Summary of money laundering risk assessment for the life insurance sector

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1 Purpose and scope of application of the sector-specific risk assessment

The money laundering risk assessment concerning the life insurance sector is the Financial Supervisory Authority's (FIN-FSA) assessment of the risks of money laundering at the sector level. Unlike the inherent risk assessment[1], the sector-specific risk assessment takes into account factors pertaining to individual obliged entities, while the assessment has been prepared for the sector as a whole.

A life insurance company is an insurance company pursuing life insurance activities. Life insurance companies are entities under the reporting obligation referred to in the AML Act. Life insurance refers to activities falling within the life insurance classes referred to in the Act on Insurance Classes (526/2008). The pursuit of life insurance activities requires an authorisation granted by the FIN-FSA. There are ten authorised life insurance companies (as at 31 December 2019).

A foreign EEA insurance company may pursue insurance activities in Finland under the right of establishment, after the authority responsible for insurance supervision in its home country has notified the FIN-FSA about the establishment of a branch. There are three branches of foreign EEA insurance companies operating in Finland. Furthermore, in accordance with the Act on the Free Provision of Insurance Services, insurance companies domiciled in an EEA country may provide insurance services in Finland from their foreign place of business. Such branches and insurance companies providing services based on free provision are not covered by the risk assessment, since they do not report to the FIN-FSA.

2 Preparation of the risk assessment

In the assessment of money-laundering risks, the FIN-FSA applies the following four-step scale, which corresponds to the assessment scale used by the European Banking Authority (EBA). A corresponding risk score is defined to describe each risk level.

Risk level	Risk point corresponding to the risk level
Very Significant	4
Significant	3
Moderately Significant	2
Less Significant	1

The sector-specific risk assessment consists of risk levels related to the risk and management method categories. In brief, the assessment of the risk level of the risk and management method categories was conducted as follows.

1) Risk category – products and services

In the assessment of risks related to products and services, the following sources were used.

- FIN-FSA's assessment of inherent risk
- Guidelines of the EBA and the Financial Action Task Force[2]

[1] *https://www.finanssivalvonta.fi/contentassets/51ccf1c859b542df8a91dfc34bdd0d5b/julkaistava_fiva_ml_riskiarvio_en.pdf*

[2] *Guidelines on Risk Factors (JC 2017 37), JC 2019 87 CP on draft GL on ML/TF risk factors, FATF Recommendations: Risk-based Approach Guidance for the Life Insurance Sector.*

- Statistics compiled by the FIN-FSA[3] and Finance Finland[4]
- Risk assessments of life insurance companies under the reporting obligation

The characteristics of life insurance products (risk insurance, endowment insurance, capital redemption policies and voluntary pension insurance) were assessed from the perspective of money-laundering risk, and their market share and impact were assessed by premiums written, number of policies and the amount of savings.

2) Risk category – geographical risk

The source of the assessment of geographical risk consisted of data reported by the supervised entities in the FIN-FSA's survey on risks and controls concerning money laundering and financing of terrorism (RA survey).

3) Risk category – customers

In assessing the risk related to customers, the RA survey was used as the source.

4) Risk category – distribution channels

The sources of the assessment of risk related to distribution channels comprised risk assessments prepared by obliged life insurance companies and the RA survey.

5) Management method categories

The sources of the assessment of risk related to management method categories comprised risk assessments prepared by obliged life insurance companies and the RA survey.

[3] *https://www.finanssivalvonta.fi/en/statistics/insurance/life-insurance/ Premiums written 2019.*
[4] *https://www.finanssiala.fi/materiaalipankki/tilastot/2019 Insurance savings, complete company-specific time series (in Finnish).*

3 Risk assessment and its justifications

3.1 Sector-specific risk assessment

The FIN-FSA has assessed that the risk of money laundering concerning the life insurance sector as a whole is *moderately significant*.

The risk levels concerning the various categories of risks and management methods are shown in the table below:

Risk categories	Life insurance sector
• Products and services	Moderately Significant
• Geographical location and payment traffic	Less Significant
• Customers	Moderately Significant
• Distribution channels	Less Significant
Risk level of risk categories	Moderately Significant
Management method categories	
• Risk-based approach	Significant
• Organisation of activities	Less Significant
• Customer due diligence	Moderately Significant
• Monitoring	Moderately Significant
Risk level of management method categories	Moderately Significant
Overall risk level	**Moderately Significant**

3.2 Risk categories

3.2.1 Products and services

The risk level associated with products and services was assessed to be *moderately significant*.

The products and services provided have a crucial role underlying the risk of a sector or individual entity to be abused in money laundering. Therefore, the risk level of products and services was weighted in the assessment more than the other categories.

Life insurance products can be divided into four categories: risk insurance, endowment insurance, capital redemption policies and voluntary pension insurance.

The following aspects, among others, have been taken into account in classifying life insurance products from the perspective of money-laundering risk:

- Does the contract enable the transfer of assets to a third party?
- Is the policyholder able to exercise partial or full surrenders at any time?
- Does the policy allow big single premiums?
- Can the policy be terminated, and in that case, will there be repayment?
- Does the policy include a savings feature?
- Does the policy allow change of policyholder and/or pledging?

