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UNITAT D'INTEL·LIGÈNCIA FINANCERA D'ANDORRA

INFORMATIVE NOTE ADDRESSED TO THE NON-BANKING INSURANCE SECTOR

Date: January 17, 2023

Purpose: On the basis of the principal trends of action in the non-banking life insurance companies' sector, this compilation of the main recommendations in the field of prevention and fight against money laundering and terrorism financing is provided.

Rationale:

In the course of the thematic inspection in the matter of assessment of the ML/TF risk and classification of clients based on the level of risk, carried out by the UIFAND to companies in the non-banking life insurance sector during the years 2021 and 2022, this Unit has detected several areas that, on a recurring basis, present shortcomings and in response to which it has drawn up a set of common recommendations, which are made applicable to the whole sector through this informative note.

The reiteration and the evidence detected in relation to the cases that are detailed below leads to the assumption that these are deficiencies present in the non-banking insurance sector in a widespread way. For this reason, recommended actions are described for each of the areas susceptible of improvement which have been detected, in order to help the reporting entities in this sector to mitigate these risks.

Important: This informative note should be read and interpreted together with the *"Guide to the Individual Risk Assessment (IRA)"* issued by the UIFAND in July 2018.

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Areas with detected deficiencies/risks and recommended actions

1. Preparation of the IRA

1.1. Content of the IRA

Deficiencies/risks detected
• Reporting entities have an Individual Risk Assessment (IRA), although, in many cases, the assessment does not consider all the available data, factors and risks to which the entity is exposed.
Recommended improvement actions
At a minimum, the resulting IRA report must contain: • A brief description of the procedures for the preparation of the IRA and the sources of information used. • A brief description of the activity, diversity, complexity of the business and the commercial strategy. • A detailed description and analysis for each of the life-related products that are commercialized taking into account their characteristics and the volumes they represent. • Customer portfolio segmentation according to the type of customer, the volume of premiums and the payment of claims or redeems, among others. • A conclusion in terms of ML/TF risk(s) for each of the analyzed factors and for the whole entity. • A list of the measures to be implemented in order to mitigate the risks detected, indicating the person(s) responsible for their adoption. In the event that no new measures to be implemented or improvement actions are detected, this fact must be explicitly reflected in the report.

1.2. Distribution channel risk

Deficiencies/risks detected
• Overall, for the sector, it can be concluded that a significant part of the business is acquired through insurance agents or intermediaries, although the volume does not correspond exclusively to life insurance products.
Recommended improvement actions
• The IRA must clearly describe the business acquisition channels, either own or through insurance agents or intermediaries, focusing on life branch and especially on products that allow redemptions of premiums. • The insurance company must have an insurance agents and intermediaries' acceptance procedure that, at the very least, allows confirming that they have in place AML/CTF policies and procedures or that they will apply those policies and procedures of the insurance company. • Collaborative relationships with insurance agents and intermediaries must be

formalized in a written document that includes explicit clauses on the obligation to apply the due diligence measures required in Law 14/2017.
• Insurance agents and intermediaries should be required to have knowledge of PBC/FT and to regularly attend training courses.

1.3. Responsible of the IRA drafting

Deficiencies/risks detected
• In many cases, reporting entities prefer to entrust the IRA drafting to an external expert. Although this practice is allowed, the entity should participate in the ML/TF risk assessment much more actively as it has the knowledge of its business and its customers.
Recommended improvement actions
• The report must name the person, body or company in charge of the study, indicating capacity in terms of knowledge and experience for its drafting. • In order to avoid incompatibilities, the insurance company has to refrain from entrusting the drafting of the IRA to the same entity that evaluates, through the annual audit report, the effectiveness of the internal control systems that have been implemented to mitigate the risks detected in the study. • In case the study has been commissioned to an external expert, the Board of Directors must assess whether the description of the company's risks contained in the report is in line with the business's own perception of risks.

1.4. IRA update

Deficiencies/risks detected
• The IRA is a living document that must be updated periodically to be able to reflect as faithfully as possible the reality of the business and the risks to which the company is exposed, in order to be able to develop the corresponding mitigation measures.
Recommended improvement actions
• State in the report the frequency of the IRA update. As indicated in the IRA Guide issued by the UIFAND, an update period of 3 years is recommended, or when important events or new developments occur in the management and activity of the reporting entity. • Ensure that all relevant and up-to-date information from current business relationships is available to carry out the risk assessment. To this end, the company must design its databases with the fields that contain the ML/TF risk characteristics that will be used when preparing the IRA.

