**Guidelines Governing Money Laundering and Terrorist Financing Risks Assessment and Relevant Prevention Program Development by the Insurance Sector**

1. The Guidelines are formulated in accordance with “Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Insurance Sector” for the purpose of anti-money laundering and combating the financing of terrorism (hereinafter referred to as the anti-money laundering and combating the financing of terrorism). The content covers aspects such as how the insurers in our countries recognize and assess risks of money laundering and financing of terrorist in businesses, and development of related policy, procedures and control on anti-money laundering and combating the financing of terrorism, etc. as the basis for implementation.
2. The risk control mechanism or the internal control system of an insurer should include identification, evaluation, management carried out for risks of money laundering and financing of terrorism, relevant policies and procedures setup, and programs set up in accordance with the results of risk assessments to prevent money laundering and combat the financing of terrorism and routine review shall be conducted.

A risk-based approach is designed to help the development of prevention and reduction measures corresponding to money laundering and financing of terrorism in order for the insurer to determine its allocation of resources for anti-money laundering and combating the financing of terrorism, establish its internal control system, and formulate and implement policies, procedures and control measures which should be taken for programs to prevent money laundering and combat the financing of terrorism.

The insurer should consider business, products, policyholder’s characteristics and etc.,, undergo adequate measures and set up periodical and overall assessment for risks of money laundering and financing of terrorism, so as to effectively realize the full-scale risks in time. The insurer shall take above differences in business, products and policyholder characteristics when assessing and reducing its risk exposures against money-laundering and financing of terrorism.

Each description or appendix of examples stated in the Guidelines is not mandatory. The risk assessment mechanism of an insurer should be in proportion to the nature and scale of its business, products and policyholder characteristics. The insurer should allocate adequate resources according to the results of risk assessment, and to undergo effective combating measures to prevent or decrease risks.

1. The insurer shall conduct appropriate measures to identify and evaluate its risks of money laundering and financing of terrorism, and formulate specific risk assessment projects based on the risk identified to further control, reduce or prevent the risk.

Specific risk assessment projects should at least include three indicators, that is, geography, policyholder and product, and a further analysis for each risk project should be conducted to formulate the details of risk factors.

* + 1. Geographical risk:

1. The insurer should identify regions with higher risk of money laundering and financing of terrorism.
2. When formulating a list of regions with higher risks of money laundering and financing of terrorism, the insurer may select applicable references based on practical experience of its respective branch or referred to the appendix in consideration of individual needs.
   * 1. Policyholder risk:
3. The insurer shall take comprehensive consideration of an individual policyholder’s background, occupation and characteristics of socio-economic activities, region, organizational pattern and structure of a non-natural person policyholder in order to identify risks of money laundering and financing of terrorism from the policyholder.
4. When identifying the risk of an individual policyholder and determining her/his risk rating, the insurer may take the following risk factors as the Basis of Assessment:
   1. Geographical risk of the policyholder: The insurer should realize the policyholder’s nationality, place of registration or place of business, the geographical relationship between the policyholder and the insurer, or the area which the transaction involving to comprehensively assess the policyholder’s risk.
   2. Money laundering risk of the policyholder’s occupation and industry: Determine the risk rating of the policyholder’s occupation and industry based on money laundering risk of occupations and industries defined by the insurer. High-risk industries such as businesses engaged in intensive cash transactions, or firms or trusts easily applied to hold individual assets.
   3. The channel where the policyholder built business relationships.
   4. The amount in which the policyholder built business relationships.
      1. Product risk:
5. The insurer shall identify specific product or money-relating service which may bring higher risks of money laundering and financing of terrorism based on the nature of an individual product or service.
6. The insurer shall, before a new product or money-relating service entering the market, conduct a comprehensive risk assessment of money laundering, and establish appropriate risk management measures based on principles of risk control.
7. Risk factors for products or service are listed as follows:
8. The degree of association with cash
9. The channel to build business relationships, including whether it is a face-to-face transaction, electronic commerce, or transactions via new type of channel such as OIU.
10. Whether it is of huge-amount premiums or high cash value.
11. The insurer shall establish risk ratings and classification rules for different policyholders.

