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**Circular Letter No. 9-2002**

**TO: All Insurance Companies doing business in the Philippines, Insurance Intermediaries, whether general agents, ordinary agents or brokers, Professional Reinsurers or Reinsurance Brokers and Holding Companies.**

**SUBJECT: Operating Manual against Money-Laundering for Insurance Commission Covered Institutions.**

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Pursuant to the provisions of the Anti-Money Laundering Act of 2001, its implementing rules and regulations, the Insurance Code, as amended, and other pertinent laws, rules and regulations, the Insurance Commission hereby issues this operating manual for the anti-money laundering efforts of its covered institutions.

**For Strict Compliance.**



**EDUARDO T. MALINIS**  
Insurance Commissioner and  
MEMBER, Anti-Money Laundering Council

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**TITLE I**  
**Definitions and Application**

**Section 1.**

- a. "Act" shall refer to Republic Act 9160 entitled, "An Act Defining the Crime of Money-Laundering, Providing Penalties Therefore and For Other Purposes".
- b. "Covered Institutions" - shall be deemed to refer to all entities, persons, individuals, regulated and supervised by the Insurance Commission under the Insurance Code as well as Act No. 9160, and shall include the following:
  - b.1. All Life Insurance Companies doing business in the Philippines;
  - b.2. All Non-Life Insurance Companies doing business in the Philippines;
  - b.3. Insurance Intermediaries, whether general agents, ordinary agents or brokers;
  - b.4. Professional Reinsurers and Reinsurance Brokers;
  - b.5. Holding Companies.

The definitions of the foregoing as used in the Act and its implementing rules and regulations shall likewise be applicable for purposes of this Operating Manual.

- c. It is understood that the provisions of the Act, its implementing rules and regulations shall apply in all other cases not covered by this operating manual.

**TITLE 2**  
**The Crime of Money Laundering**

**Section 1. Money Laundering** – money laundering covers all procedures to change, obscure or conceal the beneficial ownership or audit trail of illegally obtained money or valuables so that it appears to have originated from a legitimate source.

**Section 2. Stages of Money Laundering** – the three (3) common stages of money-laundering during which there may be numerous transactions made by launderers that could alert an insurance institution are:

2.a. **Placement**– the physical disposal of cash proceeds derived from illegal activity. The aim is to remove cash from the location of acquisition to avoid detection.

2.b. **Layering** – separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the source of money, subvert the audit trail and provide anonymity. The purpose is to disassociate the illicit proceeds from the unlawful activity by creating intentionally a complex web of financial transactions aimed at concealing any audit trail as well as the source and ownership of funds.

2.c. **Integration** – the final stage is the process at which the money is integrated into the legitimate economic and financial systems and

is assimilated with all the other assets in the system. Integration of laundered money into the economy is accomplished by making it appear to have have been legally earned. Thus, exceedingly, difficult to distinguish between legal and illegal wealth.

**Section 3.** Owing to the nature of insurance contracts or policies, payment of premiums as well as settlement of insurance claims, and all other forms of insurance transactions, are presently no longer predominantly cash based, thus covered insurance institutions are less likely to be used in the placement stage than other financial institutions.

The most common form of money laundering that insurance institutions will encounter takes the form of a proposal to enter into a single premium contract. Examples of these types of contracts are, investment bonds, single premium annuities, lump sum payments to an existing life insurance contract, accelerated or increased coverage/premiums, lump sum contributions to premium deposit-fund types of policies, etc.

These contracts in themselves may be part of a sophisticated web of complex transactions and which will often have their origins in the financial services sector. Thus, since most payments are made in checks from another financial institution, the foregoing as described provides mechanisms for the first stage of money laundering.

However, the payment of premium in cash is not unknown and the risk of the business being used at the placement stage cannot be ignored. The business of insurance is most likely to be used at the second stage of money laundering, the layering process, as they provide a potential avenue which may allow a dramatic alteration of the form of funds – from cash on hand to cash in bank, from money in whatever form to an entirely different asset such as securities, investment contracts, pension plans, insurance policies, stock certificates, pre-need plans, bearer and other negotiable instruments. Insurance policies, particularly life insurance contracts, are treated not only as protection and savings instruments, but also as investment contracts and as such, insurance transactions incorporate added attraction to the launderer in that the alternative asset is normally highly liquid. The ability to liquidate investment portfolios containing both lawful and illicit proceeds, while concealing the criminal source of the latter, combined with the huge variety of investments and insurance products available, and the ease of transfer between them, offers the sophisticated criminal launderer an ideal route to effective integration into the legitimate economy. Due diligence must therefore be exercised to prevent the use of insurance institutions as instruments of money laundering.

