THE COMPLIANCE & ETHICS FORUM
FOR LIFE INSURERS

CEFLI
2017 Anti-Money Laundering (AML) Benchmarking Survey

Benchmarking Survey Report

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Introduction

CEFLI is pleased to report the results of its 2017 Anti-Money Laundering (AML) 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 2017 AML Benchmarking Survey was designed to capture data associated with current practices with respect to AML, antifraud and the filing of Suspicious Activity Reports (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 AML, antifraud and the filing of Suspicious Activity Reports (SARs) as part of life insurers' AML programs. Financial crimes continue to be a priority issue for state and federal regulators and life insurers have built robust systems designed to detect fraudulent schemes, reduce expenses and improve customer experience. The Survey provides a "snapshot-in-time" of current AML practices and SARs activity in the life insurance industry and establishes a benchmark for analyzing possible trends that may occur in the life insurance industry over the years ahead.

FINRA and the SEC announced they will continue to focus examination activity on firms' anti-money laundering programs in 2017.

To gauge current practice, the Survey asked objective questions designed to ascertain the nature and scope of AML/antifraud programs and recent SARs experience at respondent life insurance companies. Aspects covered included: activities encountered that may result in the submission of a SAR, trends in SARs filings, foreign national transactions, AML training, internal reporting and regulatory exam activity.

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 73 life insurance companies across a range of company sizes.

Characteristics of Respondents

Company Size

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 (8%), medium companies (68%), and small companies (24%).

Distribution Channels

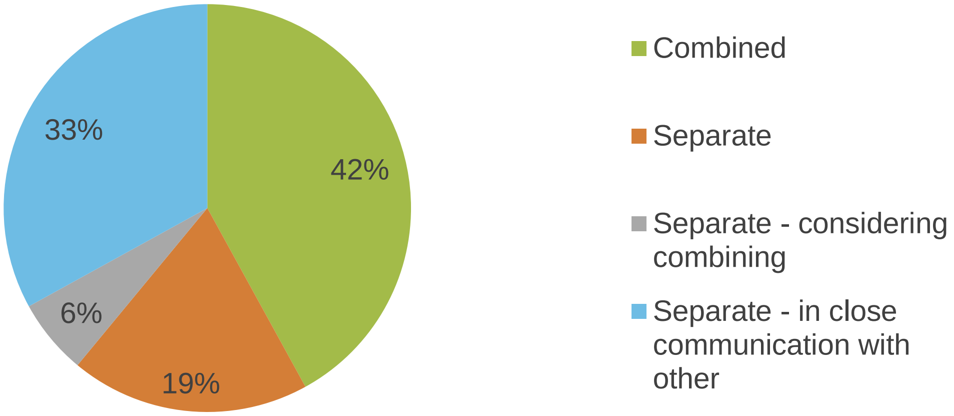
The Survey also sought to identify the various types of distribution systems used by companies in selling their products. The Survey results confirmed that companies use a broad range of distribution systems with most companies using more than one type of distribution. When analyzed by company size, the majority of small and medium companies indicated that they utilize independent producers, while many also reported utilizing captive, Broker-Dealer and bank distribution channels. Survey responses from large companies indicate they are more likely to distribute their products through Broker-Dealers or a captive salesforce, though many also reported that their company utilizes independent producers and bank distribution.

Reporting Relationships

The Survey sought to gather information regarding the reporting relationships of individuals responding to the Survey. When asked to identify the department or division to which they report, the majority of Survey respondents (64%) answered that they report up to the Compliance Department or the Law Department (17%) at their life insurance company. The next largest grouping of Survey respondents (7%) answered that they report directly to a standalone Anti-Money Laundering or Antifraud Department/Division. Other Survey respondents indicated that they report to Risk Management, Senior Management or Associated Business Line Operations (4% in each case).

Organizational Structure

When asked whether their organization maintained combined or separate AML and Antifraud units, the majority of Survey respondents (42%) reported that the two were combined, and some others (6%) indicated that, while currently separate, their company was considering combining the two units under one unit. Other Survey respondents (19%) indicated that the AML and Antifraud units are maintained separately within their company, while the remaining respondents (33%) described the two functions as separate units operating in close communication with the other.



Large companies were more likely to report maintaining separate AML and Antifraud units.

Roles & Responsibilities

Survey respondents were asked to indicate whether their company's designated AML Compliance Officer's sole job responsibility was for AML and AML-related activities (e.g., antifraud) as opposed to being combined with other compliance responsibilities. The Survey results indicated that at the vast majority of companies (83%) the AML Compliance Officer is responsible for compliance activities beyond AML and antifraud. When analyzed by company size, it may not be surprising that Survey results indicate that no small company reported having an AML Compliance Officer solely dedicated to AML, while half of all large company respondents reported their AML Compliance Officer's sole responsibility was for AML and AML-related activities.