For the risk ratings of a policyholder, they should have at least two ratings (inclusive) or more for risk classification, i.e. "high risk" and "general risk", as the basis for enhancing policyholder review measures and implementation of Strength of continuous monitoring mechanisms. For an insurer which adopts only two risk ratings, since its "general risk" rating is still higher than "low risk" rating indicated in the 5th points and 7th points of the Guidelines, it shall not take simplified measures to a policyholder with the "general risk" rating.

The insurer is not allowed to disclose the information about the risk rating of a policyholder to its policyholders or persons unrelated to obligations of implementing ant-money laundering.

1. Those persons that hold important political positions in foreign countries, terrorist groups, or groups under economic sanctions, and identified or investigated by foreign governments or Anti-Money Laundering Organizations are regarded directly as high-risk clients. The insurer may, based on its own business type and consideration of associated risk factors, formulate types of clients which should be directly considered as high-risk policyholders.

The insurer may, based on results of a complete written risk analysis, define by itself the types of policyholders which should be directly considered as low-risk policyholders. The results of risk analysis should be able to fully describe that the type of policyholders matches to lower risk factors.

1. For policyholders to establish new business relations, the insurer shall determine their risk ratings when establishing business relations.

For existing policyholders with identified risk ratings, the insurer shall conduct a risk reassessment of policyholders based on its policies and procedures to assess risks.

Although the insurer has assessed risks to the policyholder when establishing a business relationship, for some policyholders, their overall risk profiles only become clear after insured events happening and claims filed by policyholders. Therefore, when finding out any significant change in information about the policyholder’s identification and background or detecting any change in the policyholder’s transaction patterns, the risk rating of the policyholder should be adjusted in a timely manner.

As for the point of time to conduct a reassessment of policyholder risk, examples are as follows:

* + 1. When the insured amount of a policyholder unusually increases.
    2. When conducting a regular review of a policyholder according to risk ratings of a policyholder.
    3. When reporting suspected money laundering transactions and it may lead to an event occurred that substantially change the risk profile of a policyholder.

1. The insurer shall establish the corresponding control measures according to identified risks to reduce or prevent risks of money laundering. The insurer shall determine different control measures applicable to policyholders with different risk ratings based on risk profiles of policyholders.

As for risk control measures, the insurer should take different control measures against all types of high-risk policyholders based on policies, monitoring and procedures of risk prevention to effectively manage and reduce the known risks, examples are as follows:

* + 1. Conduct the Enhanced Due Diligence for a policyholder, for examples:

1. Obtain relevant information about insurance application purpose.
2. Obtain information about the actual beneficiary of a corporate policyholder.
3. Relevant information about financial underwriting regulations.
   * 1. Obtain the approval of the higher management level
     2. Increase the frequency of policyholder review
     3. Enhance the monitoring mechanism.

For policyholders with the highest risk rating, the insurer shall conduct a client review at least once every two years.

For those with low-risk ratings, the insurer may take simplified measures based on its policies, monitoring and procedures of risk prevention. To simplify measures to confirm the policyholder’s identity, the following steps may be adopted:。

1. An insurer could rely on the identification and verification steps that it has already undertaken, be allowed not to repeatedly identify and verify the identity of each policyholder every time that a policyholder conducts a transaction; whereas, if the policyholder’s risk rating changes, the insurer should take measures to verify the policyholder’s identity.
2. Reduce the degree of continuous monitoring, and use a reasonable policy reserve or cash value corridor as a basis for reviewing transactions.
3. If the purpose and nature can be deduced from the transaction type or the established business relationship, gathering specific information or performing special measures will not be necessary to understand the purpose and nature of the business relationship.

However, when confirming the policyholder’s identity and continuous monitoring in accordance with the Paragraph 2, Article 4 of the Guidelines, simplified measures to confirm the policyholder’s identity shall not be taken in the following circumstances:

1. Where the policyholders are from or in countries and territories, including but not limited to those countries or territories which fail to comply with the suggestions of international money laundering prevention organizations, as released by international money laundering organizations via the Financial Supervisory Commission, and those that are materially defective in the prevention of money laundering and combating the financing of terrorism in any other countries or territories.
2. Where the insurer has sufficient reason to suspect there are money laundering or terrorism financing activities involved with the policyholder or in the transaction
3. The insurer shall establish a regular and comprehensive risk assessment of money laundering and financing of terrorism for the management to be able to timely and effectively understand the overall risks faced by the insurer in money laundering and financing of terrorism, and decide the mechanism which should be established and develop appropriate measures to risk reduction.

