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### **CIRCULAR LETTER**

**To :** All Insurance Companies Doing Business in the Philippines, Insurance Intermediaries, Professional Reinsurer, Holding Companies, Mutual Benefit Association and Trust for Charitable Uses

**Subject :** Guidelines in the Preparation of the Revised Operating Manual in Combating Money-Laundering and Financing of Terrorism for Insurance Commission Covered Institutions

Pursuant to the provisions of Republic Act No. 9194 amending Republic Act No. 9160 (also known as "The Anti-Money Laundering Act of 2001"), its revised Implementing Rules and Regulations, the Insurance Code of 1978, as amended, and other pertinent laws, rules and regulations, the Insurance Commission hereby issues this **revised** operating manual which shall serve as a guide to all covered institutions in the formulation thereof of control measures and procedures against money laundering and financing of terrorism.

In view of the foregoing, all covered institutions are hereby directed to update and amend their respective operating manual and to submit thereof for evaluation of the Commission, on or before 31 December 2006.

Please be guided accordingly.

  
**EVANGELINE CRISOSTOMO-ESCOBILLO**  
Insurance Commissioner

cc: **HON. MARGARITO B. TEVES**  
Secretary  
Department of Finance



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*Guergel C. Guin*

**TITLE I**  
**Definitions and Applications**

Section 1.

- a. "Act" shall refer to Republic Act 9160 (as amended by Republic Act No. 9194) entitled, "An Act Defining the Crime of Money-Laundering, Providing Penalties Therefor and for Other Purposes:
- b. "Covered Institutions" – shall be deemed to refer to all entities, persons, individuals, regulated and supervised by the Insurance Commission (IC) under the Insurance Code as well as Republic Act No. 9160 as amended, 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, insurance or reinsurance brokers;
  - b.4. Professional Reinsurer;
  - b.5. Holding Companies;
  - b.6. Mutual Benefit Association
  - b.7. Trust for Charitable Uses; and
  - b.8. All other individuals and entities supervised and/or regulated by the Insurance Commission.

The term Covered Institution in this manual shall be used interchangeably with Insurance Institution.

- c. **Beneficial Owner** – applies to the owner/controller of the policyholder as well as to the beneficiary to the contract.
- d. **Transaction** – refer to inquiries and application for an insurance policy, premium payments, requests for changes in benefits, beneficiaries, duration, etc.

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

*Arneling C. Cruz*

**TITLE 2**  
**Money Laundering and Financing of Terrorism**

Section 1. **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.

Money Laundering is used also to hide the link between those who finance terrorism and those who commit terrorist acts.

**Financing of terrorism** can be defined as the willful provision or collection, by any means, directly or indirectly, of funds with the intention that the funds should be used, or in the knowledge that they are to be used, to facilitate or carry out terrorist acts. Terrorism can be funded from legitimate income.

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.**

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 institutions are less likely to be used in the placement stage than other financial institution.

2.b. **Layering – is the separation of criminal proceeds from their source by the creation of layers of transactions designed to disguise the audit trail and provide the appearance of legitimacy.**

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.

Money laundering and the financing of terrorism using reinsurance could occur either by establishing fictitious (re)insurance companies or reinsurance intermediaries, fronting arrangements and captives, or by the misuse of normal reinsurance transactions.

*Luigi C. Puri*

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

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.

**Section 3. Vulnerabilities in insurance**

Life insurance and non-life insurance can be used in different ways by money launderers and terrorist financiers.

Insurance Institution therefore should take adequate measures to deter, detect and report money laundering and the financing of terrorism.

The type of life insurance contracts that are vulnerable as vehicle for laundering money or terrorist financing are products, which includes: unit-linked single premium contracts, purchase of fixed and variable annuities, single provision life insurance policies that store cash value and (secondhand) endowment policies. Non-life money laundering or terrorist financing can be seen through inflated or totally bogus claims and through the use of reinsurance. An insurance policy might be used as collateral to purchase other financial instruments. These investments in themselves may be merely one part of a sophisticated web of complex transactions with their origins in the financial services sector.

**TITLE 3  
Policies, Procedures and Controls to  
Combat Money-Laundering and Financing of Terrorism**

**Section 1** To combat money laundering and financing of terrorism, the Commission requires covered institutions to have in place programmes and systems which include the following:

*Sulejmani C. Emir*

- 1.a. **"Know your Customer" principle** – all insurance institutions should institute effective procedures for obtaining true identification of customers. Insurance institutions should not keep anonymous accounts or accounts in obviously fictitious names and should properly identify and record the **true** identity of their clients when establishing business.

