INSURANCE COMMISSION ANTI-MONEY LAUNDERING (AML) AND COUNTER-TERRORISM FINANCING (CTF) RISK RATING SYSTEM FOR INSURANCE COMMISSION REGULATED ENTITIES (ICREs)

SECTION I. Introduction

The AML and CTF Risk Rating System (ACRRS) is a rating system to be used by Insurance Commission (IC) to understand whether the risk management policies and practices as well as internal controls of ICREs to prevent money laundering (ML) and terrorist financing (TF) are in place, well disseminated and effectively implemented. In doing so to individual ICREs, the IC will have an over-all understanding of its system’s risk management policies and practices as well as internal controls relative to money laundering and terrorist financing prevention.

This ACRRS is a supervisory tool to ensure that all ICREs are assessed in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on entities exhibiting inefficiencies in Board of Directors (BOD) and Senior Management (SM) oversight and monitoring, inadequacies in their AML framework, weaknesses in internal controls and audit, and defective implementation of internal policies and procedures.

SECTION II. Overview

Under the ACRRS, each ICRE is assigned a Composite Rating based on the assessment of four (4) components of an ICRE’s framework and operations in the prevention of ML and TF. These component factors address the following:

a. Efficient Board of Directors and Senior Management oversight;

b. Sound AML/CTF policies and procedures embodied in a Money Laundering and Terrorist Financing Prevention Program (MTPP) duly approved by the Board of Directors;

c. Robust internal controls and audit; and

d. Effective implementation.

Evaluation of the components takes into consideration, but not limited to, the ICRE's responses to various questions that are designed to comprehend its business operations as well as its risk profile. The responses will be assessed and on-site compliance checking will confirm their veracity and accuracy. Thereafter, a Component Rating will be assigned to reflect whether or not the ICRE possesses
any or all of the component factors stated above based on the combined results of the off-site evaluation of replies to the AML/CTF Compliance Questionnaire (attached as Annex “A”) and on-site confirmation of their veracity and accuracy. The Component Ratings to be assigned ranging from 4 as the highest and 1 as the lowest are discussed in every component factor.

The Composite Rating generally bears a close relationship to the Component Ratings assigned. However, the Composite Rating is not derived by computing an arithmetic average of the Component Ratings. Each Component Rating is based on a qualitative analysis of that component and its interrelationship with the other components. The Composite Rating is assigned based on a 1 to 4 numerical scale. The highest rating of 4 indicates the strongest risk management system and most effective operational practices that entail the least degree of supervisory concern. The lowest rating of 1 on the other hand signifies the weakest risk management system and defective implementation that requires the highest degree of supervisory concern including the placement of the ICRE within the framework of prompt corrective action.

The assigned Composite and Component Ratings are disclosed to the ICRE’s BOD and SM together with an indication of its level of compliance with relevant provisions of the Anti-Money Laundering Act of 2001 (AMLA), under Republic Act (R.A.) No. 9160, as amended by R.A. Nos. 9194, 10167, 10365 and 10927, the Terrorism Financing Prevention and Suppression Act (TFPSA), under R.A. No. 10168, their respective Implementing Rules and Regulations (IRR), Circular Letter (CL) No. 2018-48, as amended and other relevant IC and Anti-Money Laundering Council (AMLC) issuances.

SECTION III. Composite Rating

A. The Composite Ratings are defined as follows:

1. Composite Rating of 4

The level of over-all money laundering and terrorist financing prevention risk management and control framework relative to the size, complexity, and risk profile is high and without cause for supervisory concern. The risk and control framework is clearly defined and fully compatible with the nature and complexity of the entity’s activities. All or most of its component ratings are 4 with no component rating below 3. It is most capable of withstanding any risk associated with money laundering and is unlikely to be used as a money laundering conduit for the proceeds of unlawful activities.

2. Composite Rating of 3

The level of over-all money laundering and terrorist financing prevention risk management and control framework relative to the size, complexity, and risk profile is acceptable and with minimal supervisory concern.
The risk management and control framework is adequately defined and sufficiently compatible with the nature and complexity of the entity’s activities. All or most of its component ratings are 3 with no component rating below 2. It can withstand any associated AML risks and there’s low probability of it being used as a money laundering conduit for the proceeds of unlawful activities.

3. Composite Rating of 2

The level of over-all money laundering and terrorist financing prevention risk management and control framework relative to the size, complexity, and risk profile needs improvement and requires more than normal supervision. Risks are insufficiently controlled and mitigated, leaving too high a residual risk for the ICRE. The risk management and control framework is poorly defined or insufficiently compatible with the nature and complexity of the entity’s activities. All or most of its component ratings are 2. It is vulnerable to money laundering risks and may be used as a money laundering conduit for the proceeds of unlawful activities.

4. Composite Rating of 1

The level of over-all money laundering and terrorist financing prevention risk management and control framework relative to the size, complexity, and risk profile need drastic and/or immediate improvement and requires close supervisory attention. Risks are not or inadequately mitigated and poorly controlled. The risk management and control framework is neither defined nor compatible with the nature and complexity of the entity’s activities. All or most of its component ratings are 1. It is not capable of withstanding money laundering risks and may likely be used as a conduit for the proceeds of unlawful activities.

