Anti-Money Laundering & Counter Financing of Terrorism (AML / CFT Program)

Caringly yours

BAJAJ | Allianz

What is Money Laundering?

Definition:

The process by which money acquired from a crime or an illegal activity is moved through the financial system and invested into a legitimate channel so that it appears to be legally acquired and its original source cannot be traced.

In simple words it is a method used by criminals through which they make "dirty" money appear "clean", thereby making it legitimate.

Caringly yours

B BAJAJ|Allianz

Money Laundering Risks

Money Laundering is a global activity and affects all companies. Insurance companies are considered soft targets because of the variety of services and investment vehicles offered that can be used to conceal the source of money.

What are the risks to Insurance companies?
  i.   Reputational Risk
  ii.   Legal Risk
  iii. Operational Risk- Failed internal processes, people, systems and technology
  iv.   Concentration Risk on the Balance Sheet

All risks are inter-related and together have the potential of causing serious threat to the survival of an insurance company.

Legal View on Money Laundering

Prevention of Money Laundering Act (PMLA) came into effect in 1st July 2005 to prevent money-laundering and to provide for confiscation of property derived from or involved in Money Laundering.

PMLA imposes AML obligations on:

➢Banking Companies

➢Financial Institutions (including Insurance companies)

➢Intermediaries of the Securities market

IRDAI has made the AML guidelines mandatory for all Insurance Companies.

All financial institutions need to report to the Financial Intelligence Unit of Govt of India

Caringly yours

B BAJAJ | Allianz ⑪

4

Process of Money Laundering

How Does Money Laundering Happen?

Money Laundering happens through 3 stages primarily		
1	Placement	Physical disposal of Cash proceeds derived from an illegal activity
2	Layering	A shell game-many transactions and conversions take place to blur the trail back to the source crime and provide anonymity
3	Integration	Final stage of creating the impression of apparent legitimacy for the criminally acquired funds, e.g. ▪ Purchasing real estate, luxury goods, investments, etc.

Caringly yours

B **BAJAJ | Allianz** ⑪

1 **Placement**
Dirty money is planted into the Financial system

2 **Layering**
Use of multiple banks, intermediaries, corporations to disguise the origin

3 **Integration**
The money is now clean and is used to invest in assets

Caringly yours

BAJAJ | Allianz

Steps to Control Money Laundering

AML / Counter Financial of Terrorism Program

Main elements of the AML / CFT Program:

a) Internal Policies, Procedures & Controls: Board approved AML Policy, that covers employees, agents as well as independent contractors

b) Appointment of the Principal Compliance Officer: monitoring & reporting the compliance

c) Recruitment & Training of Employees & Agents: On-going process with training at the time of on-boarding & periodical refresher courses

d) Internal Control & Audit: verify compliance, assurance of robustness policies & procedures with exception reporting to the Board of Directors

Main steps to prevent Money Laundering:

1. Verify Identity of Clients – includes Identity, Address & Recent Photograph

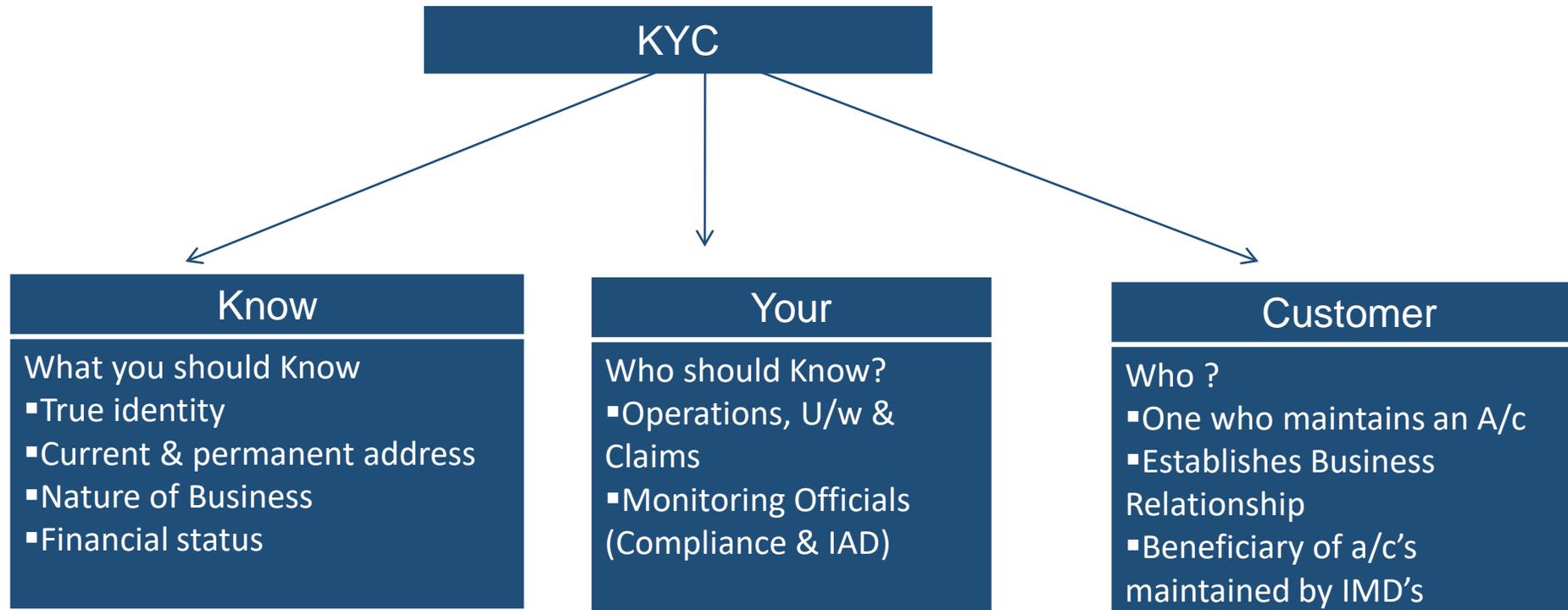2. Maintain Records

3. Furnish Information

1 Verification of Identity of Clients

BJAZ should make reasonable efforts to determine the "*true identity of all customers*" requesting its services through a method called "Know your Customer"

KYC

Know

What you should Know
- True identity
- Current & permanent address
- Nature of Business
- Financial status

Your

Who should Know?
- Operations, U/w & Claims
- Monitoring Officials (Compliance & IAD)

Customer

Who ?
- One who maintains an A/c
- Establishes Business Relationship
- Beneficiary of a/c's maintained by IMD's

In case of Corporate clients: Know the persons acting on behalf of the company

In any case: No contract should be anonymous or in fictitious name

Caringly yours

B BAJAJ | Allianz ⑪

Know Your Customer

KYC should be done at the following stages **with effect from 1ˢᵗ January 2023**:-

- KYC is mandatory for all lines of business without any exception, including Group Insurance business at the stage of customer on boarding / policy issuance.

- However, in the case of Group Insurance business KYC check is only required to be carried out on the Group Manager/Master Policyholders(entity).

- Group Members - Only their details need to be shared with the Insurer (Details include Member Name, Email ID, Mobile No, DOB and Addresses).

Products / Policies where KYC is exempted

Reinsurance or Retrocession Contracts: for reallocation of risks within the industry & do not involve transactions with customers

Caringly yours

B BAJAJ | Allianz ⑪

Know Your Customer Contd......

What Documents are required for KYC check:

Individual/retails policies –

1. PAN is a mandatory requirement (Form 60 declaration in case the customer does not hold the PAN)

2. Aaadhar (in case the customer does not want to share the Aadhar they may submit any of the documents from the OVD list below for address proof)

3. OVD List

    (i) Passport

    (ii) Driving Licence

    (iii) Voter's Identity Card

    (iv) Job Card issued by NREGA

    (v) Letter issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number

    (vi) Any other document as notified by the Central Government in consultation with the Regulator, Letter from a recognized public authority or public servant verifying the identity and residence of the customer

Caringly yours

BAJAJ | Allianz

Know Your Customer Contd......

Juridical Person (Including Group Administration) –

1. PAN / TAN
2. GST Certificate
3. Verification of legal status of the legal entity/person : through CKYC
4. KYC of the Authorized person who will be acting on behalf of the entity : same for individual person
5. KYC of the beneficial owner
6. Certificate of incorporation/registration and Memorandum & Articles of Association
7. Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account or Partnership Deed or Trust Deed
8. Power of Attorney granted to its partners, managers, officers or employees to transact business on its behalf

Note: *No further document required as proof of address if proof of identity gives address*

Caringly yours

BAJAJ | Allianz

Risk Classification

Company is required to carry out risk classification from Jan 1, 2023
Customer risk profiling is the process of segregating our customers. Customers may be broadly classified as under basis their risk profile (this would be subject from changes and re-classification from time to time) based on their background, profile, business relationship, etc. As a company we should apply due diligence on each customer and segregate them into two categories:
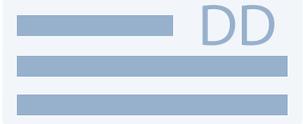
High Risk profile	Low Risk Profile
1. Non-Residents 2. High Net Worth Individuals 3. Politically Exposed Persons 4. Trust, Charities, NGO's 5. Firms with Sleeping Partner/s	1. Salaried Employees 2. People working with Govt Depts 3. People from lower strata of society 4. Employees of Regulatory Bodies

Caringly yours

➢ In case of non face to face business which includes Tele calling, Internet Marketing, Logging in of business or payment of premiums/lump sums at branches, collection of documentation be completed within 15 days of issue of policy.

