**MONEY LAUNDERING AND TERRORIST FINANCING RISK IN THE INSURANCE INDUSTRY**

**Background**

The insurance sector is seen as having lower risk for money laundering and terrorist financing than other financial sectors. However, it still faces risks that funds used for insurance could come from criminal activity or be directed toward terrorism.

This presentation seeks to underscore the importance of the insurance industry and pinpoint and convey the risks associated with Money Laundering and Terrorist Financing that the Industry faces. Furthermore, it aims to ensure that Sierra Leone, as a nation, has robust anti-money laundering and counterterrorist financing supervision within the Insurance Industry. Additionally, it aspires to uphold and bolster public confidence in the Insurance Industry.

**Introduction**

Money Laundering and Terrorist Financing Risks in the Insurance Industry

Good morning, respected colleagues, regulators, and stakeholders. Today, I would like to discuss a significant, though frequently overlooked, vulnerability within our financial system: the risk of money laundering and terrorist financing in the insurance sector.

While one might not initially consider insurance a major target for illicit financial activities, its various products, complex distribution channels, and the vast sums of money it manages create opportunities that criminals and terrorist factions can exploit. Neglecting these risks is not feasible. It not only threatens the integrity of our sector but also undermines global initiatives to combat financial crime and terrorism.

Let us first clarify the fundamental concepts. Money laundering is the act of disguising the origins of illegally acquired money by executing a complicated series of banking transfers or commercial transactions. The end goal is to make the “dirty” money appear “clean.” In contrast, terrorist financing involves providing financial assistance to individuals or organisations engaged in terrorist acts or activities. This funding may stem from either legitimate or illegitimate sources.

So, how does the insurance sector become vulnerable to these unlawful activities? Several traits of our industry present inherent risks:

Complex Products: Insurance offerings, particularly life insurance policies with considerable surrender values or investment-linked features, can be exploited to conceal illicit funds. Premiums may be paid with dirty money, and when the policy is surrendered or matures, the payouts may seem like legitimate income. The intricacy of some products can obscure the original source of funds. For instance, a single premium life insurance policy with a large payout after a short duration can attract those looking to layer illegal funds.

Global Reach: Numerous insurance companies operate globally, with branches, subsidiaries, and intermediaries spread across various countries. While this international presence is advantageous for business, it can also be exploited by criminals aiming to transfer funds between jurisdictions with differing regulatory oversight levels. Consider a scenario where premiums are paid in one nation using illicit funds, and the claim is subsequently made and disbursed in another, obscuring the money trail.

Intermediary Networks: Dependence on brokers, agents, and other intermediaries for distribution introduces an additional level of complexity. While these intermediaries are essential for reaching a broader clientele, they can also unwittingly facilitate money laundering or terrorist financing if proper due diligence protocols are lacking. For example, a corrupt agent might assist in acquiring policies using questionable funds without adequate verification.

Large Transaction Volumes: The insurance industry handles substantial amounts of premiums and payouts. This high volume can sometimes make it challenging to detect suspicious transactions among legitimate financial activity. A large number of comparatively small premium payments, when combined, could signify a considerable amount of illicit funds.

Lack of Consistent Global Standards: Although international organizations like the Financial Action Task Force (FATF) provide guidelines, the enforcement and execution of antimoney laundering and counterterrorist financing (AML/CFT) regulations can vary widely across different nations and jurisdictions, creating gaps that can be exploited.

The potential repercussions of our sector being exploited for money laundering and terrorist financing are severe:

Reputational Damage: Involvement in financial crimes can significantly harm the reputation of both individual companies and the entire insurance sector, resulting in a decline in public trust and business opportunities.

Legal and Regulatory Penalties: Noncompliance with AML/CFT regulations can lead to hefty fines, legal repercussions, and even license revocation.

Facilitation of Crime and Terrorism: By permitting illicit funds to circulate through our systems, we inadvertently enable criminal actions and terrorist operations.

**Risk Implications**

The oversight in conducting rigorous Know Your Customer (KYC), Customer Due Diligence (CDD), and Enhanced Due Diligence (EDD) processes on clients can significantly elevate the risk of the Insurance Company becoming embroiled in money laundering activities, either directly or indirectly. Such lapses not only threaten the integrity of the organization but also expose it to a myriad of substantial operational, compliance, reputational, and regulatory risks.