B. Composite Rating Matrix

<table>
<thead>
<tr>
<th>Composite Rating</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Numerical Rating</strong></td>
<td>Sound.</td>
<td>Adequately Sound.</td>
<td>Vulnerable.</td>
<td>Grossly Inadequate</td>
</tr>
<tr>
<td><strong>Adjectival Rating</strong></td>
<td><strong>Over-all Money Laundering (ML) and Terrorist Financing (TF) Prevention Risk Management Framework (relative to size, complexity and risk profile)</strong></td>
<td>High level of risk management and control without cause for supervisory concern. The risk and control framework is clearly defined and fully compatible with the nature and complexity of the ICRE’s activities.</td>
<td>Acceptable level of risk management and control with minimal supervisory concern. The risk management and control framework is adequately defined and sufficiently compatible with the nature and complexity of the ICRE’s activities.</td>
<td>Risk Management and Control needs improvement and requires more than normal supervision. Risks are insufficiently controlled and mitigated, leaving too high a residual risk for the ICRE. The risk management and control framework is poorly defined or insufficiently compatible with the nature and complexity of the ICRE’s activities.</td>
</tr>
<tr>
<td>Components’ Rating</td>
<td>All or mostly 4 with no component rating less than 3</td>
<td>All or mostly 3 but no rating less than 2</td>
<td>All or mostly 2</td>
<td>All or mostly 1</td>
</tr>
<tr>
<td>--------------------</td>
<td>-----------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Capacity to Withstand ML and TF Risks</td>
<td>Most capable of withstanding ML and TF risks and is unlikely to be used as money laundering conduit for the proceeds of unlawful activities.</td>
<td>Can withstand any associated ML and TF risk and there is low probability of it being used as money laundering conduit for the proceeds of unlawful activities.</td>
<td>Vulnerable to ML and TF risks and may be used as money laundering conduit for the proceeds of unlawful activities.</td>
<td>Not capable of withstanding ML and TF risks and may likely be used as a conduit for the proceeds of unlawful activities.</td>
</tr>
</tbody>
</table>

### SECTION IV. Component Rating

Each of the Component Rating descriptions is discussed separately on each component factor below.

#### A. BOD and SM Oversight Component

1. Description

The BOD and SM Oversight Component rating reflects the efficiency and capability of the BOD and SM oversight to identify, measure, monitor and control money laundering risks inherent in the ICRE’s activities. It is recognized, however, that appropriate risk management practices vary considerably among ICREs depending on its size, complexity and risk profile.

The BOD shall be ultimately responsible in ensuring that the ICRE strictly comply with the requirements under the AMLA, as amended, TFPSA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances through adoption of an appropriate ML and TF prevention framework appropriate to the entity’s corporate structure, operations and risk profile, which shall be embodied in its BOD-approved MTPP.

SM shall oversee the day-to-day management of the ICREs, ensure effective implementation of AML/CTF policies approved by the board and alignment of activities with the strategic objectives, risk profile and corporate values set by the board. SM shall establish a management structure that promotes accountability and transparency and upholds checks and balances.

The Compliance Officer shall be responsible for effectively managing the implementation of the MTPP, specifically its ML and TF prevention practices and procedures. The delegated authorities, together with the standards, internal control measures, risk tolerance levels should also be embodied in the MTPP.

---

1 Consist of (i) Efficient BOD and SM Oversight; (ii) Sound AML policies and procedures embodied in a Money Laundering and Terrorist Financing Prevention Program duly approved by the BOD; (iii) robust internal controls and audit; and (iv) effective implementation.
Assessment of the over-all efficiency of BOD’s and SM’s oversight in relation to the size, complexity and risk profile of the ICRE takes into account the following:

1. Ability of the Compliance Office to manage the MTPP;
2. Reliability, timeliness, completeness and helpfulness of management information system;
3. Consistent and effective identification, measurement, monitoring and controlling of risks and problems related to ML and TF (risk management practices);
4. Independence, accuracy and usefulness of self-assessment systems that are either proactive (through compliance testing), or reactive (through internal audit); and
5. Identification and understanding of institution’s ML and TF risks, and effective management and mitigation of the same through the conduct of Institutional Risk Assessment.

