

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)

Risk-based approach workbook Life insurance companies, brokers and agents

June 2017

Introduction

FINTRAC has designed this workbook to help you with your risk-based approach (RBA). It is structured to help you identify risks by products, services and delivery channels; clients and business relationships; geography and other relevant factors. It will also help you implement effective measures and monitor the money laundering and terrorist financing (ML/TF) risks you may encounter as part of your activities and business relationships.

For more detailed information on implementing a risk assessment, please refer to the information contained in the [FINTRAC Guidance on the Risk-Based Approach](#) and [Guideline 4: Implementation of a Compliance Regime](#).

Note: Amendments to the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations including new technologies and developments as well as risk resulting from the activities of affiliates will be coming into force in June 2017. These new elements will be further developed in this guidance document in the coming months.

Who should use this document?

This document was designed for small life insurance companies, brokers or independent agents.

A life insurance company means one regulated by provincial legislation or to which the [Insurance Companies Act](#) applies. A life insurance broker or agent means an individual or entity that is registered or licensed provincially to carry on the business of arranging life insurance contracts.

How should you assess your risks?

As part of your risk assessment, you need to identify the areas of your business that are vulnerable to being used by criminals for conducting money laundering or terrorist financing (ML/TF) activities.

This means that you need to assess the risks associated with all your business services and activities, and develop a risk assessment specific to your situation. This means that your risk assessment may differ from the risk assessment of your parent company (if applicable). Specifically, you must address the following four areas:

- Products, services, and delivery channels;
- Geography;
- Clients and business relationships; and
- Other relevant factors.

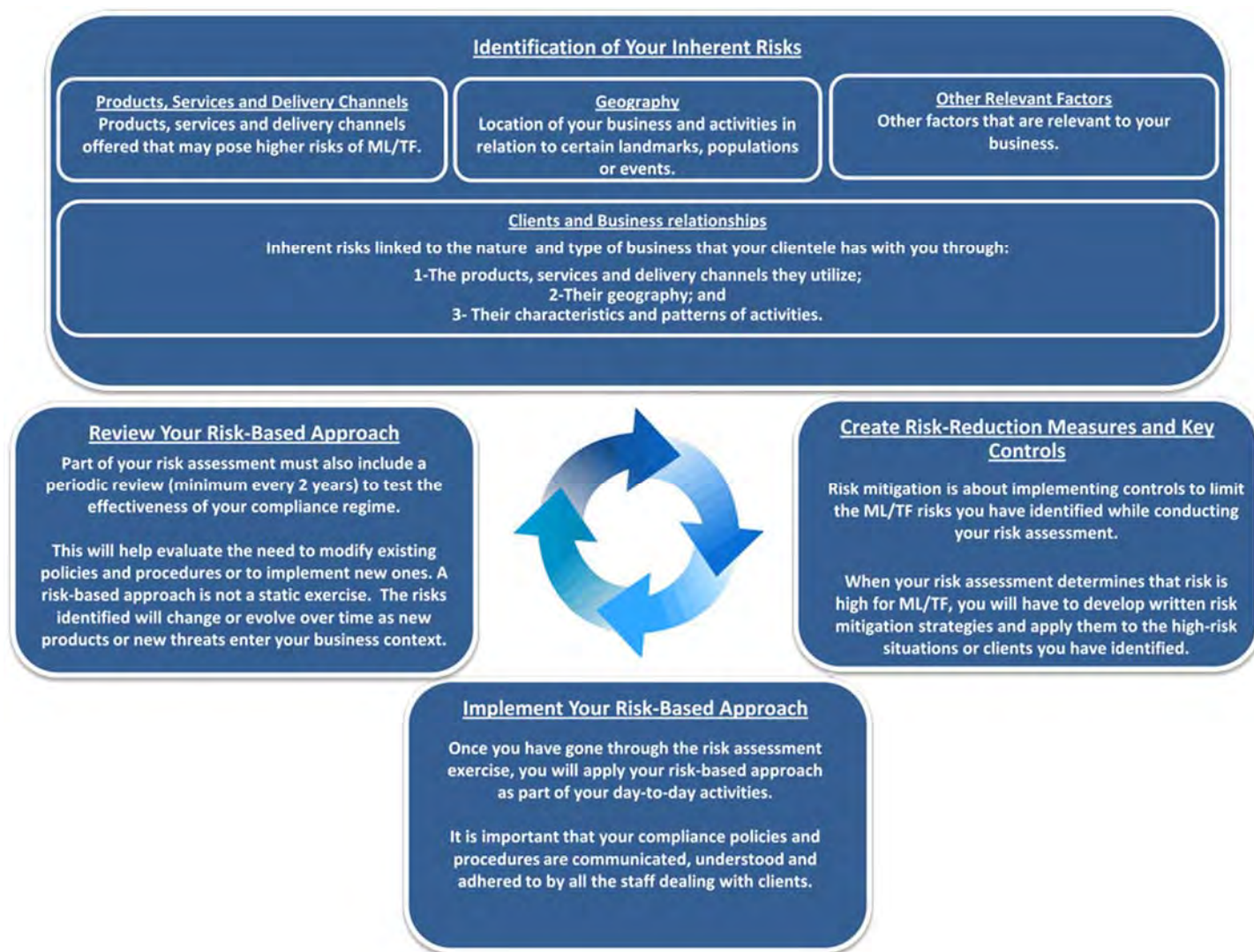
To do so, you need to consider the types of clients you deal with, the products and services you provide, how you deliver your products and services and the location of your business.

