

## MODULE 5

### Summary of the vulnerability of the insurance sector conducted during the national risk assessment

#### Members of the working group:

- (Financial Supervision Authority, head of the working group)
- (Financial Intelligence Unit)
- (Financial Supervision Authority)
- (Ministry of Finance)
- (Insurance Association)

#### Introduction

According to the new recommendations of the Financial Action Task Force (FATF) (recommendation no. 1), which entered into force in February 2012, countries should systematically conduct national risk assessments of money laundering and terrorist financing and, unlike before, official risk assessment documents are no longer sufficient, though scientific approach should be used and the scope of the risk assessment should be extended beyond the authority's view by drawing up a national risk assessment (hereinafter NRA or national risk assessment).

In order to prepare the NRA, the Government Committee for the Prevention of Money Laundering and Terrorist Financing decided at the meeting on 17 October 2012 to establish a separate working group (hereinafter *risk assessment working group*). The work of the risk assessment working group is led by the Ministry of Finance and its members are: representatives of the Ministry of Justice, Ministry of the Interior, Ministry of Foreign Affairs, Ministry of Finance, Tax and Customs Board, Internal Security Service, Police and Border Guard Board, Financial Intelligence Unit and Financial Supervision Authority.

#### The aim of the module and brief description of its structure

When assessing the vulnerability of the insurance sector, a general assessment of the vulnerability of the sector was first made according to the World Bank module. Under the influence of the entire sector, the applicable regulations, data availability and other factors that form the basis for compliance with the requirements arising from the Money Laundering and Terrorist Financing Prevention Act (hereinafter RahaPTS) and other international standards, including FATF recommendations, were assessed. The second part assessed the vulnerability of products and services offered in a specific sector. The assessment takes into account the data and circumstances

for the years 2010 - 2012. In doing so, group 5 has not taken the guidance material, results of Moneyval's IV evaluation report and other relevant changes that have entered into force after 2012 into account and which, by their nature, may affect the conclusions reached.

## Assessment

### 1. Overall assessment of the vulnerability of the sector

As part of the overall assessments of the sector's vulnerability, the members of the working group 5 assessed that the insurance sector is well covered by anti-money laundering and anti-terrorist financing regulations. At the same time it was found that it is always possible to make the regulation even better or more precise, which is why the regulations were assessed as high (0.95). With regard to financial supervision, it was found that it is well organized in the insurance sector in Estonia, including the right of the Financial Supervision Authority to issue instructions on money laundering, issue precepts, prosecute misdemeanours and revoke activity licenses. At the same time, it was found that supervision could be further improved by involving more people. Due to the above, the quality and integrity of supervision was assessed as high (0.85).

Group 5 found that the insurance sector felt no pressure to comply with money laundering requirements beyond the regulatory and supervisory framework, leading to a low/medium pressure rating (0.21). At the same time the insurer as the obliged entity and the management board of the insurance broker are generally committed to the corporate governance practices of the company. The current regulation does not regulate the requirements of the management system in sufficient detail, but the provisions involving the requirements of the management system have been changed and it is more important in this assessment that the requirements are set for managers and the suitability of insurers and insurance brokers is checked before obtaining the activity license and also later on an ongoing basis by the Financial Supervision Authority. Due to the above, the commitment of corporate governance was rated high (0.85).

Group 5 found that a suitable customer or person identification structure in accordance with the European Union legislation and international standards has been established in Estonia, which is why it was rated high (0.95). The same assessment was given for the system in place to verify the data provided or collected from independent sources. The identification of beneficial owners was rated as medium/high (0.75), as obliged entities are able to fully identify the beneficial owners, and in particular the ones who otherwise control the management of the legal entity.

Data retention, transaction monitoring and screening, identification of politically exposed persons and identification of the subject of an international sanction, and compliance with the notification obligation were rated as high (0.80). This rating is not maximum, as it is possible to raise the awareness of obliged entities in case of suspicion of money laundering and terrorist financing and,

consequently, to increase the number and quality of notifications submitted to the Financial Intelligence Unit.