Risk insurance

Risk insurance provides cover for death, illness or disability. The policy may be valid until a pre-determined age or date. The insurance premium is determined based on the coverage amount, health, mortality rate or age of the insured. Pure life insurance is an insurance for death. The insurance protects the income of the family or other beneficiary in the event of death of the insured. Pure life insurance can be used to insure an individual, a couple, or a group. Pure life insurance cover is only paid if the insured dies during the insurance period. Compensation for illness or disability is always paid to the insured.

Endowment insurance

An endowment policy is insurance for life with the purpose of securing the livelihood of the insured or his/her family. In endowment insurance, the customer accumulates savings for the future. The return of an endowment policy may consist of interest paid by the insurance company, appreciation of the savings assets, or a combination thereof. An endowment policy involving a big single premium is often called an investment policy. The content or legal form of an insurance policy cannot be derived from its trade name. In an endowment policy, the insured is a given person, and the savings are paid out as insurance compensation to the beneficiary or the insured, if the insured is alive on the maturity date.

Capital redemption policy

A capital redemption policy is intended as an investment and savings product. A capital redemption policy does not have an insured person or a beneficiary. Capital redemption policy may be made for companies or individuals, and the contracts are always made for a fixed period. The policy may be a single-premium or regular-premium policy and it can be made as a unit-linked or with-profit policy, or a combination of these. The accrued savings are usually repaid as a single lump sum at the maturity of the policy, but they can also be paid in instalments at pre-determined dates.

Voluntary pension insurance

Voluntary pension insurance is an insurance product intended to provide livelihood and additional security for old age. Pension insurance, which almost always includes death cover and family pension, in which the benefit is paid due to the death of insured, is in practice life insurance, despite the nature of the benefits, which are paid out in instalments.

Conclusion

In conclusion, it can be stated that risk insurance and voluntary pension insurance products are associated with a low risk of money laundering, since related money transfers are very limited. On the other hand, savings and capital redemption policies, which are intended as products for investment and saving, involve factors contributing to a higher risk of money laundering. These products allow a high premium. The savings are readily available for surrender in full or in instalments, they can be transferred to a third party or used as collateral for a loan. However, there are some product-specific differences. The bulk of life insurance companies' premiums written stems from higher-risk endowment policies and capital redemption policies.

3.2.2 Geographical risk

The risk level associated with geographical risk was assessed to be *less significant*.

Risk related to geographical location reflects the location of life insurance companies' branches, subsidiaries and agents. Factors contributing to a higher risk level include location outside the EEA or in a high-risk country. According to the RA survey, life insurance companies do not have branches, subsidiaries or agents in the abovementioned areas.

Furthermore, the geographical location of customer fund accounts or payment accounts has an impact on geographical risk.

3.2.3 Customers

The risk level associated with customers was assessed to be *moderately significant*.

Data concerning customers has been collected in the RA survey. The risk level associated with customers depends, among other things, on the number of the entities' foreign customers, high-risk customers and customers operating in certain higher-risk sectors.

Some inconsistencies were identified in the reporting, which has a bearing on the overall assessment.

3.2.4 Distribution channels

The risk level associated with distribution channels was assessed to be *less significant*.

Distribution channels refer to the various channels which can be used for customer onboarding and for the use of the life insurance companies' services.

Life insurance companies provide their services through several separate distribution channels. The distribution channels often comprise banks, companies belonging to the same group with the life insurance companies, and registered insurance intermediaries. Insurance brokers can also be regarded as a distribution channel. Agents used by the companies are mainly located in Finland. The number of physical service points is high, and remote identification is not yet widely used.

3.3 Management method categories

In the assessment of management methods, the sector-specific risk assessment mainly draws on data reported by the companies in the RA survey. Hence, the assessment is based on data on management methods reported by the entities themselves, and the validity of the responses has not been verified.

3.3.1 Risk-based approach

The risk level associated with the risk-based approach to activities was assessed to be *significant*. Information regarding some of the companies' risk assessments was inconsistent and lacked components required by the law. Not all life insurance companies had procedures in place for the assessment of customer-related risks, or in some cases the customer's risk rating was not taken into account in the ongoing due diligence (ODD). Deficiencies in the risk assessment also have an impact on the procedures for customer due diligence and on the monitoring of suspicious transactions.

3.3.2 Organisation of activities

The risk level associated with organisation of activities was assessed to be *less significant*.

The companies mainly reported that they have the operating guidelines, procedures, training as well as practical working instructions required by the AML Act in place to ensure compliance with the customer due diligence procedures.

3.3.3 Customer due diligence

The risk level associated with customer due diligence was assessed to be *moderately significant*.

The customer's identity is primarily verified in the presence of the customer with an approved document of identity or by remote identification using a strong electronic authentication method.

There is some delay in the updating of the customer due diligence information of normal- and high-risk customers.

Some companies have outsourced customer due diligence or use a third party providers, which generally contributes to a higher risk.

3.3.4 Monitoring

The risk level associated with monitoring was assessed to be *moderately significant*.

Life insurance companies monitor monetary transactions related to insurance policies, and the majority of them also monitor customers' activities either using an automated monitoring system or manually.

Life insurance companies have made a varying number of internal ML/TF reports or suspicious activity reports to the Financial Intelligence Unit of the police (FIU). Some companies have not filed any such reports.