine the frequency of reviews for customers of other risk ratings in accordance with the risk-based approach identified by individual companies. They shall use the aforementioned regular review procedures to evaluate the customers' motives for purchasing insurance policies, identity, and changes in income status to assess the customer's latest risk rating and determine whether the customer information held by the company is sufficient.
4. Where customers are discovered to be involved in suspected money laundering or terrorist financing transactions, it is advisable to increase the customer's risk rating.

IV. Product and service risks:

(I) Assessment content:

Insurance companies may refer to the Anti-Money Laundering Annual Report published by the Anti-Money Laundering Division of the Investigation Bureau, Ministry of Justice, the National Risk Assessment Report published by the Anti Money-Laundering Office of the Executive Yuan, and other official information when they assess product and service risks to understand the threats of criminal activities and industry weaknesses of the insurance industry. they shall also refer to the analyses of high-risk products and businesses specified in the Industry Risk Assessment Report to understand whether the companies' products are services exhibit the following high risk factors to evaluate the companies' product and service risks: 1. High cash value; 2. Early contract termination; 3. Applicability of policy loans; 4. Diverse source of payment; 5. Complex sources of customers; 6. Short transaction cycles; 7. Ease of purchase or cancellation of policies; 8. Ease of changing the insured.

(II) Review frequency:

1. Insurance companies should perform ML/TF risk assessment when they launch a new product with insurance policy preparatory funds or cash value, services related monetary transactions, or new businesses. It is also advisable to assess potential ML/TF risks of the product in the event of subsequent changes to the content that may cause changes in the characteristics of the product.
2. Insurance companies shall regularly analyze the risk distribution of products purchased by customers and report product contents involved in suspicious transactions. If they discover irregularities such as substantial growth in the number of high-risk products over a s short period of time or certain products that are more susceptible to abuse for money laundering or terrorist financing, they are advised to reassess the risks.

V. Channel risks:

(I) Assessment content:

Insurance companies may refer to the Anti-Money Laundering

Annual Report published by the Anti-Money Laundering Division of the Investigation Bureau, Ministry of Justice, the National Risk Assessment Report published by the Anti Money-Laundering Office of the Executive Yuan, and other official information when assessing channel risks to understand the threats of criminal activities and industry weaknesses of the insurance industry. They shall also consider the companies' use of face-to-face channels (e.g. their solicitors) or non-face-to-face channels (e.g. insurance brokerage or agent companies, online insurance purchases, telephone purchases) to assess the companies' inherent channel risks.

(II) Review frequency:

In addition to conducting regular institutional risk assessments to review the inherent channel risks, it is advisable for insurance companies to conduct regular analysis of the sources of suspicious transaction reports to effectively assess the ML/TF risks of the channels.

VI. Institutional risk assessment

(I) Recommended frequency of institutional risk assessments

1. Insurance companies shall consider the characteristics of their businesses, products, customers, and other factors and establish regular (the recommended frequency is between one to one and a half years) comprehensive ML/TF institutional risk assessments. When insurance companies conduct a comprehensive ML/TF risk assessment, the information obtained from other internal and external sources shall be used as supporting information. Examples include the National Money Laundering and Terrorist Financing Risk Assessment Report published by the competent authority, ML/TF risk information, regulations, and internal audit reports.
2. It is advisable to conduct reassessment procedures in the event

of material changes such as items listed below to assess whether the changes affect the overall risks faced by the institution and control measures that should be adopted.

(1)The occurrence of material events or material developments in management and operations (e.g. corporate mergers or development of cross-border insurance businesses);

(2)When related new threats are generated;

(3)Material penalties for deficiencies in in AML/CFT operations.

(II) Recommended contents of the institutional risk assessment report

1. The institutional risk assessment should provide a comprehensive display of the internal governance framework of the institution, methodology for the execution, risk assessment results, and the measures adopted in response to the risks for the senior management personnel of the board of directors to learn about the risks in businesses and to effectively allocate suitable resources and take effective response measures to prevent or reduce risks. The assessment shall be used to satisfy the requirements for the board of directors to bear ultimate responsibility for establishing and maintaining appropriate and effective AML/CFT internal control.

2. The institutional risk assessment report may be drafted in accordance with the following contents:

(1)Assessment methodology.

(2)Analysis of inherent risks and various control factors and assessment results;

(3)Improvements made previously;

(4)Comparison of assessment results of different periods;

(5)Risk assessment results and residual risk rating of the entire institution;

(6)Risk mitigation measures adopted.

(III) Recommendations for the execution of institutional risk assessments

1. When establishing the methodology, insurance companies may refer to foreign practical operations and related regulations as well as results of the National Money Laundering and Terrorist Financing Risk Assessment Report or recent regulations for adjustments. The contents, levels, and weights of risk assessment factors may be designed in accordance with the aforementioned contents so that the assessment results fully reflect risks and meet assessment status for ML/TF risks in accordance with international standards.

2. The following measures may be adopted for institutional risk assessment procedures:

(1)Insurance companies may conduct joint risk assessments with business units that are closely related to AML/CFT operations. The responsible units shall take charge of the implementation status of actual operations to accurately reflect the possible ML/TF threats and weaknesses.

(2)Before performing risk assessment procedures, responsible units shall participate in meetings with the respective units and clearly define the contents of questions for the assessment. They shall reach a consensus on the contents and prevent errors in risk assessments due to different assessment standards.

(3)It is advisable to execute the following operations after completing the initial version of the risk assessment report:

a. The competent units may join business units in assessing whether the contents of risk assessments and scoring and weight design can effectively reflect the risks in the industry and operations.

b. Verify whether there are deficiencies in internal or external examinations from the internal risk assessment period to the publication time of the report. If there are deficiencies, it is advisable to include them in the risk assessment and formulate related risk mitigation measures to control and manage risks.

3. After the completion of the risk assessment report, it is advisable to inform the business units and internal audit units of the results. Business units shall adjust operating procedures where appropriate and verify the appropriateness of the operations while internal audit units can also establish related inspection plans based on the assessment results to verify the effectiveness of internal control systems and improve the operations of the three lines of defenses.

4. The results of institutional risk assessments should be explained to related employees through education and training programs for them to understand the weaknesses and threats faced by the company or the industry. They shall use the implementation of functions to effectively reduce ML/TF risks, establish role models, and create a sound corporate AML/CFT culture.

(IV) Insurance brokers and insurance agents are intermediaries in the insurance industry. Their main risks derive from being used by customers as “launderers” in ML/TF activities. Therefore, insurance brokers and insurance agents should have reasonable knowledge of the risks that are present in their business activities.