**Customer identification and CDD** measures depend on the risk attached to a type of customer or transaction. Covered institution may apply reduced or simplified CDD in the case of low risk customers. Simplified CDD or reduced measures could be acceptable to various types of product or transaction such as:

- life insurance policies where the annual premium is no more than USD/€ 1000 or single premium of no more than USD/€ 2500;
- Insurance policies for pension schemes if there is no surrender clause and the policy cannot be used as collateral;
- a pension, superannuation or similar scheme that provides retirement benefits to employees, where contributions are made by way of deduction from wages and the scheme rules do not permit the assignment of a member's interest under the scheme categories. The FATF Recommendations require additional due diligence measures in relation to politically exposed persons (PEPs). For this purpose covered institution should have appropriate risk management systems to determine whether the customer is a PEP.

The Covered Institution should create a **customer profile** which could serve as a reference to establish the purpose of the contract and to monitor subsequent transactions and events.

Customer due diligence measures that should be taken by insurance institutions include:

- identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information;
- determining whether the customer is acting on behalf of another person, and then taking reasonable steps to obtain sufficient identification data to verify the identity of that other person;
- identifying the (ultimate) beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner such that the insurer is satisfied that it knows who the beneficial owner is. For legal persons and arrangements insurers should take reasonable measures to understand the ownership and control structure of the customer;
- obtaining information on the purpose and intended nature of the business relationship and other relevant factors;
- conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the insurer's knowledge of the customer and/or beneficial owner, their business and risk profile, including, where necessary, the source of funds.

*Juengst C. Gu*

The extent and specific form of these measures may be determined following a risk analysis based upon relevant factors including the customer, the business relationship and the transaction(s). Decisions taken on establishing relationships with higher risk customers and/or beneficial owners should be taken by senior management.

Where reliance on intermediaries and third parties is permitted, the following criteria should be met:

- insurance institution should take adequate steps to satisfy themselves that copies of identification data and other relevant documentation relating to the CDD requirements will be made available from the intermediaries and third parties are regulated and supervised, and have measures in place to comply with CDD requirements in line with FATF Recommendations 5 and 10.
- 1.b. **Compliance with Laws** – insurance institution management should ensure that business is conducted in conformity with high ethical standards, laws and regulations are being adhered to and that the service is not provided where there is good reason to suspect that transactions are associated with money laundering activities.
- 1.c. **Cooperation with AMLC 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 and where there are reasonable grounds for suspecting money laundering, take 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 transaction reports shall be made to the Executive Director, Anti-Money Laundering Council, Bangko Sentral Ng Pilipinas.

- 1.d. **Having in place adequate policies, procedures and training** – each insurance institution shall adopt policies consistent with the principles set out in this Revised 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), and Reporting of Covered and Suspicious Transactions (Title 6).

#### TITLE 4

#### Customer (Policyholder) Identification and Due Diligence

##### 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:

*Jungini C. Gu*

- 1.a. **For individual policyholder**, 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, e.g., official identification cards, current valid passports and driver's license which bears a photograph.

While identification documents easily obtained in any name like, health or insurance cards, credit cards, provisional driving license 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 policy owner.
- 1.c. **For corporate clients**, incorporation or partnership papers, their domicile, legal basis for their 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 insurance institutions' explicit policy that transactions will not be conducted with applicants in the event of failure to complete verification of any relevant subject or to obtain information on the purpose and intended nature of the business relationship, the covered institution should not conclude the insurance contract, perform the transaction, or should terminate the business relationship. The covered institution should also consider making a suspicious transaction report to the Anti-Money Laundering Council.

Section 3. When a covered institution acquires the business of another financial institutions or 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 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;

*Juan Carlos C. Gu*



- 4.c. the intermediaries' declaration of beneficial ownership, or
- 4.d. for reason of any sign of unreported changes,

then the covered 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 investigations authorities; and
- 4.f. review of disciplinary history and disclosure of past relevant sanctions.

Where the covered institution has already commenced the business relationship and is unable to comply with the verification requirements, it should terminate the business relationships and consider making suspicious transaction report.

Section 5. Insurance institutions shall maintain accounts only in the true and full name of the account holder. They shall not open or keep anonymous accounts, fictitious name accounts, incorrect name accounts and all other similar accounts.

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

- 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);
- 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.

*Jungelani C. Auto*

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

- a. Whenever possible, prospective clients shall be interviewed personally.
- b. Covered 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. In accepting business from non-face to face customer, a covered institution should use equally effective identification procedures as those available for face-to-face customer acceptance, supplemented with specific and adequate measures to mitigate the higher risk.
- d. The following are 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 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.

*Belmonte C. Gu*

Section 9. No New Accounts shall be opened without face-to-face contact unless full compliance with the requirements of Section 6 is met and the original documents thereof are presented for verification purposes.