Examinations

The Survey also gathered information concerning whether Survey respondent companies have been subject to AML examination activity.

Over half (52%) of the Survey respondent companies indicated that they had been subject to AML examination activity. Small companies were least likely to report having been subject to AML exam activity.

The examining entity was most often reported to be the IRS (31%), and this was the only type of exam activity indicated by small companies. A significant number of companies (29%) also reported having been subject to AML examination activity by a state department of insurance. Other examining entities reported less frequently included FINRA, the SEC, Foreign Regulators and the Federal Reserve (for life insurers who are a bank holding company).

Survey respondents also identified key areas of review during AML examination activity. The Survey responses indicated examiners are most likely to conduct a review of the AML program (policies and procedures) to verify it includes the necessary components. Other areas commonly reviewed included (in order of priority):

- Requesting/reviewing copies of AML risk assessments;
- Requesting copies of independent test plans/results of testing performed; and
- Reviewing implementation and tracking of completion of AML training.

When asked whether their company had experienced an increase in AML examination activity, the overwhelming majority (87%) of Survey respondents reported they had not. For those companies that reported experiencing an increase, the reasons were primarily the annual AML review required by the Federal Reserve (for life insurers who are also bank holding companies), or in a few cases involving global insurers, an attempt by foreign regulators to align with international standards.

Summary

CEFLI's 2017 Anti-Money Laundering (AML) Benchmarking Survey serves as a way to gauge the current state of practice with respect to AML, antifraud and the filing of Suspicious Activity Reports (SARs) as part of life insurers' AML programs within the life insurance industry. By establishing this benchmark, this information can be used to track possible changes in SARs activity and can aid in the analysis of possible trends that may occur in the life insurance industry over the years ahead.

Financial crimes continue to be a priority issue for state and federal regulators and Survey results confirmed that life insurers have built robust systems designed to detect fraudulent schemes, reduce expenses and improve customer experience. At most life insurers the AML function reports to Compliance and a large majority of Survey respondent companies have adopted a coordinated approach to address financial crimes and report that their organization's AML Unit and Antifraud Unit have joined forces and/or maintain close communication with one another.

The Survey results also demonstrate that life insurers have developed unique AML review processes that are tailored to the different types of distribution systems the company uses to distribute their products.

While it may be too soon to determine whether the establishment of the role of Chief AML Compliance Officer is a growing trend within the life insurance industry, we were pleased to see that many companies (mainly larger companies) have demonstrated industry leadership by appointing a senior officer whose sole job responsibility is for AML and AML-related activities (e.g., antifraud) as opposed to being combined with other compliance responsibilities.

The majority of life insurers rely upon some type of automated process to monitor for AML activity, which may be rule and/or scenario driven or based on exception reports. And while

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automated AML monitoring processes were more often reported at medium and large life insurance companies, the data indicates that this practice is even in place at more than half of the small companies responding to the Survey. Whether automated or manual, life insurers' AML systems routinely monitor multiple reports as part of the AML review process. Reports detailing early surrenders, receipt of cash or cash equivalence over a certain dollar amount, frequent withdrawals, frequent loans, foreign addresses and multiple policies serve as key componenets of overall AML montoring programs.

Life insurers also have established thresholds for the acceptance of premium payments. These include, among other practices, not accepting cash or cash equivalents, limiting the dollar value that may be paid in cash, and requiring a copy of voided check or other account validating information with Electronic Funds Transfers.

While more than half of all Survey respondents indicated no recent increase in suspicious activities that might warrant a SAR filing, those companies who did report an increase/perceived increase cited ID theft and financial exploitation of seniors as the fastest growing category of suspicious activities encountered. Additional activities that commonly lead to a SAR being filed included:

- Suspicious cash equivalents;
- Finding a questionable source of funds;
- Questionable disbursements – loan/surrender activity;
- Questionable transactions – out of pattern/no business purpose; and
- Structuring.

The decision to file a SAR is a consultative process at most companies, with Compliance or Legal signing off on the recommendation of the AML Unit. At a significant number of life insurers, however, a SARs Committee approach, which may include representatives

from AML, Compliance, Legal and the SIU, is employed to determine which cases may warrant the filing of a SAR.

Survey responses suggest that FinCEN's 2016 Advisory to Financial Institutions on Cyber-Events and Cyber-Enabled Crime may have contributed to a recent increase in suspected cybersecurity incidents by life insurers. At most companies the reporting of cybersecurity events is primarily coordinated by the Security Department or Chief Information Security Officer. While companies are required to report perceived instances of fraud to state regulatory authorities, it is rare that perceived fraud activity also may trigger a SAR filing.

