

RED FLAG INDICATORS FOR DIRECT LIFE INSURANCE

General Comments

The list of situations given below is intended to highlight some basic ways in which money may be laundered or used for TF purposes. While each individual situation may not be sufficient to suggest that ML/TF is taking place, a combination of such situations may be indicative of a suspicious transaction. The list is intended solely as an aid, and must not be applied as a routine instrument in place of common sense.

The list is not exhaustive and may be updated due to changing circumstances and new methods of laundering money or financing terrorism. Direct life insurers are to refer to STRO's website for the latest list of red flags¹.

A customer's declarations regarding the background of such transactions should be checked for plausibility. Not every explanation offered by the customer can be accepted without scrutiny.

It is reasonable to suspect any customer who is reluctant to provide normal information and documents required routinely by the direct life insurer in the course of the business relations. Direct life insurers should pay attention to customers who provide minimal, false or misleading information, or when applying for a policy, provide information that is difficult or expensive for the direct life insurer to verify.

Transactions Which Do Not Make Economic Sense

- i) A customer relationship with the direct life insurer that does not appear to make economic sense, for example, the early redemption of a policy when the surrender value is less than the value of premiums paid.
- ii) Transactions in which policies are cancelled shortly after premiums have been paid, resulting in the return of premiums, unless the direct life insurer is furnished with a plausible reason for the cancellation, especially where policy premiums have been paid in cash.
- iii) Transactions that are incompatible with the normal activities of the customer, for example, taking out a policy loan soon after the inception of the policy. In addition, if an existing customer whose current contracts are small or involve only small, regular premium payments makes a sudden request for a purchase of a significantly large single premium policy, this may also prompt further investigations by the direct life insurer.
- iv) Transactions that are not commensurate with the customer's apparent financial means, for example, where customers without reasonable financial standing purchase large single premium policies for a large assured sum.

¹ The website address as at 20 August 2018: <https://www.police.gov.sg/about-us/organisational-structure/specialist-staff-departments/commercial-affairs-department/aml-cft/suspicious-transaction-reporting-office/suspicious-transaction-reporting>.

- v) Transactions where the nature, size or frequency appears unusual, for example, a customer requests transactions involving multiple policies of a similar nature, which aggregate to large amounts. In addition, a customer's request for the early termination of a single premium policy especially when cash had been tendered should also prompt further investigations by the direct life insurer.
- vi) Transactions in which funds are received by way of a third party cheque, especially where there is no apparent connection between the third party and the customer.
- vii) Abnormal settlement instructions, including payment to apparently unconnected parties.

Transactions Involving Large Sums

- i) Payment of premiums via large or unusual amounts of cash. In particular, a direct life insurer should be vigilant in verifying information and the nature of transactions of any customer if any large single payment is made in cash.
- ii) Frequent taking out of policy loans that are repaid with large amounts of cash.
- iii) Transactions in which funds are received from or paid to a customer's account in a financial haven, or in foreign currency especially when such transactions are not consistent with the customer's transaction history.
- iv) Overpayment of premium with a request to refund the excess to a third party or an account held in a different country or jurisdiction.

Transactions Involving Transfers Abroad

- i) Large and regular premium payments that cannot be clearly identified as bona fide transactions, from countries or jurisdictions associated with (a) the production, processing or marketing of narcotics or other illegal drugs or (b) other criminal conduct.
- ii) Substantial increase in cash premium payments from foreign countries or jurisdictions by a customer without apparent cause, especially when such transactions are not consistent with the customer's transaction history.

Transactions Involving Unidentified Parties

- i) Paying premiums in large third party cheques on behalf of the customer.
- ii) Assignment of a policy to unidentified third parties and for which no plausible reasons can be ascertained.
- iii) A number of policies taken out by the same insured for low premiums, each purchased with cash and then cancelled with return of premiums to a third party.

Free-Look Provisions and Other Matters

- i) Frequent changes to the address or where the customer is a non-natural person, frequent changes to authorised signatories.
- ii) A policyholder may exercise cancellation rights or cooling off rights on life insurance products where the sum invested must be repaid (subject to any shortfall deduction where applicable). This could offer a readily available route for laundering money, and insurers should therefore be alert to any abnormal exercise of cancellation or cooling off rights by any policyholder. In the event that abnormal exercise of these rights becomes apparent, the matter should be treated as suspicious and reported through the usual channels.
- iii) Agents who have consistently high activity levels of single premium business far in excess of any average company expectation.
- iv) The use of an address that is not the customer's permanent address, for example, utilisation of the agent's office or home address for the dispatch of customer documentation.

Tax Crimes Related Transactions

- i) Negative tax-related reports from the media or other credible information sources.
- ii) Unconvincing or unclear purpose or motivation for purchasing life policies in Singapore.
- iii) Originating sources of multiple or significant premiums are not consistent with the declared purpose of the policy.
- iv) Source of premiums are from another country or jurisdiction, often a tax haven with poor track record on CDD or record keeping requirements.
- v) Policies managed by external asset managers who may not be adequately regulated and supervised.

Other Types of Transactions

- i) The customer fails to reasonably justify the purpose of a transaction when queried by the direct life insurer.
- ii) Transactions with countries or entities that are reported to be associated with terrorism activities or with persons that have been designated as terrorists.
- iii) When a young person (aged about 17-26) purchases a life policy with cash value and surrenders it within a short period, which could be an indication of terrorism financing.
- iv) When a person receives funds from a religious or charitable organisation and utilises the funds for purchasing a life policy with cash value and surrenders it within a relatively short period.
- v) The customer uses intermediaries which are not subject to adequate AML/CFT laws.
- vi) Transactions that are suspected to be in violation of another country's or jurisdiction's foreign exchange laws and regulations.