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Insurance carriers face daunting task of monitoring suspicious activity

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When thinking of money laundering, insurance products might not spring easily to mind. However, in a post USA Patriot Act age when the bad guys have to become more creative, this industry may be more vulnerable than most people realize.

A real life case reported by the Financial Action Taskforce, showed how a drugs trafficker was able to get US\$ 250,000 of dirty money in an insurance company. He bought a life insurance valued at US\$ 250,000 through an insurance broker. He paid the broker with three cash installments. The insurance broker did not report the delivery of that amount and deposited the three installments in a bank. These actions raised no suspicion at the bank, since the insurance broker is known to them as being connected to the insurance branch. The broker then delivers to the insurance company responsible for making the financial investment, three checks from a bank account under his name, totaling US\$ 250,000, thus avoiding the raising suspicions with the insurance company.

The insurance sector, like other financial services, is attractive to money launderers seeking to place funds into a financial product that will provide them with a reliable, clean return of funds invested. That is why governments around the world have started issuing mandatory money laundering control regulations for this sector. Many insurance carriers are now required to implement anti-money laundering programs and report suspicious activity to the authorities.

There are several reasons why the insurance sector is vulnerable to money laundering:

Product features: Most significant money laundering risks in the insurance industry are found in permanent life insurance, annuities products, and any other insurance products with cash value or investment features. Annuity contracts are interesting for the launderer because they allow him to exchange illicit funds for an immediate or deferred income stream or to purchase a deferred annuity and obtain clean funds upon redemption. Cash value can be redeemed by a money launderer or can be used as a source of further investment of dirty money—for example, by taking out loans against such cash value.

Use of intermediaries: The insurance company often gives independent agents or brokers a great deal of freedom. The focus of the intermediaries is on selling the insurance products, and they work on commission. This is why they are tempted to often overlook signs of money laundering, and lack of explanation for wealth or unusual methods for paying insurance premiums. The case mentioned above shows this vulnerability.

Insurance companies must have the necessary tools for identifying suspicious activity. They must not only have the ability to pick up on structured payments, but also on more complicated laundering. Insurance companies will need to avail themselves of the latest in technology advances to stay ahead of the game.

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With automated monitoring tools, the insurer can determine if the activity is commensurate with what was expected from the policy holder. Below are some indicators for money laundering that could trigger alerts in an automated monitoring system:

- If multiple policies of the same type are registered for the same address this can be considered a higher risk.
- Paying the insurance in one lump payment is unusual. This is per definition a high-risk transaction.
- Changing the beneficiary allows money paid in by one person to be paid out to another. A change of beneficiary indicates a higher risk.
- An overpayment means that the price paid exceeds the (total) premium value.
- Paying the premium or investment in cash is often unusual behavior
- If multiple claims are paid in a short period – this is unusual. Monitoring claiming behavior of the policyholder can help identify unusual claims.

Launderers have shifted their efforts to the non-bank financial sector, including insurance carriers. And the odds are stacked against the insurance industry. The expansion from insurance policies to investment products has substantially increased the money laundering threat. Independent brokers selling the policies without proper oversight only add fuel to the fire. With the proper technology, and trained compliance staff, detecting suspicious activity suddenly becomes a more manageable task.

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