2. Due diligence measures

2.1. Identification of the customer and the beneficial owner

Deficiencies/risks detected
• Although business relationships with legal entities are not numerous in life insurance, sometimes reporting entities do not apply the most basic measures to identify them, relying on statements or using expired documentation.
Recommended improvement actions
• Ensure the adequacy and validity of documentation in order to identify clients that are legal entities, through documentation or information from reliable and independent sources. • Reinforce the identification of the beneficial owner of clients who are legal entities. It should be remembered that the declaration submitted to the Register of Companies cannot be considered as a sufficient source for the identification of the beneficial owner. For customers who are companies incorporated under Andorran law, it is recommended that the reporting entity consult the shareholders' information contained in the Register of Companies (ATOL), which could indeed be sufficient, depending on the case. • Document the analysis carried out to identify the beneficial owner and the conclusions reached.

2.2. Customer knowledge

Deficiencies/risks detected
• In many cases, it has been verified that reporting entities have limited knowledge of their clients or that this knowledge is not properly documented.
Recommended improvement actions
• At least for high-risk ML/TF relationships, the company should prepare an internal document in order to reflect all the knowledge the entity has of the client, apart from the forms currently used, which generally include very basic information. • This document could be an internal analysis that does not necessarily need to be signed or known by the client but that requires updates whenever relevant changes occur and completed with the conclusions on the various checks carried out (supporting documentation, open source searches, etc.) to achieve a greater knowledge of the customer.

2.3. Graduation of due diligence measures

Deficiencies/risks detected
• Reporting entities apply occasionally the same due diligence measures to the entire client portfolio, on a non risk based approach.
Recommended improvement actions
• In order to adequately reflect and mitigate the risk posed by each business relationship, consider establishing a greater detail with regard to the assignment of the level of risk, based on multiple factors beyond the possibility of adopting simplified measures, PEP status or the presence of high-risk countries. Graduate the due diligence measures applied depending on the level of risk assigned to each client and apply enhanced measures, at least, for those business relationships for which Law 14/2017 establishes it.

2.4. Monitoring of the business relationship

Deficiencies/risks detected
• In most cases, companies apply the same measures to monitor the business relationship without considering relevant characteristics such as the country of effective residence of the customers, among others.
Recommended improvement actions
• Given the wide variety of administrative residence authorizations granted by the Andorran authorities and the specific characteristics of each of them, reporting entities must incorporate these particularities into their suspicion detection systems.

3. Other relevant aspects

3.1. Restrictive measures and terrorist financing

Deficiencies/risks detected
• Although life insurance companies are aware of the existence of the list of persons and entities designated by the United Nations Security Council for their links to terrorism or its financing, its use is not homogeneous among non-banking insurance companies.
Recommended improvement actions
• Ensure that, at the beginning of the business relationship, the insurance company checks that the parties involved in the policy do not appear on the consolidated list of sanctions of the United Nations Security Council, which includes the persons and entities designated by the United Nations for links with terrorism or its financing. • For ongoing business relationships, a periodic consultation must be established in order to know the variations that occur in the list, since these are not included

through technical communiqués.

- Frequency of the revisions must be established in the internal proceedings. At a minimum, the list must be consulted before policy renewals and redeems and claims payments.
- Ensure that the procedure for screening against designated persons includes, on the one hand, searching for all the parties involved in the business relationship, and on the other hand, r the analysis of coincidences.
- For more information on the application of restrictive measures, the "Guide on the application of restrictive measures", issued in February 2017 for this purpose, updated in December 2019, and published at the website of the UIFAND, is available for the insurance companies.

3.2 Classification of clients according to their level of risk

Deficiencies/risks detected
• In general, reporting entities do not classify their clients based on the ML/TF risk they may potentially present. Generally, based on the risk of the product, it is common to consider the entire customer portfolio as "low risk", regardless of its characteristics and/or particularities, applying the same type of measures to all of it.
Recommended improvement actions
• Formally implement a customer ML/TF risk classification system, clearly establishing the criteria used and based on multiple risk factors. Reflect in a written document the measures to be taken in each case. • Record in writing in each business relationship the risk it presents, in a justified way, based on the established criteria. • Ensure that the determination and assignment of the level of risk is carried out in all business relationships and for all persons who are subject to identification (policyholder, insured, beneficial owner, beneficiary of the policy or any other intervener). • In the case of customers with more than one product, and in order to have an overall view of risk, ensure that risk classification is carried out at the customer level, and not for a particular operation or specific product type, considering all the policies in which the customer intervenes. • In the event that the insurance company wishes to assign risk profiles on an aggregate basis, by virtue of what is established in article 4.4 of the Regulation of Law 14/2017, the homogeneous characteristics that apply have to be evaluated at the IRA, both to customers and to products.

Supervision Area

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