



THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS



CEFLI SARs Benchmarking Survey Report

Benchmarking Survey Report



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Introduction

CEFLI is pleased to report the results of its 2015 Suspicious Activity Reports (SARs) Benchmarking Survey. As part of CEFLI's mission to serve the needs of the life insurance industry's compliance and ethics professionals, CEFLI has invited professionals from across the life insurance industry to participate in a variety of Surveys over the past several years to allow CEFLI to gauge the current state of practice with respect to specific compliance and ethics issues in the life insurance industry. The 2015 SARs Survey was designed to capture data associated with the current life insurance industry practices with respect to the submission of SARs within the life insurance industry. This Report summarizes the key findings of the Survey.

Purpose

The purpose of this Survey was to determine the current state of practices with respect to the submission of SARs within the life insurance industry. FinCEN data indicating a substantial 2012 - 2013 increase in overall insurance sector SARs submissions served as the impetus for developing the Survey. The Survey provides a snapshot in time of SARs activity in the life insurance industry since 2012 and establishes a benchmark for analyzing possible trends in SARs submissions that may occur in the life insurance industry over the years ahead. FinCEN reports that SAR submissions in the insurance sector more than quadrupled in 2013 over the prior year.

To gauge current practice, the Survey asked objective questions designed to ascertain if there has been an increase in SARs submissions by respondent life insurance companies, and if so, why such an increase may have occurred. Aspects covered included: the reasons behind any heightened awareness of reporting requirements, activities encountered that may result in the submission of a SAR, and foreign national transactions.

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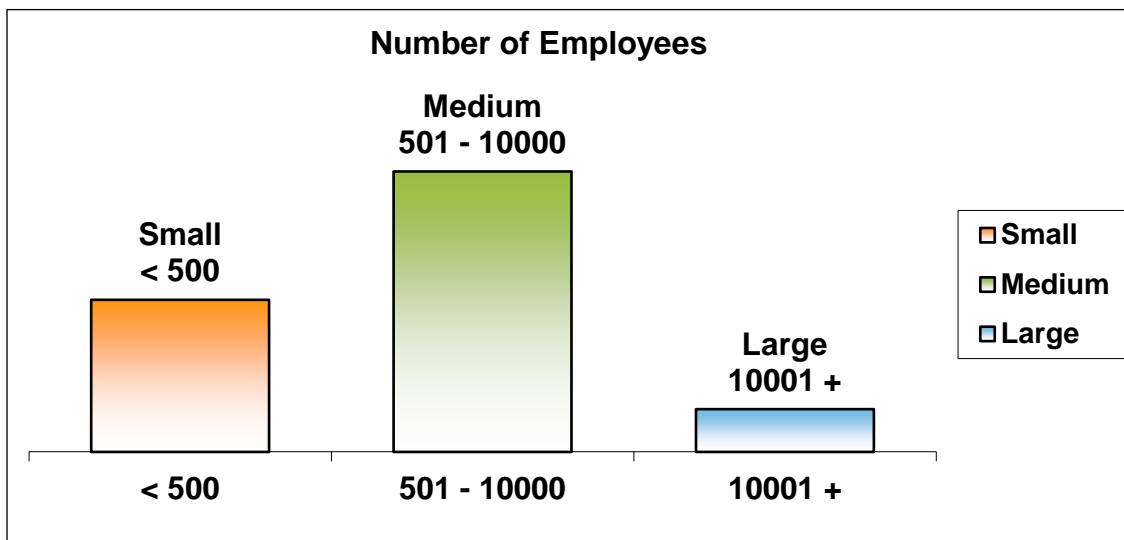


Methodology

To complete its review, CEFLI solicited input from both CEFLI-member life insurance companies as well as non-CEFLI member companies. CEFLI received Survey responses from 77 life insurance companies across a range of company sizes.