2. BOD and SM Oversight Component Rating Matrix

<table>
<thead>
<tr>
<th>BOD and SM Oversight Component Rating</th>
<th>Numerical Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Over-all efficiency of the BOD and SM oversight relative to the size, complexity and risk profile</td>
<td>Strong and efficient oversight</td>
</tr>
<tr>
<td>Sub-components rating</td>
<td>All or mostly 4 with no sub-component rating less than 3</td>
</tr>
<tr>
<td>BOD and SM Component Rating</td>
<td>3</td>
</tr>
<tr>
<td>Ability of the Compliance Office to manage the MTPP</td>
<td>High level ability to manage the MTPP resulting to minor violations/findings</td>
</tr>
<tr>
<td>Management Information System (MIS) (Reliable, timely, complete and helpful)</td>
<td>High level MIS that are reliable, timely, complete and helpful</td>
</tr>
<tr>
<td>Risk Management Practices related to ML and TF prevention (Consistent and effective)</td>
<td>High level risk management practice that consistently and effectively identifies, measures monitors and controls risks and problems</td>
</tr>
<tr>
<td>Pro-active or reactive Self-assessment systems (independent, accurate and useful)</td>
<td>High level self-assessment system that are independent, accurate and useful</td>
</tr>
<tr>
<td>BOD and SM Component Rating</td>
<td>2</td>
</tr>
<tr>
<td>Ability of the Compliance Office to manage the MTPP</td>
<td>Acceptable level of ability to manage the MTPP, resulting to minimal violations/ findings</td>
</tr>
<tr>
<td>Management Information System (MIS) (Reliable, timely, complete and helpful)</td>
<td>Satisfactorily reliable, timely, complete and helpful MIS</td>
</tr>
<tr>
<td>Risk Management Practices related to ML and TF prevention (Consistent and effective)</td>
<td>Satisfactorily identifies, measures monitors and controls risks and problems relative to ML and TF</td>
</tr>
<tr>
<td>Pro-active or reactive Self-assessment systems (independent, accurate and useful)</td>
<td>Adequately independent, accurate and useful self-assessment systems</td>
</tr>
<tr>
<td>BOD and SM Component Rating</td>
<td>1</td>
</tr>
<tr>
<td>Ability of the Compliance Office to manage the MTPP</td>
<td>Less than acceptable ability to manage the MTPP, resulting to moderate violations/ findings</td>
</tr>
<tr>
<td>Management Information System (MIS) (Reliable, timely, complete and helpful)</td>
<td>Less than satisfactorily identifies, measures monitors and controls risks and problems</td>
</tr>
<tr>
<td>Risk Management Practices related to ML and TF prevention (Consistent and effective)</td>
<td>Less than adequately independent, accurate and useful self-assessment systems</td>
</tr>
<tr>
<td>Pro-active or reactive Self-assessment systems (independent, accurate and useful)</td>
<td>Low level self-assessment system</td>
</tr>
</tbody>
</table>

SUB-COMPONENTS RATING

<table>
<thead>
<tr>
<th>SUB-COMPONENTS RATING</th>
<th>Numerical Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td>1. Ability of the Compliance Office to manage the MTPP</td>
<td>High level ability to manage the MTPP resulting to minor violations/ findings</td>
</tr>
<tr>
<td>2. Management Information System (MIS) (Reliable, timely, complete and helpful)</td>
<td>High level MIS that are reliable, timely, complete and helpful</td>
</tr>
<tr>
<td>3. Risk Management Practices related to ML and TF prevention (Consistent and effective)</td>
<td>High level risk management practice that consistently and effectively identifies, measures monitors and controls risks and problems</td>
</tr>
<tr>
<td>4. Pro-active or reactive Self-assessment systems (independent, accurate and useful)</td>
<td>High level self-assessment system that are independent, accurate and useful</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td>1. Ability of the Compliance Office to manage the MTPP</td>
<td>Acceptable level of ability to manage the MTPP, resulting to minimal violations/ findings</td>
</tr>
<tr>
<td>2. Management Information System (MIS) (Reliable, timely, complete and helpful)</td>
<td>Satisfactorily reliable, timely, complete and helpful MIS</td>
</tr>
<tr>
<td>3. Risk Management Practices related to ML and TF prevention (Consistent and effective)</td>
<td>Satisfactorily identifies, measures monitors and controls risks and problems relative to ML and TF</td>
</tr>
<tr>
<td>4. Pro-active or reactive Self-assessment systems (independent, accurate and useful)</td>
<td>Adequately independent, accurate and useful self-assessment systems</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td>1. Ability of the Compliance Office to manage the MTPP</td>
<td>Less than acceptable ability to manage the MTPP, resulting to moderate violations/ findings</td>
</tr>
<tr>
<td>2. Management Information System (MIS) (Reliable, timely, complete and helpful)</td>
<td>Less than satisfactorily identifies, measures monitors and controls risks and problems</td>
</tr>
<tr>
<td>4. Pro-active or reactive Self-assessment systems (independent, accurate and useful)</td>
<td>Low level self-assessment system</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>1. Ability of the Compliance Office to manage the MTPP</td>
<td>Low ability to manage the MTPP resulting to excessive violations/ findings</td>
</tr>
<tr>
<td>2. Management Information System (MIS) (Reliable, timely, complete and helpful)</td>
<td>Low level of reliability, timeliness, completeness and helpfulness of MIS</td>
</tr>
<tr>
<td>3. Risk Management Practices related to ML and TF prevention (Consistent and effective)</td>
<td>Low level risk management practice</td>
</tr>
<tr>
<td>4. Pro-active or reactive Self-assessment systems (independent, accurate and useful)</td>
<td>Low level self-assessment system</td>
</tr>
</tbody>
</table>
5. Institutional Risk Assessment (IRA) (Institution’s ML and TF risks are clearly identified and understood, and effectively managed and mitigated)