If you identify situations that represent a high risk of ML/TF activities, you need to control these risks by implementing mitigation measures, including conducting enhanced ongoing monitoring and keeping client information up to date. This will be further explained in the document.

Risk-based approach cycle

The following cycle represents the main steps of your risk-based approach:

1. identification of your inherent risks;
2. creating risk-reduction measures and key controls;
3. implementing your risk-based approach; and
4. reviewing your risk-based approach.



1. Identification of your inherent risks

Products, services and delivery channels:

Products, services and delivery channels offered that may pose higher risks of ML/TF.

Geography:

Location of your business and activities in relation to certain landmarks, populations or events.

Other relevant factors:

Other factors that are relevant to your business

Clients and business relationships:

Inherent risks linked to the nature and type of business that your clientele has with you through:

1. the products, services and delivery channels they utilize;
2. their geography; and
3. their characteristics and patterns of activities.

2. Create risk-reduction measures and key controls:

Risk mitigation is about implementing controls to limit the ML/TF risks you have identified while conducting your risk assessment.

When your risk assessment determines that risk is high for ML/TF, you will have to develop written risk mitigation strategies and apply them to the high-risk situations or clients you have identified.

3. Implement your risk-based approach:

Once you have gone through the risk assessment exercise, you will apply your risk-based approach as part of your day-to-day activities.

It is important that your compliance policies and procedures are communicated, understood and adhered to by all the staff dealing with clients.

4. Review your risk-based approach:

Part of your risk assessment must also include a periodic review (minimum every 2 years) to test the effectiveness of your compliance regime.

This will help evaluate the need to modify existing policies and procedures or to implement new ones. A risk-based approach is not a static exercise. The risks identified will change or evolve over time as new products or new threats enter your business context.

To better assess your inherent risks effectively, you can divide your risk assessment into two parts:

1. **Business-based risk assessment:** your products, services and delivery channels; the geographical location in which your business operates along with other relevant factors.
2. **Relationship-based risk assessment:** products and services your clients utilize the geographical locations in which they operate or do business as well as their activities, transaction patterns, etc.

It is important to note that there is no prescribed methodology for the assessment of risks. What follows is FINTRAC's suggested assessment process which will need to be adapted to your business situation. Although presented separately, parts 1 and 2 could be done simultaneously. You can also create your own assessment process.

1-Business-based risk assessment

Products, services and delivery channel

As a life insurance company, broker or agent, you must assess all your products, services and delivery channels to determine if they pose a high risk of ML/TF. This includes, but is not limited to aspects related to:

- Insurance products: individual life, group life, health/illness, mortgage, group benefits
- Retirement planning: RRSP, RRIF, other annuities
- Wealth management: RESP, TFSA, mutual funds
- Non-registered savings plans

To help you in your assessment, you may consider the following:

- Assess the products and services by the type of client they are directed to (e.g. corporate, individuals, wholesale, retail, etc.)
- Do the products and services you provide allow your client to engage in high-risk transactions?
- How do you provide your product? Do clients have to come to your location to obtain a product or service, or can they conduct a transaction through an intermediary, over the phone, by fax or online?