Characteristics of Respondents

Survey respondents were asked to identify the size of their organization based upon the number of overall employees. For purposes of this Survey, small life insurance companies were characterized as organizations with 500 or fewer employees, medium companies were characterized as organizations with 501-10,000 employees, and large companies were characterized as organizations with 10,001-50,000 employees. Survey responses were received from a broad range of companies including large life insurance companies (9%), medium companies (59%), and small companies (32%).





Reporting Relationships

The Survey sought to gather information regarding the reporting relationships of individuals with responsibility for the submission of SARs. When asked to identify the department or division to which they report, the majority of Survey respondents (61%) answered that they report up to the Compliance Department at their life insurance company. The next largest grouping of Survey respondents (17%) report to the Anti-Money Laundering Department/Division. Other Survey respondents (14%) indicated that they report to the Law Department. Increasingly smaller percentages of Survey respondents responded that they report to Internal Audit, Risk Management, Accounting, Agency, Claims or other specific Business Units.

Distribution Channels

The Survey also sought to identify the various types of distribution systems used by companies in selling their products. The Survey results confirmed that companies use a broad range of distribution systems with many companies using more than one type of distribution. The majority of respondents (74%), representing companies in each size category, reported that their company utilizes independent producers and almost half (45%) reported they distribute through broker-dealers. Captive producers are also used by a significant percentage (39%) of the life insurers surveyed. Other types of distribution, including banks, direct mail, and online sales were reported as well.



SARs Submissions

Year-to-Year Increase

The Survey asked respondents to indicate if their company had seen an increase in SAR submissions when comparing data from 2012 to 2013 and beyond. Respondents were roughly split with a slight majority (53%) reporting an increase in SAR submissions by their life insurance company in 2013 and beyond, and the remainder (47%) reporting no increase in SARs submissions after 2012. Company size did not seem to be an indicator of whether an increase was reported.

53% of life insurers surveyed reported an increase in SARs submissions in 2013 and beyond.

Possible Reasons for Increase

Companies that reported experiencing an increase in SARs submissions in 2013 and beyond were asked to rank three possible reasons such an increase had taken place:

- Perceived increase in suspicious activity.
- Heightened awareness of reporting requirements.
- Growth in the scope of what the company interpreted as suspicious behavior.

While the Survey respondents identified each of the three reasons in roughly equal proportions overall, it was interesting to note that Survey responses differed according to company size.



The majority of small life insurers ranked a heightened awareness of reporting requirements as the number one reason behind their increase in SAR submissions, while medium insurers largely ranked an expansion of their company's interpretation of the scope of what may constitute a suspicious activity as the number one reason for their increase in SAR submissions. Large insurers, however, ranked a perceived increase in suspicious activity as the most likely reason for their companies' increase in SARs submissions.

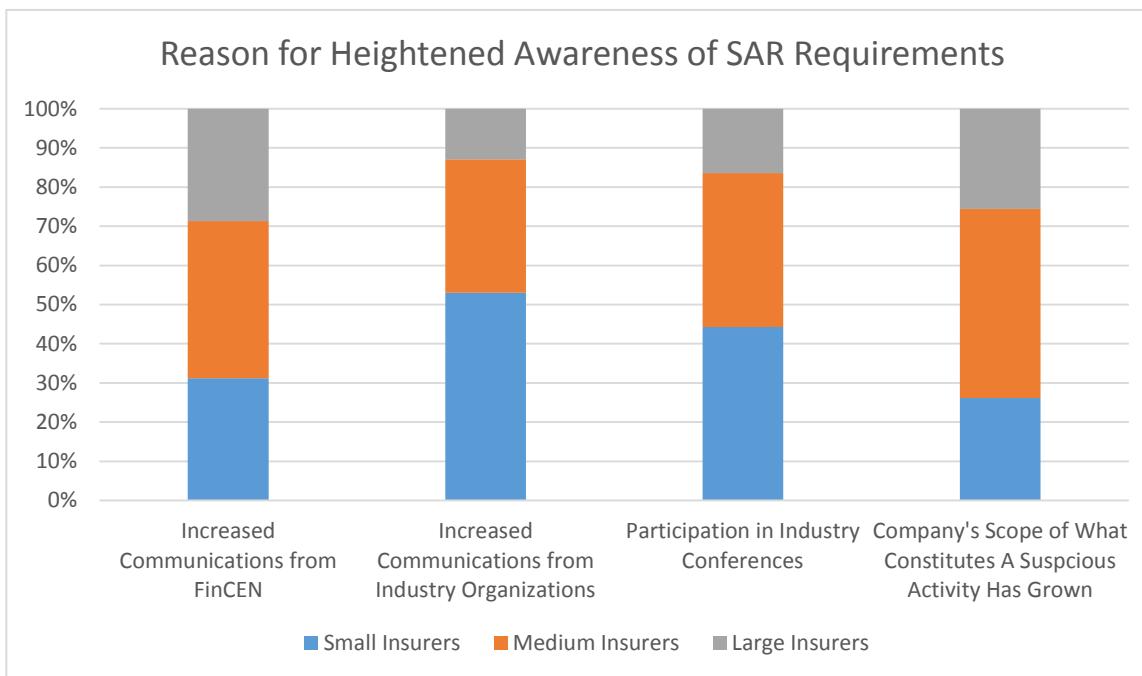
The Survey also asked respondents to offer other possible reasons for the significant increase in SAR filing across the insurance sector as reported by FinCEN. A number of interesting reasons were suggested, including:

- Over-reporting due to a lack of understanding of the purpose of SARs.
- Attractiveness of cash-value loan features to money-launderers.
- Improved ease of electronic SARs reporting.
- State-legalized marijuana.
- The high gain/low chance of prosecution associated with white collar crime.
- An increase in penalties and fines.



Heightened Awareness

When asked to rank possible reasons why their company had a heightened awareness of reporting requirements, answers again varied by size of the life insurer, with large insurers ranking increased communications from FinCEN and a growth in their company's interpretation of the scope of what constitutes suspicious activity as chief contributors. Most medium company respondents indicated that their company's heightened awareness was primarily due to a growth in their company's interpretation of the scope of what may constitute a suspicious activity. While increased communications from industry organizations was ranked as the number one reason for heightened awareness by most small companies. Additionally, insurers of all sizes, also ranked



participation in industry conferences where SARs were discussed as a significant reason for their company's heightened awareness of reporting requirements.



Activities that Might Have Led to a SAR

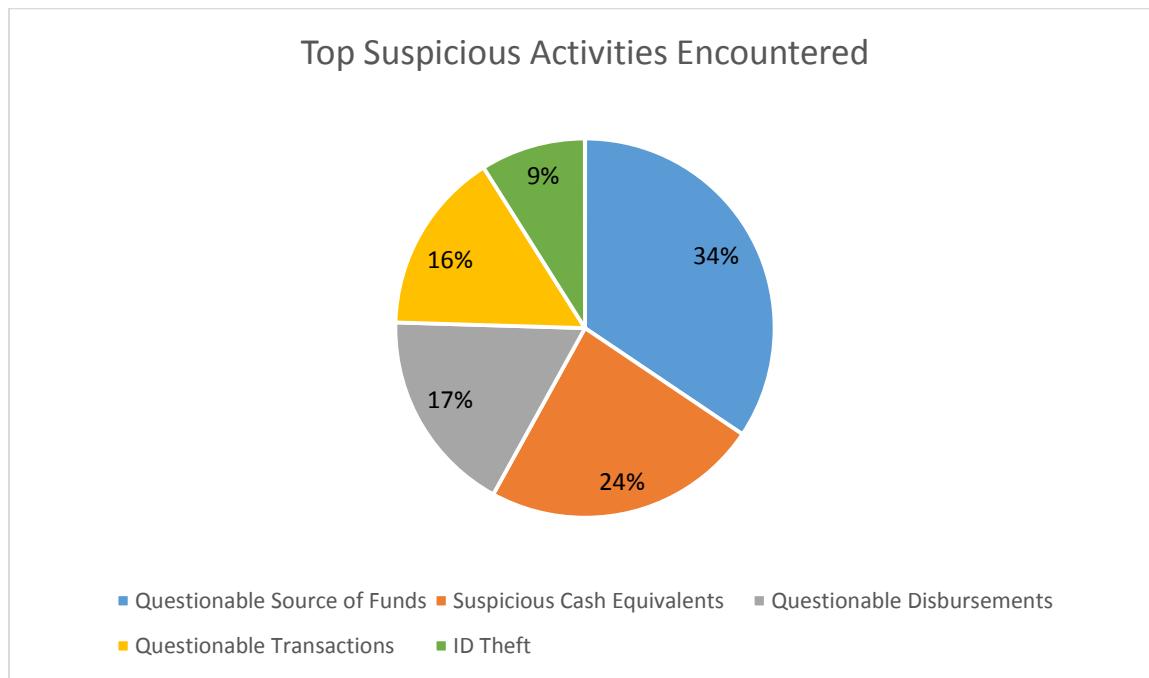
Survey respondents were asked to rank a list of different types of activities their company may have encountered that might result in a SAR being filed. The top three activities that were identified as most likely to result in a SAR filing were:

- Finding a questionable source of funds;
- Suspicious cash equivalents; and
- Questionable disbursements – loan/surrender activity.

Activities least likely to result in SAR filing were:

- Unrelated third party transactions;
- False documentation/information; and
- Collusion.

Additional activities that might have led to a SAR being filed included exploitation of seniors, avoidance of BSA record keeping requirements and suspected tax evasion.





Foreign Nationals

The Survey sought to gather information about business activities with foreign nationals.

When asked whether their company had experienced an increase in foreign national business (such as transactions involving a temporary resident of the US) over the past two years, over three quarters (77%) of respondents indicated they had not experienced an increase in foreign national business. However, other Survey respondents (23%), all of which represented medium and large companies, reported an increase in foreign national business over the past two years.

The Survey also sought to gather information about the minimum forms of identification required by life insurers to validate the identity of a foreign national policyowner. A large majority (84%) of Survey respondents indicated that a social security number or individual tax ID is the minimum form of identification their company requires to validate a foreign national policy owner. Other forms that meet the minimum requirement at other companies include: copies of passports or visas, information pertaining to US assets and bank accounts, and driver's licenses.

The Survey results also indicated that some companies have additional policies in place with respect to business activities of foreign nationals. These policies may include an explanatory letter from the producer or restricting sales to certain countries only. Some companies indicated that they do not currently allow foreign national business.