Failure to establish comprehensive Anti-Money Laundering (AML), Counter Financing of Terrorism (CFT), and Proliferation Financing (PF) compliance policies, processes, and procedures places the Insurance Company in a precarious position ripe for legal repercussions. The lack of adherence to these essential frameworks could inadvertently lead operational staff to take actions that contravene existing laws and regulations concerning AML/CFT compliance, thus placing the organization at further risk.

In addition, the absence of effective board oversight reflects a critical vulnerability in the insurance company's AML/CFT/PF compliance measures. An organization lacking a well-defined operational manual signifies a glaring inefficacy on the part of its board in steering the institution's operations effectively. Without such guiding documentation, the institution invites a plethora of risks that could threaten its very existence.

Moreover, without a clearly delineated operational manual, the possibility of individual staff members dictating their duties increases dramatically. This chaotic atmosphere can lead to inconsistency in performance and potential self-serving behaviours, ultimately compromising the organisation's goals.

Neglecting to provide adequate training for insurance company staff to enhance their understanding of AML/CFT/PF compliance opens the door to grave risks associated with the potential use of the institution as a vehicle for laundering illicit funds or financing terrorism. It becomes vital for insurance companies to ensure strict adherence to AML/CFT/PF legal frameworks. The consequences of failure may include severe sanctions and legal ramifications, as stipulated in section 88 (1) of the AML/CFT/PF Acts 2024.

Furthermore, forgoing hiring external auditors to prepare institutional financial statements can reflect poorly on the management and board’s commitment to oversight, exposing them to accusations of negligence. Therefore, adopting a proactive and robust approach to risk mitigation is not just prudent but imperative.

**Key Strategies to Mitigate Risks:**

Enhanced Customer Due Diligence (CDD): Implementing comprehensive CDD measures includes meticulously verifying customer identities and gaining a thorough understanding of the nature and purpose of the business relationships. Particularly for high-risk clientele or transactions, Enhanced Due Diligence (EDD) becomes vital, necessitating an in-depth examination of the sources of funds and wealth. For example, engagements involving politically exposed persons (PEPs) or clients from jurisdictions deemed high risk warrant particularly intensive investigation.

Transaction Monitoring: Establishing advanced transaction monitoring systems is crucial for identifying unusual or suspicious patterns within financial activities. This encompasses diligent oversight of the size, frequency, and geographical origins of transactions. For instance, an unexpected spike in premium payments from an unfamiliar source or a rapid succession of policy surrenders may serve as significant warning signals.

Reporting Suspicious Transactions (STRs): Cultivating a vigilant and proactive culture within the organization is paramount. Ensuring that employees are sufficiently trained to recognize and report suspicious transactions to the appropriate authorities is essential. Establishing clear internal reporting mechanisms and fostering an environment of nonretaliation for whistleblowers are vital components.

Strong Internal Controls: The implementation of robust internal policies, procedures, and controls including regular risk assessments, comprehensive employee training programs, and independent audits is fundamental to preventing and detecting activities related to money laundering and the financing of terrorism.

Collaboration and Information Sharing: Fostering enhanced collaboration and information sharing among insurance companies, regulatory bodies, and law enforcement agencies is essential in the collective effort to combat cross-border financial crimes effectively.

Keeping Pace with Evolving Threats: As criminals and terrorist financiers continuously evolve in their tactics, we must remain vigilant. It is critical to regularly update our AML/CFT frameworks and leverage cutting-edge technology to stay one step ahead of these dynamic threats.

To conclude, the risks associated with money laundering and terrorist financing within the insurance industry are genuine and necessitate our unwavering focus and commitment. By recognizing our vulnerabilities, implementing proactive preventive measures, and nurturing a culture of compliance, we can effectively safeguard the integrity of our industry. This protects our businesses and elevates our collective contributions to the global fight against financial crime and terrorism. Together, let us ensure that the insurance sector remains a bastion of trust and security rather than a conduit for illicit activities.

Thank you.