The insurer shall build a regular and comprehensive risk assessment of money laundering and financing of terrorism based on the following indicators:

1. The nature, scale, diversity and complexity of businesses
2. Management data and reports associated with high risks: such as the number and proportion of high-risk policyholders, the amount, quantity or proportion of high-risk products or business, policyholder’ nationality, place of registration or place of business, the amount or proportion of products or business involving high-risk areas, etc.
3. Business and products, including the channel and manner to provide services and products to policyholders, the way to implement the policyholder review measures, such as the extent to use of information systems, whether the third person is entrusted to perform the review, etc.
4. The inspected results from internal audit and the supervisory authority.

When the insurer conducts a comprehensive risk assessment of money laundering and financing of terrorism, in addition to considering the above indicators, the information obtained from other internal and external sources is recommended as supporting information. For example:

1. The management reports provided by the insurer’s internal management (such as supervisors of business units, or relationship managers of clients, etc.).
2. Relevant reports released by international organizations and other countries for prevention of money laundering and combating financing of terrorism.
3. Information released by the Competent Authorities on risks of money laundering and financing of terrorism.

The results of the insurer’s comprehensive risk assessment of money laundering and financing of terrorism should be used as a basis for the development of a program on anti-money laundering and combating the financing of terrorism. The insurer should allocate adequate personnel and resources based on the results of risks assessment and take effective countermeasures to prevent or reduce risks.

With any major change in the insurer itself, such as the occurrence of major events, major development of management and operation, or the happening of new relevant threats, the assessment should be re-conducted.

1. The insurer shall formulate a program on anti-money laundering and combating the financing of terrorism according to its risks of money laundering and financing of terrorist. In addition to the confirmation of the policyholder’s identity, record keeping, and internal policies, procedures and controls for reporting of currency delivery above a certain amount and transactions suspected of money laundering, the content should also include the management personnel designated to coordinate and supervise the implementation of anti-money laundering and combating the financing of terrorism, establish a proper employee selection process under careful consideration, implement consecutive employee training programs, and test the system effectiveness of anti-money laundering and combating the financing of terrorism for internal policies, procedures and controls such as the independent audit function. The action may be taken by the insurer based on the relevant stipulations of the Guidelines.
2. The policies formulated by the insurer in accordance with the Guidelines should be implemented after the approval of the board resolution (or Authority in charge according to the Delegation of Authority) and reported to the Financial Supervisory Commission for record with the “Guidelines Governing Anti-Money Laundering and Combating the Financing of Terrorism by the Insurance Sector.” The policies should be reviewed periodically. The same applies to any amendment thereto.

Appendix:

References for formulating a list of regions with higher risks of money laundering and financing of terrorism

1. Countries or territories which fail to comply with the suggestions of international money laundering prevention organizations, as released by international money laundering organizations via the Financial Supervisory Commission, and those that are materially defective in the prevention of money laundering and combating the financing of terrorism in any other countries or territories.

2. Countries or territories under which economic sanctions or other similar measures are taken by the United Nations, the United States or the European Union.

3. Countries or territories which are Offshore Financial Centers (IMF Offshore Financial Centers. <http://www.imf.org/external/NP/ofca/OFCA.aspx>) released by International Monetary Fund.

4. Countries or territories with primary money laundering concern (Special Measures for Jurisdictions, Financial Institutions, or International Transactions of Primary Money Laundering Concern. <http://www.fincen.gov/statutes_regs/patriot/section311.html>) indicated by USA PATRIOT Act’s Section 311.

5. Countries or territories with a considerable degree of corruption listed by the Corruption Perceptions Index of Transparency International (Transparency International's Corruption Perceptions Index. <http://cpi.transparency.org/cpi2013/in_detail/>).

6. Countries or territories which provide the financing or support of terrorist (such as State Sponsors of Terrorism released by United States Department of State, <http://www.state.gov/j/ct/list/c14151.htm>) or involve the listing of terrorist group activities.