<table>
<thead>
<tr>
<th>Score</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sound Institution ML/TF risk assessment, management and mitigation</td>
<td></td>
</tr>
<tr>
<td>Satisfactory Institution ML/TF risk assessment, management and mitigation</td>
<td></td>
</tr>
<tr>
<td>Less than satisfactory Institution ML/TF risk assessment, management and mitigation</td>
<td></td>
</tr>
<tr>
<td>Deficient Institution ML/TF risk assessment, management and mitigation</td>
<td></td>
</tr>
</tbody>
</table>

B. Money Laundering And Terrorist Financing Prevention Program (MTPP) Component

1. Description

This rating reflects the adequacy of appropriate policies and procedures in preventing money laundering and terrorist financing as approved by the ICRE’s BOD and cascaded to all concerned (i.e. SM, Compliance Office and across all departments etc.).

Assessment of the soundness of ML and TF prevention policies and procedures includes the adoption of a comprehensive and risk-based MTPP. It is understood though that ICREs shall have a degree of flexibility in implementing policies and procedures which corresponds to their own risk assessment. However, there are minimum legal and regulatory requirements and elements that apply regardless of the risk level as provided under the AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances. Moreover, the MTPP should at least have the following features:

1. It shall be compliant with the provisions set out in AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances and designed according to the ICRE’s corporate structure, risk profile and complexity;
2. It shall be in writing (duly approved by its BOD or by its country/regional head or its equivalent for local branches of foreign insurers and group-wide covering all the ICRE’s branches and offices and its subsidiaries and affiliates, whether within or outside the Philippines) and well disseminated to all officers and staff who are obliged by law or by their program to implement the same;
3. It shall also be readily available in user-friendly form, whether in hard or softcopy;
4. It shall be regularly updated at least once every two (2) years to incorporate changes in AML policies and procedures, latest trends in ML and TF typologies, ICRE's corporate structure and risk profile, latest pertinent IC and/or AMLC issuances and development of products and innovations. Any revision or update in the MTPP shall likewise be approved by the BOD;
5. The ICRE shall put up a procedure to ensure that an audit trail evidences the dissemination process for new and amended policies and procedures;
6. At a minimum, the MTPP’s provisions shall include internal policies, controls and procedures on the following:
a. Risk assessment and management;
b. Detailed procedures of the ICREs' compliance and implementation of customer due diligence, record-keeping and transaction reporting requirements;
c. Detailed procedures of the ICREs' compliance and implementation of customer due diligence measures on the beneficiary of life insurance and other investment-related insurance policies (if applicable);
d. An effective and continuous AML/CTF training program for all directors, and responsible officers, employees and agents, to enable them to fully comply with their obligations and responsibilities under the AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances, their own internal policies and procedures, and such other obligations as may be required by the IC and/or the AMLC;
e. An adequate risk-based screening and recruitment process to ensure that only qualified and competent personnel with no criminal record or integrity-related issues are employed or contracted by ICREs;
f. Independent audit function to test the system. The ICREs shall specify in writing the examination scope of independent audits, which shall include evaluation or examination of the following:
   i. Risk assessment and management;
   ii. MTPP;
   iii. Accuracy and completeness of customer information and identification documents, covered and suspicious transaction reports, and all other records and internal controls pertaining to compliance with the AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances.
g. A mechanism that ensures all deficiencies noted during inspection and/or regular or special compliance checking are immediately and timely corrected and acted upon;
h. Cooperation with the IC, AMLC and other competent authorities;
i. Designation of a Compliance Officer at the management level, as the lead implementer of the ICRE's compliance program or creation of compliance unit;
j. The identification, assessment and mitigation of ML/TF risks that may arise from new business practices, services, technologies and products.
k. Adequate safeguards on the confidentiality and use of information exchange, including safeguards to prevent tipping off;
l. A mechanism to comply with freeze, inquiry and asset preservation orders and all directives of the AMLC;
m. A mechanism to comply with the prohibitions from conducting transactions with designated persons and entities, as set out in relevant United Nations Security Council Resolutions (UNSCRs) relating to the preservation and suppression of terrorism and terrorist financing and financing of proliferation of weapons of mass destruction;
n. A mechanism to comply with obligations regarding UNSCRs relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing;
o. For financial groups, its group-wide MTPP shall:

i. Be applicable, and appropriate to, all branches and majority-owned subsidiaries of the financial group;

ii. Include the measures set out above, and also policies and procedures for sharing information required for the purposes of CDD and risk management; the provision, at group-level compliance, audit, and/or AML/CTF functions, of customer, account, and transaction information from branches and subsidiaries when necessary for AML/CTF purposes. This should include information and analysis of transactions or activities which appear unusual, if such analysis was done. Similarly branches and subsidiaries should receive such information from these group-level functions when relevant and appropriate to risk management; and adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off;

p. Detailed procedures of the ICREs’ compliance with and implementation of the duties set forth under Guidelines on Digitization of Customer Records issued by the AMLC;

q. Detailed procedures of the ICREs’ compliance with and implementation of the duties set forth under Guidelines on Identifying Beneficial Ownership issued by the AMLC; and

r. Other relevant requirements under the AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other IC and AMLC issuances.