Some examples of potentially high-risk products, services and delivery channels are:

- Offering products and services by non-face-to-face means (phone, fax, online). These delivery channels may pose higher risks as it may be more difficult for your business to identify the client.
- The use of intermediate corporate vehicles or other structures that have no apparent rationale, or that unnecessarily increase the complexity of the policy ownership, or that otherwise result in a lack of transparency. The use of such vehicles or structures without an acceptable explanation increases the risk.
- Products offered through agents may add a second level of scrutiny to the insurer, which may lower the risk. However, when a third party identifies clients on your behalf, this may also pose a greater risk since they may not be properly following policies and procedures to identify clients.

For examples on how to assess risk for products, services and delivery methods, see the [FINTRAC Guidance on the Risk-Based Approach](#).

Geography

Assess whether your own office location, the countries to which you transfer funds, and the countries from which you receive funds could pose a high risk for ML/TF activities.

In the assessment of your geography, you have to consider whether the geographic locations in which you operate or undertake activities potentially pose a high risk for money laundering and terrorist financing. Depending on your business and operations, this can range from your immediate surroundings, whether rural or urban, to a province or territory, multiple jurisdictions within Canada (domestic) or other countries.

Some examples of geographic elements that need to be reflected in your assessment are:

- Areas with high crime rates may present additional ML/TF risks.
- A rural area where clients are known to you could present a lesser risk compared to a large city where new clients and anonymity are more likely. However, the known presence of organized crime in a rural area would obviously present a higher risk.
- Is your business close to a border-crossing? Proximity to a border-crossing could increase the risk due to the fact that your business may be the first point of entry into the financial system.
- If you provide services to- foreign clients who are based in countries subject to sanctions, embargoes or other measures you should consider that as high-risk. For example, the United Nations will occasionally issue an advisory about a certain country. Refer to:
 - o [FINTRAC Advisories](#)
 - o [High-risk and non-cooperative jurisdictions](#)
 - o [Canadian Economic Sanctions](#)

For more examples on how to assess risk for geographic locations, see the [FINTRAC Guidance on the Risk-Based Approach](#).

Other factors relevant to your business (if applicable)

Assess other factors that may apply to your business that do not fall in the other categories. There may be something about your business that can make it more attractive to individuals who want to carry out ML/TF activities.

Some examples that may apply to you are:

- Your operational structure, size, number of branches and employees such as:
 - o A business with a high employee turnover.
 - o A business where newer staff are not adequately supervised.
 - o The number of broker/agent organizations that also sell to clients.
- "Gatekeepers" such as accountants, lawyers, or other professionals holding accounts, policies, or contracts at an insurance company, acting on behalf of their clients, and where the insurance company places a high level of reliance on the gatekeeper.
- Trends and typologies for your respective activity sector may include specific elements of risks that your business should consider.
- As part of the compliance program, life insurance companies, brokers, or agents will have to consider any risk resulting from the activities of:
 - o an **entity** that is affiliated with them and that is a life insurance entity (or another type of RE affiliate such as securities dealers);
 - o a **foreign** entity that is affiliated with them and that carries out life insurance activities (or another type of RE affiliate such as securities dealers).

Note: Further guidance will be developed on this element in the coming months.

Business-based risk assessment worksheet

The following worksheet is for illustrative purposes only (please see additional instructions in Annex A). Using this worksheet could be an easy way for your entity to present the inherent risks related to your business, or you may develop your own worksheet.

Note: The information below is provided as an **example** only. Your entity may have more risk factors to consider. Furthermore, you may have different risk ratings. For more options, you can consult the matrix included in the [FINTRAC Guidance on the Risk-Based Approach](#).