Though some medium and large life insurers may file over 100 SARs in a year, it was encouraging to learn that over two-thirds of all Survey respondents file fewer than 10 SARs in a year. While FinCEN statistics have indicated a significant year-to-year increase in the number of SARs submitted by the overall insurance sector, the Survey found that a majority of respondent life insurance companies of all sizes noted no increase since 2013. Medium and large companies were more likely to report seeing an increase in their SARs submissions in the last three years.

Companies that reported experiencing an increase in SARs submissions since 2013 were asked to rank three possible reasons such an increase had taken place. The three most common reasons identified were:

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

Increased SARs by other sectors of the insurance industry, such as P&C insurers, may be contributing to the significant growth reported by FinCEN.

Responses differed by company size with small company respondents identifying each of the three reasons in roughly equal proportions, while the majority of medium and large

companies ranked a heightened awareness of reporting requirements as the primary reason behind their companies' increase in SAR submissions since 2013.

When asked to rank possible reasons why their company had a heightened awareness of reporting requirements, Survey respondents from medium and large insurers ranked increased communications from FinCEN and increased communications from industry organizations as chief contributors to their heightened awareness of reporting requirements. Most small company respondents indicated that their company's heightened awareness of reporting requirements was primarily due to a growth in their company's interpretation of the scope of what may constitute a suspicious activity. Many life insurers also credited communications from industry organizations and participation in industry conferences where SARs were discussed as a significant reason for their company's heightened awareness of reporting requirements.

The Survey also gathered data concerning life insurers experience with foreign national business. Only 25% of Survey respondents, primarily medium and large life insurers, indicated an increase in this foreign national type of business over the past two years. 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, such as accepting foreign national business only for select countries or on an exception basis only, others refuse foreign national business altogether.

The majority of companies particpating in the Survey, regardless of size, indicated that they screen beneficiaries against data provided by the Office of Foreign Assets Control

(OFAC) prior to payment of claims. A number of companies also screen beneficiaries against OFAC data at other times, including (in tranked order):

- After policy issue,
- Prior to policy issue,
- After a beneficiary change,
- Prior to a beneficiary change, as part of a regular screen of the block of business (either daily, weekly or monthly), or
- When OFAC issues an updated list.

Life insurers have developed appropriate AML training practices, with the majority of Survey respondents requiring both producers and home office employees who are routinely involved in financial transactions to undergo AML training. Some companies have expanded AML training efforts to include all home office staff and employees of third party administrators without a formal AML program.

Producers have a variety of resources available to fulfill their AML training requirements and some life insurers reported having approved as many as 15 courses for required AML training. The most commonly cited approved AML training for producers was offered through LIMRA, followed by internally developed training courses and training offered by RegEd. Depending on how the training is obtained, tracking completion of AML training is done either internally or by receiving reports from vendors providing the course. The majority of small and medium companies require producers to refresh their AML training once every two years. Large company respondents' producers are generally required to refresh their AML training annually.

AML training for home office employees is generally offered internally via computer-based or in-person training. A number of small and medium companies also reported

utilizing LIMRA's AML training or another third-party course for home office staff. The vast majority of companies refresh AML training of home office employees on an annual basis.

The Survey sought to collect information regarding possible AML reporting to senior management or the board of directors. It was encouraging to note that nearly all Survey respondents indicated that their company's AML process includes reporting on the status of the AML program to senior management or the board of directors. Internal AML reports to senior management or the board of directors are most often made annually, though large companies are likely to report more frequently. Internal AML reports are most often made by the company's Chief Compliance Officer or the Audit Committee, though at a few companies reporting is handled by an AML Steering Committee.

Finally, the Survey asked whether life insurers have been subject to AML examination activity. Survey results indicate that over half of responding companies, mostly medium and large insurers, had been subject to AML examination activity, conducted primarily by the Internal Revenue Service or a state department of insurance. Other examining entities reported less frequently included FINRA, the SEC, Foreign Regulators and the Federal Reserve (for life insurers who are a bank holding company). Key areas of review during AML examination activity included (in order of priority):

- Review of the AML program (policies and procedures) to verify it includes the necessary components;
- Requesting/reviewing copies of AML risk assessments;
- Requesting copies of independent test plans/results of testing performed; and
- Reviewing implementation and tracking of completion of AML training.

Overall, the 2017 Anti-Money Laundering (AML) Benchmarking Survey affirms that life insurers are taking appropriate steps to monitor and report suspected financial crimes. By proactively implementing robust AML programs, the life insurance industry will continue to improve their detection of fraudulent schemes, reduce expenses and improve customer experience.

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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 2017 Anti-Money Laundering (AML) Benchmarking Survey for offering their insights and perspectives. We hope that all Survey respondents find this information to be useful.

THE FORUM THAT CONNECTS.

cefli

Compliance & Ethics Forum for Life Insurers

Bethesda, MD 20814

240.744.3030

info@cefli.org