

Insurance — Overview

Objective. *Assess the adequacy of the bank’s systems to manage the risks associated with the sale of covered insurance products, and management’s ability to implement effective monitoring and reporting systems.*

Banks engage in insurance sales to increase their profitability, mainly through expanding and diversifying fee-based income. Insurance products are typically sold to bank customers through networking arrangements with an affiliate, an operating subsidiary, or other third-party insurance providers. Banks are also interested in providing cross-selling opportunities for customers by expanding the insurance products they offer. Typically, banks take a role as a third-party agent selling covered insurance products. The types of insurance products sold may include life, health, property and casualty, and fixed or variable annuities.

AML Compliance Programs and Suspicious Activity Reporting Requirements for Insurance Companies

FinCEN regulations impose AML compliance program requirements and SAR obligations on insurance companies similar to those that apply to banks.²³⁶ The insurance regulations apply only to insurance companies; there are no independent obligations for brokers and agents. However, the insurance company is responsible for the conduct and effectiveness of its AML compliance program, which includes agent and broker activities. The insurance regulations only apply to a limited range of products that may pose a higher risk of abuse by money launderers and terrorist financiers. A covered product, for the purposes of an AML compliance program, includes:

- A permanent life insurance policy, other than a group life insurance policy.
- Any annuity contract, other than a group annuity contract.
- Any other insurance product with features of cash value or investment.

When an insurance agent or broker already is required to establish a BSA/AML compliance program under a separate requirement under BSA regulations (e.g., bank or securities broker requirements), the insurance company generally may rely on that compliance program to address issues at the time of sale of the covered product.²³⁷ However, the bank may need to establish specific policies, procedures, and processes for its insurance sales in order to submit information to the insurance company for the insurance company’s AML compliance.

Likewise, if a bank, as an agent of the insurance company, detects unusual or suspicious activity relating to insurance sales, it can file a joint SAR on the common activity with the insurance company.²³⁸

²³⁶ 31 CFR 1025.210 and 31 CFR 1025.320.

²³⁷ 70 *Fed. Reg.* 66758 (November 3, 2005). Also refer to FFIEC Guidance [Frequently Asked Question, Customer Identification Programs and Banks Serving as Insurance Agents](#), FIN-2006, December 12, 2006.

²³⁸ FinCEN has issued a Frequently Asked Questions document, [Anti-Money Laundering Program and Suspicious Activity Reporting Requirements for Insurance Companies](#). Unless the SAR accommodates multiple

In April 2008, FinCEN published a strategic analytical report that provides information regarding certain money laundering trends, patterns, and typologies in connection with insurance products. Refer to *Insurance Industry Suspicious Activity Reporting: An Assessment of Suspicious Activity Report Filings* on the [FinCEN Web site](#).

Risk Factors

Insurance products can be used to facilitate money laundering. For example, currency can be used to purchase one or more life insurance policies, which may subsequently be quickly canceled by a policyholder (also known as “early surrender”) for a penalty. The insurance company refunds the money to the purchaser in the form of a check. Insurance policies without cash value or investment features are lower risk, but can be used to launder money or finance terrorism through the submission by a policyholder of inflated or false claims to its insurance carrier, which if paid, would enable the insured to recover a part or all of the originally invested payments. Other ways insurance products can be used to launder money include:

- Borrowing against the cash surrender value of permanent life insurance policies.
- Selling units in investment-linked products (such as annuities).
- Using insurance proceeds from an early policy surrender to purchase other financial assets.
- Buying policies that allow the transfer of beneficial interests without the knowledge and consent of the issuer (e.g., secondhand endowment and bearer insurance policies).²³⁹
- Purchasing insurance products through unusual methods such as currency or currency equivalents.
- Buying products with insurance termination features without concern for the product’s investment performance.

Risk Mitigation

To mitigate money laundering risks, the bank should adopt policies, procedures, and processes that include:

- The identification of higher-risk accounts.
- Customer due diligence, including EDD for higher-risk accounts.
- Product design and use, types of services offered, and unique aspects or risks of target markets.
- Employee compensation and bonus arrangements that are related to sales.

filers, only one institution is identified as the filer in the “Filer Identification” section of the SAR. In these cases, the narrative must include the words “joint filing” and identify the other institutions on whose behalf the report is filed.

²³⁹ Refer to the International Association of Insurance Supervisors’ [Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism](#), October 2004.

- Monitoring, including the review of early policy terminations and the reporting of unusual and suspicious transactions (e.g., a single, large premium payment, a customer's purchase of a product that appears to fall outside the customer's normal range of financial transactions, early redemptions, multiple transactions, payments to apparently unrelated third parties, and collateralized loans).
- Recordkeeping requirements.