Column A: LIST OF FACTORS Identify all the factors that apply to your business (i.e. products, services and delivery channels, geography, other relevant factors)	Column B: RISK RATING Assess each factor (e.g. low, medium or high)	Column C: RATIONALE Explain why you assigned that particular rating	Column D: DESCRIBE MITIGATION MEASURES FOR HIGH RISKS IDENTIFIED IN COLUMN A
When the insurer, the client and the beneficiary of a policy are in different locations.	High	Ascertaining the client's identity or the beneficial ownership information of an entity when they are in different locations may be difficult to obtain and may present higher risk if done non-face-to-face.	➤ Seek additional information beyond the minimum requirements to ascertain the client's identity or the beneficial ownership information of an entity
Products with liquidity features such as “free look period” products.	High	Potential for ‘placement’, the insertion of criminal proceeds into legitimate insurance products.	➤ Increase customer due diligence (CDD) pertaining to client information, source and destination of funds. ➤ Require management’s approval for refunds.
Products such as individual variable insurance contracts which have flexible and unlimited purchasing and redemption features.	High	Potential for ‘placement’, the insertion of criminal proceeds into legitimate insurance products.	➤ Increase customer due diligence (CDD) pertaining to client information, source and destination of funds. ➤ Identify patterns of transactions that require further examination. ➤ Require management’s approval for refunds.
Etc.			

2-Relationship-based risk assessment (i.e. your clients)

If you have a business relationship, you need to make a risk assessment based on the inherent characteristics of your client. This can be done based on the combination of the following factors, some of which were identified in the previous section:

- The products, services and delivery channels your client uses;
- The geography related to your client (at which location is the client conducting the transaction and to/from which country is the client sending/receiving money); and
- Your client's characteristics and your client's activities and transaction patterns.

However, it is possible that your business is dealing with clients outside of a business relationship. The interactions with these clients may be sporadic (e.g. few transactions over time that are under the identification threshold requirement or even a single transaction). As such, there will not be a lot of information available for your business to fully assess this client (as opposed to a client in a business relationship with information, patterns of activities, etc.). The risk assessment of such clients will most likely focus on the monitoring of transactions as opposed to having a client file. This monitoring is basically your obligation to report a suspicious transaction if you suspect that the transaction is related to a money laundering or terrorist financing offence.

If you do not have business relationships, it is not necessary for you to complete the Relationship-based risk assessment worksheet. However, if you have **high-risk clients outside a business relationship**, you need to include them in the following worksheet.

Below are some examples of client and transaction characteristics that can be considered high-risk:

Client

- Client produces documentation that appears to be counterfeit, altered or inaccurate.
- A client makes non-face-to-face transactions or conducts business only through your agents.
- A client who is not a local resident or is outside your normal customer base.
- Behaviour or transactions that are unusual compared to other similar clients.
- You are aware or you become aware, from a reliable source (that can include media or other open sources), that a client is suspected of being involved in illegal activity.
- A client cancels a life insurance policy shortly after it was purchased or within the 10-day free look period, and requests a refund in the form of a cheque (especially if made out to a third party).
- A client who has policies with multiple institutions, without reasonable explanation or discernible purpose.
- A client is based in, or conducts business in a country with known higher corruption, known organized criminal activity, is known to be a tax haven or is known to have links to terrorist organizations.
- A client requests an insurance product for no discernible purpose and is reluctant to divulge the reason for the investment.
- The client's investment in insurance products disproportional to their economic profile.
- A client cancels an investment or insurance policy soon after purchase.
- A client shows more interest in the terms of cancellation or surrender of an insurance contract than in the long-term results of the investment or the costs associated with terminating the contract.
- The client accepts very unfavourable conditions that unrelated to his or her health or age.
- Domestic Politically Exposed Person and Head of an International Organization
 - o Once you have determined that a person is a domestic PEP, a HIO, or the family member or close associate of them, you must assess to determine if that person poses a high risk for committing a money laundering or a terrorist activity financing offence.
 - o If you assess the risk to be high, then the person must be treated as a high-risk client.

Transactions

- Frequent and unexplained movement of accounts, policies, contracts, or funds to different insurance companies or other financial institutions.
- Unusual payment methods, payment frequency or payment value.
- The product's benefits are transferred to apparently unrelated third parties.
- Cash is offered when other payment instruments would be the norm.
- Third parties are involved in paying the premiums or in other matters involving the policy.
- A premium is overpaid and the surplus is directed to a third party.
- A life insurance product is used in a way that resembles a bank account (additional premium payments and frequent partial redemptions).
- Unexplained early redemption or unexplained redemption with important penalties.
- The first payment (premium) to pay for the insurance policy is from a foreign bank account.