2. MTPP Component Rating Matrix

<table>
<thead>
<tr>
<th>MTPP Component Rating</th>
<th>Numerical Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Overall assessment of MTPP in relation to ICRE’s corporate structure, complexity and risk profile</td>
<td>Sound and appropriate to its corporate structure, complexity and risk profile</td>
</tr>
<tr>
<td>Sub-components rating</td>
<td>All or mostly 4 with no sub-component rating less than 3</td>
</tr>
</tbody>
</table>

SUB-COMPONENTS RATING

<table>
<thead>
<tr>
<th>Numerical Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
</tr>
</tbody>
</table>
1. **Coverage of MTPP** (As to the AMLA, as amended, the TFPSA, their respective IR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances)

<table>
<thead>
<tr>
<th>Description</th>
<th>Comprehensively covers all regulatory requirements</th>
<th>Significantly covers all regulatory requirements</th>
<th>Needs improvement as it lacks some major provisions</th>
<th>Deficient as majority of the provisions are not indicated</th>
</tr>
</thead>
</table>

2. **Risk Management**

| Practices related to ML and TF are incorporated in the MTPP | All significant risks are identified and practices to monitor and control these risks are incorporated in the MTPP | Most significant risks are identified and practices to monitor and control these risks are adequately incorporated in the MTPP | Risks may be identified but practices to monitor and control these risks are inadequately incorporated in the MTPP | Deficient risk management practices where risks are not identified and practices and procedures are not available |

3. **Extent of dissemination of MTPP and level of awareness**

| Well disseminated to all concerned officers, employees and staffs, resulting to full awareness of their respective duties and responsibilities | Disseminated to most of the concerned officers, employees and staffs, resulting to reasonable awareness of their duties and responsibilities | Disseminated only to some of the concerned officers, employees and staffs, where level of awareness needs improvement | Poor dissemination to concerned officers employees and staffs, and awareness of their duties and responsibilities |

**C. Internal Controls And Audit Component**

1. **Description**

This component rates the adequacy and soundness of the internal controls of the ICRE to identify, measure, monitor and control money laundering risks as well as compliance with relevant requirements under the AMLA, as amended, the TFPSA, their respective IR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances. There should be an internal audit unit that is independent and directly reporting to the BOD or audit committee. Generally, an internal audit report can be used as reference to assess the performance of the internal control and audit function.

The internal control and audit component rating is based upon, but not limited to the assessment of the following:

a. **Internal Controls**

   1. The framework of internal controls should, at a minimum, contain the following:
      1.1. Adequate board and senior management oversight;
      1.2. Appropriate policies and procedures;
      1.3. Adequate measurement and monitoring system;
      1.4. Effective internal controls and audit;
      1.5. Continuing personnel development and training; and
      1.6. Other relevant requirements under the AMLA, as amended, the
TFPSA, their respective IRR, CL No. 2018-48, as amended and other IC and AMLC issuances.

2. Other AML/CTF controls shall be evaluated based on the following:
   2.1. Nature, scale and complexity of the ICRE's business;
   2.2. Diversity of the ICRE's operations, including geographical diversity;
   2.3. ICRE's customer, product and activity profile;
   2.4. Volume and size of the transactions;
   2.5. Degree of risk associated with each area of the ICRE's operation; and
   2.6. Extent to which the ICRE is dealing directly with the customer or is dealing through intermediaries, third parties, or non face-to-face access.

b. Audit Function

3. Assessment by the internal audit unit of the ICRE's compliance and adequacy with the AML and CTF requirements and with internally established policies and procedures shall be based on the following:
   3.1. Status;
   3.2. Policies and procedures;
   3.3. Control environment; and
   3.4. Manpower complement of the internal audit department.

4. The ICRE's internal auditor should be able to:
   4.1. Attest to the overall integrity and effectiveness of management systems and controls, and compliance with AML and CTF requirements;
   4.2. Test transactions in all areas with emphasis on high risk areas, products and services;
   4.3. Assess the following:
       • Employee's knowledge and regulations/procedures;
       • Adequacy, accuracy and completeness of training programs; and
       • Adequacy of the ICRE's process for identifying suspicious activity.