**TITLE 3**  
**Policies of Insurance Institutions to Combat Money-Laundering**

**Section 1 - To Combat Money Laundering, the Commission requires covered institutions to adopt and apply the following policies:**

- 1.a. **Know your customer** – all insurance institutions should institute effective procedures for obtaining identification of customers. Insurance institutions should not keep anonymous accounts or accounts in obviously fictitious names and should properly identify and record the identity of their clients when establishing business.
- 1.b. **Record Keeping** – insurance institutions should ensure that, in all stages in a transaction, all relevant information can be retrieved to the extent available without undue delay.
- 1.c. **Compliance with Laws** – insurance institution management should ensure that business is conducted in conformity with high ethical standards, laws and regulations being adhered to and ensuring that the service is not provided where there is good reason to suppose that transactions are associated with money laundering activities.
- 1.d. **Cooperation with AMLC, AMLC Secretariat and the law enforcement agencies** – within the legal constraints relating to customer confidentiality, insurance institutions shall cooperate

fully with the Anti-Money Laundering Council, its Secretariat and law enforcement agencies including, where there are reasonable grounds for suspecting money laundering, taking appropriate measures which are consistent with the law.

Disclosure of information by insurance institutions for the purposes of the Act regarding covered transaction reports and suspicious transactions shall be made to the Executive Director, Anti-Money Laundering Council, Bangko Sentral Ng Pilipinas.

1.e. Policies, procedures and training – each insurance institution shall adopt policies consistent with the principles set out in this Manual, ensuring that its staff, wherever located, are informed of these policies and adequately trained in matters set forth herein.

Covered insurance institutions shall implement specific procedures for customer identification (Title 4), Record Keeping (Title 5), reporting of covered and suspicious transactions (Title 6).



**TITLE 4**  
**Customer (Policyowner) Identification**  
**Part A**

**Section 1.** As a regular part of the application process for insurance, covered insurance institutions are required to obtain satisfactory evidence of the true and full identity of insurance applicants, which information includes but not limited to:

1.a. Names, addresses, telephone number, tax identification number, occupation, employer and duties, whenever applicable, original documents of identity issued by an official authority bearing the photograph of the client eg; official identification cards and passports, specimen signatures.

While identification documents easily obtained in any name like, medical cards, credit cards and student identification cards may be used, the same should not be accepted as the sole means of identification.

1.b. The names of beneficiaries, when applicable, to the insurance contract and the relationship to the policyowner.

1.c. For corporate clients; incorporation or partnership papers, its domicile, legal basis for its existence and organizational structure including the identification of all persons purporting to act on their

behalf. Any document submitted shall be certified as true copies from the issuing government agency.

1.d. Duly notarized special authorizations for representatives.

1.e. Other pertinent and reasonable documents as may be deemed necessary under the prevailing circumstances.

**Section 2.** Clients should be made aware of covered insurance institutions' explicit policy that transactions will not be conducted with applicants who fail to provide evidence of their identity, but without derogating from the obligations of the covered insurance institution to report covered and suspicious transactions. Where initial checks fail to identify the applicant, or give rise to suspicions that the information given is false, additional verification measures should be undertaken to determine whether to proceed with the business. Details of the additional checks are to be recorded.

**Section 3.** When a covered insurance institution acquires the business of another financial institution or covered insurance institution, either in whole or as a product portfolio, it is not necessary for the identity of all existing customers to be re-identified, provided that:

3.a. all client account records are acquired with the business; and

3.b. due diligence inquiries do not raise any doubt as to whether the anti-money laundering procedures previously adopted by the acquired business have satisfied AMLC requirements.

**Section 4.** If during the business relationship, the covered insurance institution has reason to doubt:

- 4.a. the accuracy of the information relating to the customer's identity;
- 4.b. the client as the beneficial owner;
- 4.c. the intermediaries declaration of beneficial ownership, or
- 4.d. for reason of any sign of unreported changes.