Please note that the following indicators, when encountered, will place clients in the overall high-risk category, regardless of other factors:

- If you file a Terrorist Property Report, the client automatically becomes high-risk;
- An individual with foreign government connections (Politically Exposed Foreign Persons);
- An entity that has a complex business structure which conceals the identity of its beneficial owners.

For more examples of how to assess risk for client and business relationships, see the [FINTRAC Guidance on the Risk-Based Approach](#).

Relationship-based risk assessment worksheet

The following worksheet is for illustrative purposes (please see additional instructions in Annex B). Using this worksheet could be an easy way for your entity to present the inherent risks related to your business relationships, or you may develop your own worksheet.

This worksheet is to assess all your business relationships and high-risk clients. For more information on business relationships, see FINTRAC Guidance.

Note: The information below is provided as an **example** only. For more options, you can consult the matrix included in the [FINTRAC Guidance on the Risk-Based Approach](#).

Column A	Column B:	Column C:	Column D:	Column E:	Column F:	Column G:
BUSINESS RELATIONSHIPS	RISK RATING	RATIONALE	DESCRIBE ENHANCED MEASURES TO ASCERTAIN ID FOR HIGH- RISK BUSINESS RELATIONSHIPS	DESCRIBE MITIGATION MEASURES FOR HIGH- RISK BUSINESS RELATIONSHIPS	DESCRIBE PROCESS TO KEEP CLIENT INFORMATION UP TO DATE FOR HIGH-RISK BUSINESS RELATIONSHIPS	DESCRIBE ENHANCED ONGOING MONITORING FOR HIGH-RISK BUSINESS RELATIONSHIPS
Identify all your business relationships or high risk clients (individually or as groupings)	Assess each business relationship (e.g. low, medium or high)	Explain why you assigned that particular rating				
Group A / Client A	Low	Standard transactions conducted in person in line with the client's profile.	N/A	N/A	N/A	N/A
Clients using intermediaries or non-face-to-face channels: • Non residents • Trusts • Legal persons	High	Difficulty in establishing the identity of clients	Obtain independent verification of client information from a credible source.	Conduct certain transactions only in person. Require management approval for the establishment or termination of an account, policy, contract or business relationship.	Ask the client to confirm and update their information at every transaction.	Set parameters for transactions that will trigger early warning signals and require a mandatory review.
Clients making decisions with no apparent economic purpose: • Purchasing products based on early termination features rather than benefits • Accepting very unfavourable account, policy, or contract provisions and riders.	High	Decisions or transactions are inconsistent with those of other clients with similar profiles.	Seek additional information beyond the minimum requirements to ascertain the client's identity or the beneficial ownership information of an entity. Establish more stringent thresholds for ascertaining identification	Require management approval for the establishment or termination of an account, policy, contract, or business relationship.	Ask the client to confirm and update identification information when opening at every transaction.	Identify patterns of transaction that require further examination.

ANNEX A

Instructions to complete the Business-based risk assessment worksheet (Products, services and delivery channels; geography; other relevant factors)

This worksheet is for illustration. You may develop your own, so long as it includes the concepts that are described below.

Column A	List of factors	Describe your products, services, delivery channels, factors related to your geographical location(s) and other relevant factors.
Column B	Risk rating	Rate each risk factor (products, services, delivery channels, factors related to geographic location(s) and other relevant factor). Please note that the PCMLTFA and Regulations do not require you to use a low, medium and high scale. You could decide to have low and high risk categories or to have a more complex rating scale. A scale must be established, tailored to the size and type of business you have.
Column C	Rationale	Provide the reasons why you assigned a particular risk rating to each product, service, delivery channel, geography, or other relevant factor. You can make reference to a website, a publication, a report, etc.
Column D	Describe mitigation measures for high-risk factors	By law, all factors identified as “high-risk” must be addressed with documented mitigation measures. You have to write policies and procedures to explain how you are going to reduce and how you will control these risks in your day-to-day activities. Below are some examples of mitigation measures you may want to consider (not an exhaustive list): • Increase awareness of high-risk situations within business lines across your organization; • Provide adequate controls of higher risk services such as management approvals; • Set transaction limits for high-risk products; • Monitor transactions relating to high-risk products and services more frequently. For more examples of controls or ways to reduce risks, see the FINTRAC Guidance on the Risk-Based Approach and Guideline 4: 6.2.1 Measures to mitigate the risks.