2. Internal Control and Audit Component Rating Matrix

<table>
<thead>
<tr>
<th>Numerical Rating</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Over-all assessment of Internal Controls and Audit for ML and TF prevention</strong></td>
<td>Robust</td>
<td>Satisfactory</td>
<td>Less than satisfactory</td>
<td>Deficient</td>
</tr>
<tr>
<td><strong>Sub-components rating</strong></td>
<td>All or mostly 4 with no sub-component rating less than 3</td>
<td>All or mostly 3 but no sub-component rating less than 2</td>
<td>All or mostly 2</td>
<td>All or mostly 1</td>
</tr>
<tr>
<td>SUB-COMPONENTS RATING</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Numerical Rating</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>1. Independence and support</td>
<td>Fully independent and has total support of BOD and SM</td>
<td>Satisfactorily independent and has sufficient support from BOD and SM</td>
<td>Less than satisfactory independence and/or support from the BOD and SM</td>
<td>Lacks independence and/or support from the BOD and SM</td>
</tr>
<tr>
<td>2. Coverage</td>
<td>Comprehensively covers all areas of concern</td>
<td>Significantly covers all areas of concern</td>
<td>Needs improvement as it fails to cover some major concerns</td>
<td>Deficient as majority of the areas of concern were not covered</td>
</tr>
<tr>
<td>3. Timeliness of communication of Internal Audit Reports</td>
<td>Prompt communication to the BOD and Compliance Office, and corrective actions are immediately taken</td>
<td>Communication to BOD and Compliance Office and corrective actions are within reasonable time</td>
<td>Communication to BOD and Compliance Office and corrective actions need improvement</td>
<td>Poor communication to the BOD and Compliance Office resulting to delayed corrective actions</td>
</tr>
</tbody>
</table>

D. Effective Implementation Component

1. Description

Establishment of a comprehensive and risk-based ML and TF framework embodied in the MTPP as well as internal controls and audit system proved to be futile if not effectively implemented by SM, resulting to untimely and irrelevant information to the BOD to act on. Thus, it is equally important to assess the effectiveness of its implementation. Assessment shall take into account the implementation of the following policies and procedures on:

a. Risk-based and tiered customer acceptance, identification and verification policies and procedures;
b. Required CDD measures on the beneficiary of life insurance and other investment-related insurance policies (if applicable);
c. Identification and verification of agents;
d. Beneficial ownership identification and verification;
e. Determination of the purpose and intended nature of the account, transaction or the business relationship with customer;
f. On-going monitoring of transactions through an effective electronic (for insurance and reinsurance companies) or manual AML/CTF monitoring system that are capable of watch list monitoring, initiating investigation, providing a complete audit trail and aggregating activities of a customer with multiple accounts;
g. Covered Transaction Reporting system either electronic (for insurance and reinsurance companies) or manual that is capable of performing statistical analysis, profiling and detecting unusual patterns of account activity, and accurately and completely generating all covered transaction reports with all mandatory fields;
properly filled up;
h. Suspicious Transaction Reporting system either electronic (for insurance and reinsurance companies) or manual that is capable of performing statistical analysis, profiling and detecting unusual patterns of account activity, and recording all STs and support the investigation of alerts generated by the system and brought to the attention of Senior Management whether or not a report was filed with the AMLC;
i. Recordkeeping and retention system
j. Digitization of customer record; and
k. Continuing education and training program.

2. Effective Implementation Component Rating Matrix

<table>
<thead>
<tr>
<th>Effective Implementation Component Rating</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall assessment of Implementation</td>
<td>High level of effectiveness</td>
<td>Acceptable level of effectiveness</td>
<td>Implementation needs improvement</td>
<td>Poor implementation</td>
</tr>
<tr>
<td>Sub-components rating</td>
<td>All or mostly 4 with no sub-component rating less than 3</td>
<td>All or mostly 3 but no sub-component rating less than 2</td>
<td>All or mostly 2</td>
<td>All or mostly 1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUB-COMPONENTS RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numerical Rating</td>
</tr>
<tr>
<td>1. Assessment of risk-based and tiered customer acceptance and identification</td>
</tr>
<tr>
<td>2. On-going monitoring of transactions and activities of customers</td>
</tr>
<tr>
<td>3. Assessment of covered transaction reporting system</td>
</tr>
<tr>
<td>4. Assessment of suspicious transaction reporting system</td>
</tr>
<tr>
<td>5. Assessment of record keeping and retention system</td>
</tr>
<tr>
<td>6. Assessment of continuing education and training program</td>
</tr>
</tbody>
</table>
3. Details of Factors to be Considered in Assessing Effectivity of Implementation

a. Risk based and tiered customer acceptance, identification, verification and on-going monitoring policies and procedures

The assessment shall be based upon, but not limited to, an assessment of the following factors:

i. Existence of a clear, written and graduated acceptance and identification policies and procedures, including sanctions screening, specifying the criteria and description of the types of customers who are likely to pose low, normal, or high risk as well as the standards in applying reduced, average and enhanced due diligence including a set of conditions for the denial of application and how are these implemented and monitored;
ii. Existence of a clear set of criteria for customer risk profiling and assessment;
iii. System of validating information for customers that pose high risk to its operations are religiously implemented and monitored;
iv. Identification of customers that pose low risk to its operations and the criteria are clearly stated, executed and monitored;
v. Existence of mechanisms related to outsourcing the conduct of customer due diligence and record-keeping, to a counter-party, intermediary or agent as well as third party reliance are adopted and carefully scrutinized;
vi. Determination of the completeness of the minimum information and identification documents required to be obtained from customers;
vii. Compliance with the duties under the Guidelines on Identifying Beneficial Ownership issued by the AMLC;
viii. Assessment of the detailed description of policies and procedures for accepting and monitoring of the following customers:

a. Politically Exposed Persons (PEPs);
b. High risk customers as defined by its MTPP and/or under relevant IC or AMLC issuances;
c. Shell Company;
d. Accounts with fictitious or anonymous names;
e. Trustee, nominee, agent or intermediary accounts; and
f. Other types of customers.