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

- offered in cash
- offered by way of share 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 Partnership**

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 list the names of directors/partners and principal stockholders and secondary licenses.
- The name(s) and address(s) of the beneficial owner(s) and/or the person(s) or whose instructions the signatories on the account are empowered to act.

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.

*Angelina C. Gutierrez*

- Appropriate board resolutions and signed application forms authorizing the opening of the account or transaction together with the specimen signatures.
- Where necessary, a covered 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 also 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 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 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, insurance institutions should also obtain a Board of Directors' Certification as to the purposes of the owners/stockholders 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 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. Where the account is opened by a firm of lawyers or accountants, the covered 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 Suspicious Transaction Report is made to the Council in respect of such clients' accounts,

*Surajit C. Ghosh*

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.

## TITLE 5 Record Keeping

Section 1. 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 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 insurance 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 on the risk profile of each customer and/or beneficial owner and the data obtained through the CDD process, official identification documents, and the account files or business correspondences shall be maintained and stored safely for **five (5) years from the dates of transactions.**
- b. The documents, data or information collected under CDD process is kept up to date and relevant by undertaking reviews of existing records particularly for higher risk categories of clients or business relationships.
- c. 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.**
- d. In case of long term insurance, records usually consist of full documentary evidence gathered by the insurer or on the insurer's behalf between entry and termination. If an agency is terminated, responsibility for the integrity of such records rests with insurer as product provider.
- e. 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.**

Section 3. As regard to record of transactions, insurance institutions should ensure that they have in place adequate procedures:

*George C. Cui*

- (i) To access initial proposal documentation including identity, address or other identifying information, the client financial assessment (the "fact find") client needs analysis copy of regulatory documentation details of the payment method, illustration of benefits and copy documentation in support of verification by the insurers;
- (ii) To access all post-sale records associated with the contract through its maturity;
- (iii) To access details of the maturity processing and/or claim settlement, which will include completed "discharge documentation".

Section 4. When an insurance institution or an insurance broker or agent sends or remits money to or receives money from its overseas customers, regardless of amount, it should record the following particulars regarding the transaction:

- (i) transaction serial number;
- (ii) currency and amount involved;
- (iii) date and time of receiving by covered institutions from customer or other persons purporting to act on their behalf, if any;
- (iv) instruction details (including method of delivery and receipt), if any;
- (v) names, identification cards or passport numbers, as the case may be, telephone numbers and addresses of the customers or persons acting on their behalf, whether locally or abroad;
- (vi) bank accounts involved, if any; and
- (vii) date and time of delivery and receipt number, if any.

Section 5. Transaction documents may be retained as originals or copies, on microfilms, or in electronic form, provided such forms are admissible in court, pursuant to the Revised Rules of Court and E-Commerce Act and its Guidelines.

Section 6. The provision of any rule, regulation or law to the contrary notwithstanding, if the records relate to on-going investigations or transactions that have been the subject of a disclosure, they shall be retained beyond the stipulated retention period until it is confirmed that the case had been closed.

*Juanqui C. Qui*

**TITLE 6**  
**Covered and Suspicious Transactions**

Section 1. Insurance Institution shall file before the Anti-Money Laundering Council **Covered Transaction Report (CTR)** for all transaction in cash or other equivalent monetary instrument involving a total amount in excess of Five hundred thousand pesos (Ps 500,000.00) within one (1) banking day.

Section 2. As provided in the Act, the Insurance Institution shall also file a **Suspicious Transaction Report ("STR")** before the Anti-Money Laundering Council, regardless of the amount involved, where any of the following circumstances exist:

- a. there is no underlying legal or trade obligation, purpose or economic justification;
- b. the client is not properly identified;
- c. the amount involved is not commensurate with the business or financial capacity of the client;
- d. taking into account all known circumstances, it may be perceived that the client's transaction is structured in order to avoid being the subject of reporting requirements under the Act;
- e. any circumstance relating to the transaction which is observed to deviate from the profile of the client and/or the client's past transactions with the covered institution;
- f. the transaction is in any way related to an unlawful activity or offense that is about to be, is being or has been committed; or
- g. any transaction that is similar or analogous to any of the foregoing,

All covered transactions and suspicious transactions should be reported by all covered institution to the AMLC within ten (10) working days from occurrence thereof.

Should a transaction be determined to be both a covered transaction and a suspicious transaction, the covered institution shall be required to report the same as a suspicious transaction.

Section 3. Suspicious transactions should be recognizable as falling into one or more of the following categories:

- a. any unusual financial activity of the customer is the context of his own usual activities;
- b. any unusual transaction in the course of some financial activity;

*Quenglai C. Qui*