ANNEX B

Instructions to complete the Relationship-based worksheet (clients and business relationships)

This worksheet is for illustration. You may develop your own, so long as it includes the concepts that are described below.

Column A	Business relationships or high-risk clients.	Identify all your business relationships and high-risk clients. You may decide to risk assess each business relationship separately or to do so by groups that share similar characteristics.
Column B	Risk rating	Rate each business relationship. You can use a scale of low, medium and high to rate your business relationship. Please note that the PCMLTFA and Regulations do not require you to use a low, medium and high scale. You could decide to have low and high risk categories or to have a more complex rating scale.
Column C	Rationale	Provide the reasons why you assigned a particular risk rating to each client type/business relationship.
Column D	Describe enhanced measures to ascertain the identity of high-risk clients or to confirm the existence of a high-risk entity	You need to describe how identification was ascertained or how the existence of an entity was confirmed for each high-risk business relationship and high-risk client. Below are some examples: • Seeking additional information beyond the minimum requirements to ascertain the client's identity or the beneficial ownership information of an entity; • Obtaining independent verification of the information (that is, from a credible source other than the client); • Establishing more stringent thresholds for ascertaining identification. For more information on beneficial ownership, see Guideline 4: 6.3: Keeping client information, beneficial ownership and business relationship information up to date.
Column E	Describe mitigation measures for high-risk business relationships	You need to put controls in place for each high-risk business relationship and high-risk client that you identified. Below are some examples of mitigation measures that you may want to consider (not an exhaustive list): • Set limits to transaction amounts in certain situations; • Request source of funds for any cash amount; and/or • Conduct certain transactions only in person. For more examples of controls or ways to reduce the risk, see Guideline 4: 6.2.1 Measures to mitigate the risks.

Column F	Describe how you will keep client information and beneficial ownership information up to date for high-risk business relationships	You have to develop policies on how often and how you will update the client information of high-risk business relationships and high-risk clients. The information that needs to be updated generally includes: • For an individual, the individual's name, address and occupation or principal business. • For a corporation, its name and address and the names of the corporation's directors. • For an entity other than a corporation, its name, address and principal place of business. Measures to keep client identification up to date include asking the client to provide information to confirm or update their identification information. For example, you may ask a client for an additional piece of identification. You may also confirm the information through public sources if available. Keep beneficial ownership up to date You need to keep the beneficial ownership of all your high-risk business relationships up to date. Describe the frequency and your process to update this information in this section of the worksheet. For more information on beneficial ownership, see Guideline 4: 6.3: Keeping client information, beneficial ownership and business relationship information up to date.
Column G	Describe enhanced monitoring for high-risk business relationships	For all business relationships, you will need to conduct ongoing monitoring. This means that you will monitor your business relationships on a periodic basis for the purpose of: 1. Detecting any transactions that are required to be reported in accordance with the PCMLTFA; 2. Keeping client identification information up to date; 3. Reassessing the level of risk associated with the client's transactions and activities; and 4. Determining whether transactions or activities are consistent with the information you obtained about your client. However, for high-risk business relationships and high-risk clients, you need to conduct monitoring more frequently and with more scrutiny than with your other business relationships. This is called enhanced monitoring. Describe all aspects of your enhanced monitoring: • When is it done (frequency); • How is it conducted; and • How is it reviewed. Examples of how enhanced monitoring is conducted and reviewed for high-risk business relationships: • Obtain additional information on the client (occupation, volume of assets, information available through public database); • Review transactions based on an approved schedule that involves management sign-off;

		• Develop reports or perform more frequent reviews of reports that list high-risk transactions. Flag activities or changes in activities and elevate concerns as necessary; • Set business limits or parameters regarding transactions that would trigger early warning signals and require mandatory review; and/or • Review transactions more frequently against suspicious transaction indicators relevant to the relationship. See Guideline 2: Suspicious Transactions for more information about indicators. For more information on enhanced ongoing monitoring, see Guideline 4: 6.4 Ongoing monitoring of business relationships.
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ANNEX C

Glossary and useful links

Affiliate:

An entity is affiliated with another entity if one wholly owns the other, if both are wholly owned by the same entity, or if their financial statements are consolidated.

