# Money laundering in the insurance industry

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Part One

Money laundering converts illicit money into assets which appear legitimate. These assets may appear as insurance policies, bank deposits and even real estate. Money-laundering activities are not limited to financial institutions, as nonfinancial institutions, such as travel agencies, real-estate industries, casinos and gambling, are now used for money laundering. The nature of money laundering, though, in the insurance industry is different from the nature in other industries.

The Financial Action Task Force (FATF) has identified certain insurance products as being exposed to the threat of money laundering. The seriousness of this threat is underlined in a FATF Report: "The experts viewed the insurance sector as potentially vulnerable to money laundering because of the size of the industry, the easy availability and diversity of its products and the structure of its business. In regard to this last point, it is important to note that insurance is, in some jurisdictions, often a cross-border business and more frequently than not involves the distribution of its products through brokers or other intermediaries, who are not necessarily affiliated with or under the control or supervision of the company that issues the product. Moreover, because the beneficiary of an insurance product is often different from the policyholder, it is sometimes difficult to determine when and for whom it is necessary to perform customer due diligence [for the policyholder only, or also for the beneficiary?]."

The US Department of Treasury, Financial Crimes Enforcement Network (FinCEN) has identified certain "covered products" that pose a "higher degree of risk for money laundering." These "covered products" are: a permanent life-insurance policy, other than a group life insurance policy; an annuity contract, other than a group annuity contract; and any other insurance product with cash value or investment features. Not all insurance products are at risk of being used by money launderers. It has been recognized that the risk of money laundering in general insurance is low.

## Vulnerability of life insurance

Insurance products, particularly in life insurance, provide a very attractive and simple means of laundering money. In particular, investment type life-insurance products are vulnerable. The FATF pointed out that, between 1999 and 2003, about 65 percent of money laudering was through life-insurance products. The American Council of Life Insurers stated that 99 percent of money-laudering risk is in the life insurance sector.

## Typologies

According to the FinCEN, “the most significant money laundering and terrorist financial risks in the insurance industry are found in life insurance and annuity products, because such products allow a customer to place large amounts of funds into the financial system and seamlessly transfer such funds to disguise their true origin.” It also added, “Permanent life-insurance policies that have a cash surrender value are particularly inviting money-laundering vehicles. Such cash value can be redeemed by a money launderer or can be used as a source of further investment of his tainted funds—for example, by taking loans out against such cash value.”

An investment-linked single premium insurance policy is the most attractive to money launderers. It has been argued, however, that single premium type insurance are usually sold by banks with premium payments coming from bank accounts and consequently with reduced money-laundering risks. Another is the annuity contracts, which allow money launderers to exchange illicit funds for an immediate or deferred income stream. A refund of premiums, particularly during a cooling off period or in case of overpayment, is another. Surrendering a policy, even with a surrender penalty, is another mode. Another mode is where a person purchases a policy in his or her name and then later transfers the policy or changes the beneficiary to a third party. Another mode is through a policy loan. A client buys a single premium policy and applies for a policy loan which he or she does not repay. The outstanding loan is deducted from any future claim.

Another typology is the cooling off period where the client can cancel the policy and receive a full repayment of any premium paid (return of premiums), another is the return of overpayment of premiums, especially those with instruction that the reimbursement be paid to a third party.

Another is the assignment of claims. A money launderer may arrange with groups of, otherwise, legitimate people, perhaps, owners of businesses, to assign any legitimate claims on their polices to be paid to the money launderer. The launderer promises to pay these businesses, perhaps, in cash or money orders, a percentage of any claim payments paid to him above and beyond the face value of the claim payments.

## Illustrations

AS an illustration of money laundering using life-insurance products, the first known case of money laundering using insurance was reported in the New York Times on December 6, 2002. An investigation was conducted by the US Customs Service where it was found that $80 million in drug money was used to purchase more than 200 life-insurance policies in the Isle of Man and other locations, with cartel members and their family members as the beneficiaries. They were subsequently prematurely cashed out despite penalties.

FinCEN gives another illustration involving their investigation of a Colombian drugs cartel. "The money-laundering scheme involves the purchase, through several insurance brokers, of life-insurance policies with cash surrender values in an offshore jurisdiction. Cartel associates are named as beneficiaries to such policies. The life-insurance policies are funded by narcotics proceeds that are forwarded to the insurance companies by third parties from all over the world. Although the cash surrender value of the life-insurance policies is often far less than the amount invested because of liquidation penalties. The beneficiaries soon elect to liquidate the policies for their cash surrender value. Although the beneficiaries thereby suffer a substantial financial loss, the funds received, in the form of insurance proceeds, are effectively laundered."

**To be continued**

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