ix. Conduct of internal assessment through sample testing and internal audit of ICRE’s processes in customer acceptance including policies on the conduct of face-to-face contact, identification, documentation and on-going monitoring; and
x. Other relevant requirements under the AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other IC and AMLC issuances.
b. Covered (CT) and Suspicious Transaction (ST) Reporting Policies and Procedures

The reporting requirement of an ICRE is rated based upon, but not limited to, an assessment of the following factors:

i. For insurance and reinsurance companies, the ICRE has established an electronic money laundering transaction monitoring system which at the minimum shall detect and raise to the ICRE's attention, transactions and/or accounts that qualify either as covered or suspicious transactions. The AML electronic system shall have, at least, the following automated functionalities:

• Covered and suspicious transaction monitoring - performs statistical analysis, profiling and able to detect unusual patterns of account activity;
• Watch list monitoring - checks transfer parties (originator, beneficiary, and narrative fields) and the existing customer database for any listed undesirable individual or corporation;
• Investigation - checks for given names throughout the history of payment stored in the system;
• Can generate all the CTRs of the ICRE accurately and completely with all the mandatory field properly filled up;
• Must provide a complete audit trail;
• Capable of aggregating activities of a customer with multiple accounts on a consolidated basis for monitoring and reporting purposes; and
• Has the capability to record all STs and support the investigation of alerts generated by the system and brought to the attention of Senior Management whether or not a report was filed with the AMLC.

ii. For ICRE other than insurance and reinsurance companies, it has means of flagging and monitoring the transactions mentioned above.

iii. The ICRE's CT and ST reporting system is pro-actively evaluated through compliance testing by the Compliance Office and reviewed by the Internal Audit to ensure that CTs and STs are:

• Timely submitted to the AMLC;
• Completely submitted to the AMLC; and
• Accurately reported in accordance with the manner, form and procedures prescribed by the AMLC.

iv. There is an adequate and clear system of flagging, monitoring and reporting of transactions that qualify as suspicious transactions, regardless of amount or that will raise a "red flag" for purposes of conducting further verification or investigation.

v. The ST reporting includes a reporting chain under which a
suspicious transaction will be processed and a Board level or approved Committee is designated to ultimately decide whether or not the ICRE should file a report to the AMLC. If an Officer is designated to perform this function, the officer is identified and the process includes informing the Board of Directors of the Officer's decision.

vi. Other relevant requirements under the AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances.

c. Recordkeeping and retention policies and procedures

The recordkeeping requirement of an ICRE is rated based upon, but not limited to, an assessment of its compliance with the following requirements:

i. To maintain and safely store all customer records and transaction documents as long as the business relationship exists;

ii. For closed accounts, retention period of all records obtained through CDD, account files and business correspondence, and the results of any analysis undertaken, shall be at least five (5) years following the closure of account, termination of the business relationship or after the date of the occasional transaction;

iii. All transaction records, including all unusual or suspicious patterns of account activity is mandated by the rules to be maintained and safely stored for five (5) years after the date of transaction;

iv. In all instances, where a money laundering case is filed in court, all records shall be maintained and stored until the case has been resolved, decided or terminated with finality;

v. Designation of another officer to be responsible and accountable for all record keeping requirements;

vi. Duties set forth under the Guidelines on the Digitization of Customer Records issued by the AMLC; and

vii. Other relevant requirements under the AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances.

d. Continuing education and training program

An effective training program includes provisions to ensure that:

i. All responsible officers, employees and agents, including BOD and SM, who oversees, directs, manages, monitors, abides by or is involved in any way in the implementation of the MTPP or any customer transaction activity, shall receive appropriate training which includes awareness of their respective duties and responsibilities under the MTPP particularly in relation to the customer identification and verification process, record keeping requirements, and CT and ST reporting and ample understanding of the internal processes including the chain of command for the
reporting and investigation of suspicious and money laundering activities. These officers, employees and staff include but not limited to persons involved in branch administration, accounting, customer service, record/ bookkeepers, and IT personnel who maintains the AML system;

ii. Training is designed to comprise of various focuses for new staff, front line staff, compliance staff, internal audit staff, agents, responsible employees, officers, senior management, and directors. New and different money laundering schemes involving customers and financial institution tailored to the audience, and the ways in which such activities can be detected or resolved should be addressed. It should also focus on the consequences of an officer, employee and agent’s failure to comply with established policies and procedures (e.g., fines, suspension or termination). Programs should provide personnel with guidance and direction in terms of ICRE's policies and available resources as well as the safe harbor provisions protecting the personnel from lawsuits/administrative liabilities resulting from having made a CTR or STR in the regular performance of his duties and in good faith;