Beneficial ownership:

Beneficial ownership refers to the identity of the individuals who ultimately control a corporation or entity. You must search through as many levels of information as necessary in order to determine beneficial ownership.

Business relationship:

You enter into a business relationship when you conduct two or more transactions in which you have to:

- ascertain the identity of the individual; or
- confirm the existence of a corporation or other entity

Delivery channels:

Medium that can be used to obtain a product or service, or through which transactions can be conducted.

FINTRAC:

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), is Canada's financial intelligence unit.

Inherent risks:

Risk that exists before the application of controls or mitigation measures.

Mitigation measures:

Controls put in place to limit the potential money laundering and terrorist financing risks you have identified while conducting your risk assessment.

Non-face-to-face transactions:

Transactions where the client is not physically present (for example, Internet, telephone or mail).

Politically exposed persons and Head of an international organization:

A politically exposed person (PEP) or the head of an international organization (HIO) is a person entrusted with a prominent position that typically comes with the opportunity to influence decisions and the ability to control resources. The influence and control a PEP or HIO has puts them in a position to impact policy decisions, institutions and rules of procedure in the allocation of resources and finances, which can make them vulnerable to corruption.

Risk-based approach:

In the context of ML/TF, a risk-based approach is a process that encompasses the following:

- The **risk assessment** of your business activities and clients using certain prescribed elements: Products, services and delivery channels; geography; clients and business relationships; and other relevant factors.
- The **mitigation of risk** through the implementation of controls and measures;
- Keeping **client identification** and business relationship information up to date; and
- The **ongoing monitoring** of transactions and business relationships.

Third party:

Individual or entity other than the individual who conducts the transaction. When you are determining whether a third party is involved, it is not about who "owns" the money, but rather about who gives instructions to deal with the money.

Vulnerabilities:

Elements of a business that could be exploited. In the ML/TF context, vulnerabilities could be weak controls within a business offering high-risk products or services.

Regulatory references:

<http://laws-lois.justice.gc.ca/eng/acts/P-24.501/>
<http://laws-lois.justice.gc.ca/eng/regulations/SOR-2001-317/>
<http://laws-lois.justice.gc.ca/eng/regulations/SOR-2002-184/>
<http://laws-lois.justice.gc.ca/eng/regulations/SOR-2007-121/>
<http://laws-lois.justice.gc.ca/eng/regulations/SOR-2007-292/>

Guideline 1: Backgrounder:

<http://www.fintrac-canafe.gc.ca/guidance-directives/overview-apercu/Guide1/1-eng.asp>

Guideline 2: Suspicious transactions (includes ML/TF indicators):

<http://www.fintrac-canafe.gc.ca/guidance-directives/transaction-operation/Guide2/2-eng.asp>

Guideline 4: Implementation of a compliance regime:

<http://www.fintrac-canafe.gc.ca/guidance-directives/compliance-conformite/Guide4/4-eng.asp>

RBA Guidance document:

<http://www.fintrac-canafe.gc.ca/guidance-directives/compliance-conformite/rba/rba-eng.asp>

Trends in Canadian suspicious transaction reporting (STRs) – Part 1:

<http://www.fintrac-canafe.gc.ca/publications/typologies/2011-03-eng.asp>

FATF Guidance for a Risk-Based Approach – Guidance for the Life Insurance Sector:

<http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfguidanceontherisk-basedapproachforthelifeinsurancesector.html>

International Association of Insurance Supervisors, Guidance Paper on Anti-Money Laundering and Combating the Financing of Terrorism

http://iaisweb.org/modules/cciais/assets/files/pdf/061002_ICP_28_Anti-Money_Laundering_and_Combating_the_Financing_of_Terrorism.pdf

Date Modified: 2017-06-29