Staff training was rated as medium (0.50). This rating was given, although there is a corresponding regulation that refers to the mandatory nature of training, due to the fact that there are not enough statistics on the quality of the training that has not been conducted by the Financial Supervision Authority or Financial Intelligence Unit. However, the existence of compliance checks and the fulfilment of the respective obligations were rated as medium/high (0.75). The latter due to the fact that although the insurer and the insurance broker should have rules of procedure for performing internal control and the lack of such control has not been established during the supervision procedure, there is no obligation in the Insurance Activities Act to perform the compliance function.

Group 5 also found that the national penal policy was disproportionate to the crime committed in the prevention of money laundering and terrorist financing. At the same time there are adequate measures to prosecute individuals. Therefore, the penalties were rated as medium (0.50). The market participants were aware of the measures taken to prosecute and were also aware that the breaches of money laundering requirements would lead to penalties. At the same time it was found that on the basis of conviction statistics it cannot be stated with certainty that all money laundering offences can be punished, which is why the punishment of money laundering offences was rated as medium/high (0.70). Although RahaPTS and other legislation do not provide for a specific obligation to establish internal procedures to ensure that employees do not cooperate with criminals, on the other hand the employee is obliged to be loyal to the employer, employees are constantly monitored and remuneration principles are in place, therefore the integrity of the employees was rated as high (0.85).

## **1. Assessment of the vulnerability of products and services offered in the sector**

The assessment of the vulnerability of products and services offered in the sector is based on the information provided by insurers on the basis of a special questionnaire. There are five life insurers in Estonia, all of which sold the service. In the completed modules, insurance brokers have not been assessed in the analysis of products and services, insofar as only one of the Estonian life insurers uses brokers to sell its services and to a very small extent - 39 term and whole life insurance contracts concluded through brokers entered into force in 2010, 27 in 2011 and 11 in 2012. Thus, a declining trend can be also noted. At the same time the total of 10,003 term and whole life insurance contracts entered into force in 2012 and the relevant insurer had the total of 177 of them.

The assessments are based on the fact that the insurers provided four different types of insurance: term and whole life insurance (incl. supplementary insurance), capital redemption insurance (incl. birth and marriage insurance), unit-linked life insurance and pension insurance.

### **1.1. Term and whole life insurance (incl. supplementary insurance)**

For transaction volumes, group 5 took into account the ratio of the amount of insurance provisions for term and whole life and supplementary insurance contracts in force over the years to the total amount of market liabilities and the ratio of the total amount of insurance premiums to the insurance premiums received for all services. Due to the above, the risk is low (0.10) for this service in 2012, low (0.10) for this service in 2011 and low (0.10) for this service in 2010.

The average volume of the term and whole life insurance contract (incl. supplementary insurance) in 2012 was 53.2 euros, in 2011 68.4 euros and in 2010 also 68.4 euros. Based on the assessment criterion determined by group 5, i.e. the average volume of the term and whole life insurance contract (without supplementary insurance) in the respective years and the average salary, there is no risk.

With regard to the customer profile, it was found that two of the four insurers had slightly less than 100% resident customers during the period under review (for the latter, total for all services offered). One insurer does not disclose customer residency data, one does not collect relevant data. However, it was found that not all insurers collected or provided information on the customer profile. Therefore, group 5 found that although the vast majority of insurers' capital redemption insurance customers are residents, the money laundering risk arising from the customer's profile should be assessed from low to higher as to all years (0.40), largely due to the lack of information.

With regard to other risk factors related to the product and service, it was found that the share of cash transactions, taking thereby all contributions to the contract into account, is very small. Three of the five insurers confirmed that the anonymous consumption of insurance services during the period under review was excluded, and the beneficial owner was identified in each case. Face-to-face identification is performed exclusively by all insurers. In addition to the above, insurers have not identified any cases of money laundering. Due to the above, the money laundering risk arising from the so-called other risk factors was assessed as low/medium as to all years (0.25).

Two of the five insurers have not taken specific measures to mitigate the aforementioned vulnerabilities, one insurer has no relevant information, one insurer applies additional controls on cash receipts for all its services, as well as when the amount paid by an unrelated party was received based on the contract. Insurers themselves assess the risks of money laundering related to the services they offer as low, so no extensive special measures are applied. Due to the lack of risk of money laundering, the assessment of the risk of the measures to be taken is low (0.05).

