Stepping up the game against money laundering

In the face of increasing instances of money laundering in both life and general insurance, regulators and practitioners alike have their work cut out for them – to stop seeing the crime as a non-threat to the industry and be more vigilant in recognising potential red flags during transactions, and therefore plug the holes before they become a problem too big to handle. We bring you highlights.

By Jason Woo

Insurers need to constantly survey the environment that they operate in and stay abreast of any trend that might give rise to money laundering and terrorism financing (ML/TF) risks, said Mr Chua Kim Leng, Assistant Managing Director (Banking and Insurance), Monetary Authority of Singapore (MAS) in his keynote address at the recent Asia Anti-Money Laundering Summit held in Singapore.

Mr Chua Kim Leng

Managing ML/TF risks

He cautioned against the longstanding idea that insurance businesses have always been touted to be of bearing lower risk to ML/TF activities due to premium amounts being lower in comparison to other financial sectors such as banking, and payouts being contingent of certain events occurring such as a fire or road accident.

"Singapore's national risk assessment report published in 2014 has identified products that posed a higher money laundering risk. These include life insurance products that feature single premium payouts and high cash values on surrender. It is conceivable that money launderers can purchase these products with illicit funds only to prematurely surrender them, trading the financial penalties incurred for the early termination in return for the stamp of legitimacy," highlighted Mr Chua.

Four key areas to combat ML/TF

In lieu of the challenging landscape that insurers have to manoeuvre so as to not get accidentally involved with money laundering – a crime that can not only result in loss of profits but also credibility, Mr Chua stressed on four areas that practitioners can work on to be in the clear.

Risk Culture

Studies have shown that people are prone to optimism-bias which meant that we are somehow convinced that negative events will not happen to us. Mr Chua urged firms to not fall into such a mental trap.

"It is critical that the board and senior management promote a sound risk culture that emphasises on integrity and a strong risk awareness. They have to also make sure that this permeates through the organisation and the message needs to be enforced regularly and consistently," he said.

A strong compliance function

"Insurers should ask always ask themselves these questions – is the compliance function competent and adequately installed?; is it given the importance it deserves in the organisation?; is the need for compliance overwritten in lieu of business considerations? The entire organisation has a part to play in compliance and the adherence to it," reminded Mr Chua.

Leveraging technology

Mr Chua brought up the example of data analytics as a potential tool against ML/TF.

"Data analytics allow insurers to understand consumers for marketing and insurance solutions. Such investments are just as critical to help detect patterns across payment rolls and allow for effective customer profiling and tracking of their behaviour," he said.

Knowledge sharing

In closing, Mr Chua stressed the importance of knowledge sharing amongst the industry. He noted that even if companies have delivered on all the previous areas he specified, it will be for naught if companies do not talk to each other and be mutually vigilant.

Challenges for insurers


Mr John Madinger

With 22 years of experience working as an agent with the US Department of the Treasury, Mr John Madinger, who is now Founder and President of AML Aware, USA, is no stranger to money laundering activities as he spoke to the audience in a masterclass on AML fundamentals.

"All money launderers are not interested in how good the returns or annuities are, in the end they are only interested in whether your product offers them a front that makes it look like they have a legitimate source of income."

By this tangent, he stressed the importance of having staff that are properly trained and are deeply in touch with the clients that they are servicing as very often they will be the very first line of defence against money laundering and are in the position to raise red flags.


Mr Thangaraja Nada Raja

Mr Thangaraja Nada Raja, Director, PricewaterhouseCoopers (PwC), elaborated about the key challenges facing insurers as transactions move along the insurance policy life cycle of policy inception, servicing and redemption.

"When we look at some of our insurer clients, a lot of their data on hand is not digitalised and exist only as hard copies. Some of these records were 80 to 90 years old depending on their customers and this makes it hard to do due diligence checks due to the sheer immensity of paperwork required," he said.

Mr Raja also pointed out that despite the huge amounts of records and data available, there was still a distinct lack of sufficient details to perform ML assessments, no central IT system to analyse agent's sales history and client transactions and a lack of centralised cross-border data sources.

The real dangers of terrorism financing

Addressing the differences between terrorism financing and money laundering which is often confused in the public mind, Mr John Madinger who chaired the panel on "Counter Terrorist Financing and Sanctions", said: "Terrorism financing is put simply, a mirror image of money laundering. Where the latter seeks to turn dirty money into clean ones, the former is looking to do the opposite."

He also pointed another difference in that terrorism financing is the act of paying for something that has yet to happen while money laundering is the taking care of money that is the result of crime already perpetrated.


Ms Susan Sim

Ms Susan Sim, Vice-President for Asia of the Soufan Group said: "Western intelligence has estimated that ISIS spends about US$1 million a week just on ammunitions alone, we know some of these come from weapons raided from former Iraqi military facilities but it still begs the question of where do they get the bulk of the financing from to upkeep their war machinery?"

Highlights

- Insurance industry must shed the concept that it will not be the target of money laundering.
- Continual staff training integral in raising early red flags.
- Terrorism funding calls for paradigm shift in transaction monitoring methods.


Mr Sachin B Singh

Mr Sachin B Singh, a Risk and Compliance Specialist with Dow Jones, Asia Pacific said: "In many ways, 9/11 has changed the face of terrorism. Unlike what we see pre-9/11, ISIS as a terror group has developed two distinct features – they actively use self-funding and have foreign fighters trained to self-fund. Often these self-funding activities take on forms that are very hard to detect by conventional transaction monitoring systems used to sniff out money laundering and that is proving to be a huge challenge to compliance officers."

Set up a process to detect fund flow patterns/velocities

So how can the insurance industry better guard itself from being used as a financing platform for terrorists?

"A good plan is to set up a process to detect normal patterns of fund flows and average fund flow velocities and using these values as triggers to identify high risk accounts. Another good plan is to change the mode of transaction monitoring from scenario-based to a more behavioural-based one. This can help to identify any deviation on the part of the customer," suggested Mr Sachin, taking a leaf from how the banking sector is handling the terrorism threat.

The two-day Asia Anti-Money Laundering Summit held in Singapore was organised by the *Asia Insurance Review*. Featuring the theme of "Combating Money Laundering Effectively", the summit was jointly supported by AMLAware, the International Insurance Society (IIS), the Life Insurance Association Singapore and the Risk and Insurance Management Association of Singapore (RIMAS).