Then the covered insurance institution concerned shall take further measures to verify the identity of the customer or the beneficial owner, when applicable. Such measures may include the following:

- 4.e. referral of names and other identifying information to criminal investigation authorities; and
- 4.f. review of disciplinary history and disclosure of past relevant sanctions.

**Section 5.** Covered insurance institutions shall maintain accounts only in the name of the account holder, they shall not open or keep anonymous accounts, fictitious name accounts, incorrect name accounts and similar accounts.

**Section 6.** The following minimum information/documents shall be obtained from individual customers:

- a. name;
- b. present address;
- c. permanent address;
- d. date and place of birth;
- e. nationality;
- f. nature of work and name of employer or nature of self-employment/business;
- g. contact number;
- h. tax identification number, SSS or GSIS number;
- i. specimen signature;
- j. source of fund(s); and
- k. names of beneficiaries, whenever applicable;
- l. proof of insurable interest, whenever applicable.

Insurance applicants who present only photocopies of identifications and other documents shall be required by covered insurance institutions to produce the original documents for verification purposes.

**Section 7.** Verification without Face-to Face Contact:

- a. Whenever possible, prospective clients shall be interviewed personally.

- b. Covered insurance institutions shall take particular care in opening accounts via the internet, postal service or telephone or other such medium which may give rise to verification without face-to-face contact.
- c. The customer identification procedures for non face-to-face verification should be as stringent as those for face to face verification. Covered insurance institutions are duty-bound to inform such clients that identity verification measures apply to them as well.
- d. The following are a number of checks which can be used by covered insurance institutions to verify identity of prospective clients where there is no face-to-face contact.
  - telephone contact with the applicant at an independently verified home or business number.
  - subject to the applicant's consent, telephone confirmation of the applicant's employment with the employer's personnel department at a listed business number.
  - salary details appearing on recent bank statements, income tax returns or any other document evidencing compensation.
  - Confirmation of the address through an exchange of correspondence or by any other appropriate method.

Presentation of other existing insurance policies or contracts issued by other covered insurance institutions supervised by the Insurance Commission will provide additional comfort.

**Section 8.** For non-residents who seek to procure insurance in the Philippines, whenever applicable, and without face-to-face contact, documents as enumerated in Section 6 issued by foreign authorities may be submitted, duly authenticated by the Philippine Consulate where such foreign authorities are located.

Covered insurance institutions shall inform clients of the provisions of Title 4, Section 2.

**Section 9.** No New Accounts shall be opened without face-to-face contact unless full compliance with the requirements of Section 6 are met.

Insurance institutions should take particular care in situations where payment is :

- offered in cash
- offered by way of share exchange where it is evident that the shares have been held for less than six (6) months.
- by way of a third party check without any apparent connection with the prospective client.
- By check where there is a variation between the policyholder, the signatory and prospective client.

**Part B**  
**Corporation, Stock or Non-Stock and Partnerships**

**Section 10.** Before establishing a business relationship, a company search and/or other commercial inquiries shall be made to ensure that the corporate/other business applicant has not been, or is not in the process of being dissolved, struck off, wound-up or terminated. In the event of doubt as to the identity of the company or its directors, or the business or its partners, a search or inquiry with the relevant Supervisory Authority/Regulatory Agency shall be made.

**Section 11.** The following relevant documents shall be obtained in respect of corporate/other business applicants which are subject to Philippine regulation.

- Copies of the Certificate of Registration, including Articles of Incorporation or Certificate of Partnership, as appropriate, copies of the By-laws and Latest General Information Sheet, which lists the names of directors/partners and principal stockholders and secondary licenses.

The originals or certified true copies of any or all of the foregoing documents, where required, should be produced for verification.

- Sworn statement as to existence or non-existence of beneficial

owners.

- Appropriate board resolutions and signed application forms authorizing the opening of the account or transaction together with specimen signatures.
- Where necessary, covered insurance institution may also require additional information about the nature of the business of clients, copies of identification documents of shareholders, directors, officers and all authorized signatories.

These requirements shall apply in all cases involving holding companies.

**Section 12.** If significant changes in the company structure or ownership occur subsequently or suspicions are aroused by a change in the payment profile through a company account, further checks are to be made on the new owners.

### Part C Transactions with Shell Companies

**Section 13.** Shell companies are legal entities which have no business substance in their own right but through which financial transactions may be conducted. Covered insurance institutions should note that shell companies may be abused by money launderers and therefore should be cautious in their dealings with them.