### **1.2. Capital redemption insurance (incl. birth and marriage insurance)**

In terms of transaction volumes, group 5 took into account the ratio of the amount of insurance provisions for capital redemption, including birth and marriage insurance contracts, to the total amount of market liabilities and the ratio of total insurance premiums to the insurance premiums received for all services. Due to the above, the risk is low/medium (0.30) for this service in 2012, low/medium (0.30) for this service in 2011 and low/medium (0.30) for this service in 2010.

The average volume of the capital redemption insurance contract (incl. birth and marriage insurance) in 2012 was 207.6 euros, 260.2 euros in 2011 and 264.1 euros in 2010. Based on the assessment criterion determined by group 5, i.e. the average volume of the term and whole life insurance contract (without supplementary insurance) in the respective years and the average salary, there is no risk.

The customer profile of insurers was the same as in case of term and whole life insurance, which is why the rating is the same in all years, i.e. higher than low (0.40).

Other risk factors related to the product and service are the same as in case of term and whole life insurance, which is why the rating is the same, i.e. low/medium (0.25) for all years.

In order to mitigate the vulnerability mentioned in the previous clauses, the same measures have been introduced as in case of term and whole life insurance, which is why the rating is the same, i.e. low as to all years (0.05).

### **1.3. Unit - linked life insurance**

In terms of transaction volumes, group 5 took into account the ratio of the amount of insurance provisions for unit-linked life insurance contracts in force over the years to the total amount of market liabilities and the ratio of total insurance premiums to insurance premiums received for all services. Due to the above, the risk is low/medium (0.40) for this service in 2012, low/medium (0.40) for this service in 2011 and medium (0.50) for this service in 2010.

The average volume of unit-linked life insurance contracts in 2012 was 372.8 euros, 565 euros in 2011 and 852.7 euros in 2010. Based on the assessment criterion determined by group 5, i.e. the average volume of the term and whole life insurance contract (without supplementary insurance) in the respective years and the average salary, the risk in 2012 was low (0.10), in 2011 low (0.10) and in 2010 low (0.10).

The customer profile of insurers was the same as in case of term and whole life insurance, which is why the rating is the same as to all years, i.e. higher than low (0.40).

Other risk factors related to the product and service are the same as in case of term and whole life insurance, which is why the rating is the same, i.e. low/medium (0.25) for all years.

In order to mitigate the vulnerability mentioned in the previous clauses, the same measures have been introduced as in case of term and whole life insurance, which is why the rating is the same, i.e. low as to all years (0.05).

#### **1.4. Pension insurance**

In terms of transaction volumes, group 5 took into account the ratio of the amount of insurance provisions of pension insurance contracts in force over the years to the total amount of market liabilities and the ratio of the total amount of insurance premiums to the insurance premiums received for all services. Due to the above, the risk is low (0.10) for this service in 2012, low (0.10) for this service in 2011 and low (0.10) for this service in 2010.

The average volume of the pension insurance contract in 2012 was 518.5 euros, 612.8 euros in 2011 and 388.6 euros in 2010. Based on the assessment criterion determined by group 5, i.e. the average volume of the term and whole life insurance contract (without supplementary insurance) in the respective years and the average salary, the risk in 2012 was low (0.10), in 2011 low (0.10) and in 2010 low (0.10).

The customer profile of the insurers was the same as in case of term and whole life insurance, which is why the rating is the same as to all years, i.e. medium/high (0.80).

Other risk factors related to the product and service are the same as in case of term and whole life insurance, which is why the rating is the same, i.e. low/medium (0.25) as to all years.

In order to mitigate the vulnerability mentioned in the previous clauses, the same measures have been introduced as in case of term and whole life insurance, which is why the rating is the same, i.e. low as to all years (0.05).

### **Summary**

By summarizing the data and circumstances for 2010-2012, group 5 considered that in terms of overall vulnerability, more attention should be paid to employee training, as well as increasing the criminalization of money laundering offences and raising public awareness of anti-money laundering in order to increase external pressure on the insurance industry. The unit-linked life insurance had the highest risk in the comparison of products and services. In doing so, group 5 has not taken into account guidance material, the results of Moneyval's IV evaluation report and other relevant changes that have entered into force after 2012 and which, by their nature, may affect the conclusions reached.