iii. Regular refresher training is part of the program to inform responsible officers, employees, agents and staff of new developments and issuances related to the prevention of money laundering and terrorism financing as well as reminder of their respective responsibilities vis-a-vis the ICRE's processes, policies and procedures;

iv. Training program and records of all ML and TF seminars and trainings conducted by the ICRE and/or attended by its agents, responsible employees, officers, senior management, and directors, including copies of seminar/training materials, appropriately kept by the compliance office/ unit/ department, and made available during IC's AML/CTF Compliance Checking; and

v. Other relevant requirements under the AMLA, as amended, the TFPSA, their respective IRR, CL No. 2018-48, as amended and other relevant IC and AMLC issuances.

SECTION V. Enforcement Action

In the implementation of the provision on Enforcement Action under Section 62\(^2\) of

\(^2\) Section 62. Enforcement Action. In line with the objective of ensuring that the ICREs maintain high anti-money laundering standards in order to protect its safety and soundness, violation of this Guidelines shall constitute a major violation subject to the following enforcement actions against the board of directors, senior management and officers, not necessarily according to priority and whenever applicable:

a. Written reprimand;
b. Suspension or removal from the office they are currently holding; or
c. Disqualification from holding any position in any covered persons.

Further, failure to comply with the requirements under this Guidelines shall be taken into account in the renewal of the ICREs Certificate of Authority.
CL No. 2018-48, as amended along with the AML/CTF Risk Rating System, the following rules shall apply:

1. An AML/CTF Composite rating of 4 and 3 will require no enforcement action under Section 62 of CL No. 2018-48, as amended.

2. An AML/CTF composite rating of 2 and 1 will require submission by the ICRE to the IC of a written action plan with specific timeline duly approved by the BOD aimed at correcting the noted inefficiency in BOD and SM oversight, inadequacy in AML and TF policies and procedures, weakness in internal controls and audit, and/or ineffective implementation within the prescribed reasonable period of time.

The Anti-Money Laundering and Corporate Governance (AMLCG) Division shall assess the viability of the plan and shall monitor the ICRE's performance.

In the event of non-submission of an acceptable action plan within the deadline or failure to implement its action plan, appropriate enforcement actions under Sections 62 of CL No. 2018-48, as amended shall be imposed upon the ICRE, their board of directors, senior management and/or officers until improvements are satisfactorily implemented.

An AML rating of 1 shall also be considered as conducting business in an unsafe or unsound manner. For this reason, prompt corrective action shall also be automatically initiated on the ICRE, which shall include imposition upon the ICRE, their board of directors, senior management and/or officers of appropriate enforcement actions under Sections 62 of CL No. 2018-48, as amended.

The foregoing is without prejudice on the imposition upon the ICRE, their board of directors, senior management and/or officers of monetary and non-monetary sanctions under the Insurance Code, The Pre-Need Code of the Philippines and any other laws implemented by the Insurance Commission.

SECTION VI. Monetary Penalties

Regardless of AML/CTF composite rating assigned, corresponding fines or monetary penalties shall be imposed against ICREs for commission of violations provided under Section 63 of CL No. 2018-48, as amended.

SECTION VII. Submission of Duly Accomplished and Certified Under Oath AML and CTF Compliance Questionnaire

AML and CTF Compliance Questionnaire shall be truthfully and completely answered by the ICREs and certified under oath copy of the same shall be submitted to the IC. A copy of the AML and CTF Compliance Questionnaire is attached herewith as Annex “A”.

Initial submission by the ICREs to the IC of a duly accomplished and certified
under oath AML and CTF Compliance Questionnaire shall be on or before 15 May 2020.

Subsequent annual submissions of duly accomplished and certified under oath AML and CTF Compliance Questionnaire by the ICREs to the IC shall be within (sixty) 60 days after the end of each calendar year. Responses to the AML and CTF Compliance Questionnaire shall be subject to confirmation during onsite AML and CTF compliance checking by the IC.

Late submission by ICREs of a duly accomplished and certified under oath AML and CTF Compliance Questionnaire to the IC shall be meted by this Commission with a penalty amounting to Five Thousand Pesos (PhP5,000.00) per day of delay but in no case shall the total penalty exceed One Hundred Thousand Pesos (PhP100,000.00). Provided that such late submission has been made within thirty (30) days from deadline. Otherwise, late submission beyond the deadline shall be deemed as non-submission.

Non-submission by ICREs of a duly accomplished and certified under oath AML and CTF Compliance Questionnaire shall be meted by this Commission with a penalty amounting to Two Hundred Thousand Pesos (PhP200,000.00).

SECTION VIII. Separability Clause

If any provision or section of this IC ACRRS is held to be unconstitutional or invalid, the other provisions or sections hereof, which are not affected thereby shall continue to be in full force and effect.

SECTION IX. Implementation and Effectivity Clause

This IC AML and CTF Risk Rating System for ICREs shall be implemented and take effect immediately.