➢ Steps must be taken to identity the beneficial owner and take all reasonable measures, to verify identity of the beneficial owner. "Beneficial owner" for this purpose means the natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

➢ KYC of the existing customer is required to be done, where KYC of existing customer not available - **to be obtained within 2 years for low risk customers** and **within 1 year for high risk customers**. Risk Classification exercise in this regard to be done by the Company for all customers as on 1st November 2022. Existing Customers shall mean all customers of the Company as on 31st October 2022 (Renewal Cases).

➢ Due Diligence at the time of payout/claim stage (redemption/surrender/partial withdrawal/ maturity/ death/ refunds/reimbursement etc.)

➢ Identifying and applying enhanced due diligence measures on an on-going basis to PEPs and customers who are close relatives of PEPs. These measures are also to be applied to insurance contracts of which a PEP is the ultimate beneficial owner (s)

Caringly yours

BAJAJ | Allianz (II)

2 Maintain Records contd…

> **The Company is not allowed to accept an amount of Rs. 2 Lacs or more in Cash:**

- in aggregate from a person in a day; or
- in respect of a single transaction; or
- in respect of transactions relating to one event or occasion from a person.

1. All cumulative cash transactions of value more than Rs 10 Lakh or its equivalent in foreign currency in a month. Such transactions should be reported to the FIU
2. All cash transactions where counterfeit currency have been used and where any forgery of a valuable security takes place
3. All receipts of Non-profit organizations of more than Rs. 10 Lakh in forex should be reported to FIU by 15th of the succeeding month.

All Records should contain the following	
✓ Nature of Transaction	✓ Amt & Curreny of Transaction
✓ Date of Transaction	✓ Parties involved in transaction

All the data and information to be maintained for 10 years

Suspicious Transaction

A transaction which, to a person acting in good faith:

(a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime

(b) appears to be made in circumstances of unusual or unjustified complexity

(c) appears to have no economic rationale or bona fide purpose;

Examples of Suspicious Transactions	Status
False Identification Documents	✔
Activity inconsistent with declared business	✔
Unusual or unjustified complexity	✔
Non face to face interaction with a client (other than websales)	✔
Unreasonable amount of insurance (especially in non-motor)	✔

- *Proposal Form may include question / declaration on source of funds*

- *Source of funds, net-worth of customer may be documented for reference*

- *Independent enquiries may be conducted / public database may be used*

Caringly yours

Examples / Indicators of Suspicious Transactions:

Value of transactions
- Value just under the reporting threshold amount in an apparent attempt to avoid reporting
- Value inconsistent with the client's apparent financial standing

An illustrative list of such transactions as suggested by IRDA is given below:
- Customer insisting on anonymity, reluctance to provide identifying information, or providing minimal, seemingly fictitious information,
- Cash or Demand Draft or combination of both based suspicious transactions for payment of premium over and above Rs. 5,00,000/- (Rupees Five Lakhs only) in a calendar month and If the aggregate number of receipts exceeds 3 from a single person towards payment of any nature under all the insurance policies or proposals under which such person is the Policy Owner or Proposer or Assignee, an alert is triggered
- Assignments to unrelated parties without valid consideration,
- Request for a purchase of policy in amount considered beyond his apparent need,
- Policy from a place where he does not reside or is employed,
- Unusual terminating of policies and refunds,
- Frequent request for change in addresses,
- Inflated or totally fraudulent claims e.g. by arson or other means causing a fraudulent claim to be made to recover part of the invested illegitimate funds,
- Overpayment of premiums with a request for a refund of the amount overpaid.
- Suspicious profile of the customer is observed
- Premium payment or attempts for payment made by unrelated third party (irrespective of the mode) with no economic rationale or any justified reasons
- List of Policies issued to entities/persons of entities who are barred/disqualified by Financial Sector Regulators/MCA
- Customer sharing multiple PAN no./cards

Caringly yours

Procedure to tackle with Money Laundering

In case you notice or detect any money laundering activities you may do the following:

- <u>Hierarchal Escalation</u> – Any money laundering activity noticed or detected should be immediately bought to the attention of the Branch Manager with relevant proof

- <u>Compliance Officer</u> – The Compliance Officer should be immediately intimated of any wrong doings so that they can take the necessary counter-measures.

- <u>Whistle Blowing Committee</u> - The employee can approach the "Whistle Blowing Committee" in case any money-laundering activity has been detected.

*In case of any concern regarding KYC verification/document to be obtained etc., please do not hesitate and immediately contact the Company representative
WE ARE THERE TO HELP YOU !

Caringly yours
B BAJAJ | Allianz ⑪

Caringly yours