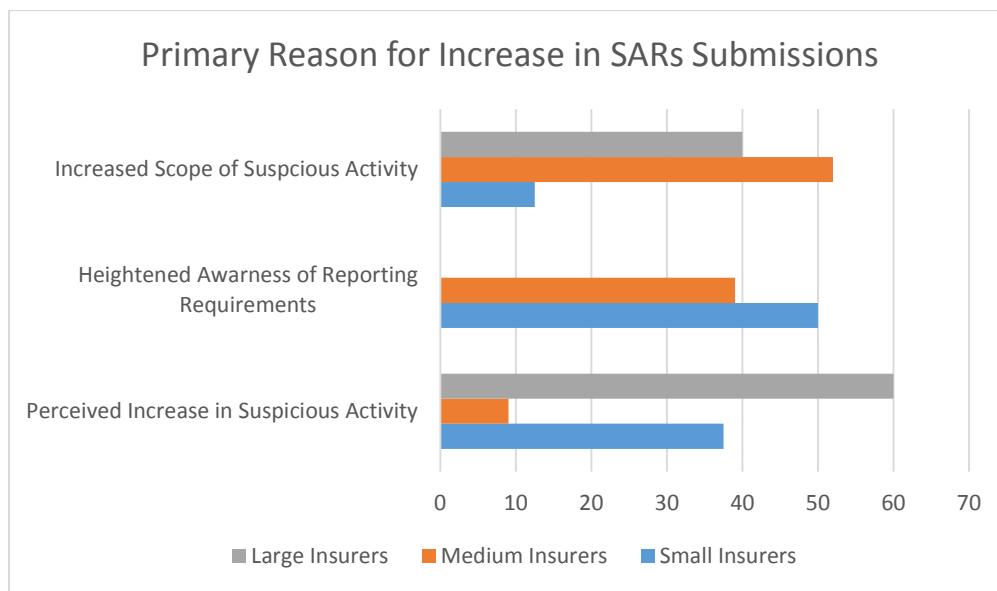


Summary

CEFLI's 2015 Suspicious Activity Reports (SARs) Benchmarking Survey serves as a way to gauge the current state of practice with respect to the submission of SARs within the life insurance industry. By establishing this benchmark, this information can be used to track possible changes in SARs activity and can be used to analyze possible trends that may occur in SARs submissions on a year-to-year basis.

While FinCEN statistics indicate a significant year-to-year increase in the number of SARs submitted by the overall insurance sector, which rose from 726 SARs filed in 2012 to 3,066 SARs filed in 2013, the Survey found that only a slight majority of respondent life insurance companies of all sizes noted an increase in SARs submissions after 2012.

Companies reporting an increase in the submission of SARs, differed by size in the ranking of possible reasons behind the increase with large insurers indicating a perceived increase in suspicious activity, small insurers indicating a heightened awareness of reporting requirements, and medium insurers indicating a growth in the scope of what the company interpreted as suspicious behavior as the primary reason for their company's increase.





For those Survey respondents that identified a heightened awareness of reporting requirements as their primary reason for an increase in the submission of SARs, the Survey sought to identify the reasons underlying this heightened awareness. Larger insurers most often identified a growth in their company's interpretation of the scope of what may constitute a suspicious activity as their primary reason for an increase in the submission of SARs. Many life insurers also identified an increase in communications directly from FinCEN as another reason for their increase in the submission of SARs. Smaller insurers were more likely to credit communications from industry organizations and participation in industry conferences as the primary reason for their company's heightened awareness.

As to the types of suspicious activities that might trigger a SAR, a significant number of life insurers reported:

- Experiencing a questionable source of funds.
- Suspicious cash equivalents.
- Questionable disbursements.
- Questionable transactions.

The Survey results also revealed other suspicious activities experienced to a lesser degree, including ID theft, exploitation of seniors, avoidance of BSA record keeping requirements and suspected tax evasion.

The Survey also gathered data concerning life insurers experience with foreign national business. Only 23% of Survey respondents indicated an increase in this foreign national type of business. The majority of companies who accept foreign national business routinely require a social security number or individual tax ID as the minimum form of verification of identity, while some companies employ additional safeguards or refuse foreign national business altogether.



While the Survey was unable to confirm an actual increase in SARs reporting equal to the over 400% growth calculated by FinCEN for the insurance sector overall, it should be noted that SARs submitted by other insurers, such as property and casualty carriers, are included in this data and may have contributed to the sizeable increase in reporting. Increased SARs by P&C insurers may be contributing to the significant growth reported by FinCEN. Additionally some life insurers who responded to the Survey offered possible factors which may have skewed FinCEN's findings somewhat. These factors included:

- The increased ease of electronic filing of sorts(which has made it possible for companies to file repeat SARs on individuals with a minimum of effort (versus submitting a single report in the past); and
- Recent changes to reporting forms and processes which eliminated voluntary reporting and made it easier to distinguish life insurance company filings from those of other sectors.

Increased SARs by P&C insurers may be contributing to the significant growth reported by FinCEN

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CEFLI would like to thank all compliance and ethics professionals from CEFLI Member Companies as well as non-CEFLI Member Companies who responded to the CEFLI's Suspicious Activity Reports Benchmarking Survey for offering their insights and perspectives. We hope that all Survey respondents find this information to be useful. CEFLI also would like to thank its Member Companies and Affiliate Members for their financial support of the CEFLI Records Management Benchmarking Survey.

THE FORUM THAT CONNECTS.



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