**Section 14.** In addition to the requirements under Part B, Section 11, covered insurance institutions should also obtain a Board of Directors' Certification as to the purposes of the owners in purchasing the shell company. Likewise, there should be satisfactory evidence of the identities of the beneficial owners, bearing in mind the "know-your-customer" principle.

**Part D**  
**Trustee Nominee and Agent Accounts**

**Section 15.** A covered insurance institution shall establish whether the applicant for insurance is acting on behalf of another person as trustee, nominee or agent. An insurance institution should obtain satisfactory evidence of the identity of such agents and authorized signatories, and the nature of their trustee as nominee, capacity and duties.

**Section 16.** When the covered insurance institution has doubts as to whether the trustee, nominee or agent is being used as a dummy in circumvention of existing laws, it shall immediately make further inquiries to verify the status of the business relationship between the parties. If satisfactory evidence of the beneficial owners cannot be obtained, insurance institutions shall consider whether to proceed with the business, bearing in mind the "Know-your-Customer" principle. If the decision is to proceed,

the covered institution should record the misgiving and give extra attention in monitoring the account in question.

**Section 17.** Where the account is opened by a firm of lawyers or accountants, the covered insurance institution should not be precluded from making reasonable inquiries about transactions passing through the subject accounts that give cause for concern or from reporting those transactions if any suspicion is aroused. If a money laundering Suspicious Transaction Report is made to the Council in respect of such clients' accounts, the Council will seek information directly from the lawyers or accountants as to the identity of its clients and the nature of the relevant transaction, in accordance with the powers granted to it under the act and other pertinent laws.

**Part E**  
**Transactions Undertaken on Behalf**  
**of Account Holders or Non-Account Holders**

**Section 18.** Where transactions are undertaken on behalf of account holders of a covered insurance institution, particular care shall be taken to ensure that the person giving instructions is authorized to do so by the account holder.

**Section 19.** Transactions undertaken for non-account holders demand special care and vigilance. Where the transaction involves significant amounts, the customer should be asked to produce positive evidence of identity

including nationality, the purposes of the transaction and the source of the funds.

**Part F**  
**Postal Business**

**Section 20.** In respect of postal business, any mechanism which avoids face to face contact between a company, agent or broker and its client, or where mass selling techniques or coupon applications are involved, the same inevitably poses difficulties for client identification and produces a useful loophole that money launderers may wish to exploit.

Particular case should be taken when undertaking such business to ensure that the identity of the prospective client has been verified to the satisfaction of the covered insurance institution, agent or broker concerned. A payment check drawn on another financial sector institution should only be relied upon as the sole means of verification where it is a personal check drawn on a personal account.

**TITLE 5**  
**Record Keeping**

**Section 1.** Covered Insurance Institutions shall prepare and maintain a record relative to their customer relationships and transactions such that:

- a. requirements of the Act are fully met
- b. any transaction effected directly by the covered insurance institution or thru a broker or agent can be reconstructed and from which the Council will be able to conduct an audit trail for suspected money laundering, when reports warrant the same.
- c. the covered institution can satisfy within a reasonable time any inquiry or order from the Council as to disclosure of information, including but not limited to whether a particular person is the customer or beneficial owner of transactions.

**Section 2.** The following document retention periods shall be followed:

- a. All records of all transactions of covered institutions, especially customer identification records, shall be maintained and stored safely for five (5) years from the dates of transactions.
- b. With respect to closed accounts, the records on customer identification, account files and business correspondence, shall be preserved and safely stored for at least five (5) years from the date when they were closed.

- c. In case of long term insurance, full documentary evidence is usually retained based on material completed at the initiation of the proposal of the contract, together with evidence of processing of the contract up to the point of maturity.
- d. Covered insurance institutions, inclusive of agents or brokers should follow the usual procedure and retain the records of those contracts which have been settled by maturity, claim or cancellation for a period of five (5) years after that settlement.
- e. Insurance institutions should ensure that they have in place adequate procedures:
  - (i) To provide initial proposal documentation including fact finding, analysis of needs, details of payment method, identification documents produced and illustration of benefits;
  - (ii) To retain all records associated with the maintenance of the contract post sale, up to and including maturity of the contract; and,
  - (iii) To provide details of the maturity processing and/or claim settlement which will include completed "discharge documentation".