INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

MASTER CIRCULAR
ON
ANTI MONEY LAUNDERING/COUNTER FINANCING OF TERRORISM (AML/CFT)

GUIDELINES FOR LIFE INSURERS

IRDAI/SDD/GDL/CIR/175/09/2015

28th September, 2015

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भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

28th September, 2015

To
The Chairman/CEOs of all Life Insurers

Master Circular on
Anti Money Laundering/Counter- Financing of Terrorism (AML/CFT)-Guidelines for Life Insurers

1. Background:

1.1 The Prevention of Money Laundering Act (PMLA), 2002 (the Act) brought into force with effect from 1st July 2005, is applicable to all the financial institutions which include Life Insurers. The application of anti-money laundering measures to non-depository financial institutions generally, and to the Life Insurers in particular, has also been emphasized by international regulatory agencies as a key element in combating money laundering. Establishment of anti money laundering programs by financial institutions is one of the central recommendations of the Financial Action Task Force and also forms part of the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS). Accordingly, the Authority decided to put in place the following regulatory guidelines/instructions to the Life Insurers and Agents as part of the programme on Anti Money Laundering/Counter-Financing of Terrorism (AML/CFT) for the insurance sector.

1.2 Life Insurers offer a variety of products aimed at transferring the financial risk of a certain event from the insured to the Life Insurer. These products include life insurance contracts, annuity contracts, and health insurance contracts. These products are offered to the public through trained agents of the Life Insurers and also through a number of alternate distribution channels like direct marketing, bancassurance, etc. The guidelines are therefore of importance to the agents also, to the extent indicated herein.

1.3 The obligation to establish an anti-money laundering program applies to a Life Insurer. They have the responsibility for guarding against insurance products being used to launder unlawfully derived funds or to finance terrorist acts.

2. What is Money Laundering?

2.1 Money Laundering is moving illegally acquired cash through financial systems so that it appears to be legally acquired.

2.2 There are three common stages of money laundering as detailed below which are resorted to by the launderers and Life Insurers which may unwittingly get exposed to a potential criminal activity while undertaking normal business transactions:

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- **Placement** - the physical disposal of cash proceeds derived from illegal activity;
- **Layering** - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the source of money, subvert the audit trail and provide anonymity; and
- **Integration** - creating the impression of apparent legitimacy to criminally derived wealth.

2.3 If the layering process has succeeded, integration schemes place the laundered proceeds back into the economy in such a way that they re-enter the financial system appearing to be normal business funds. Financial institutions such as Life Insurers are therefore placed with a statutory duty to make a disclosure to the authorized officer when knowing or suspecting that any property, in whole or in part, directly or indirectly, representing the proceeds of a predicated offence, or was or is intended to be used in that connection is passing through the Life Insurer. Such disclosures are protected by law, enabling the person with information to be able to disclose the same without any fear. Life Insurers likewise need not fear breach of their duty of confidentiality owed to customers.

3. AML/CFT Program

In order to discharge the statutory responsibility to detect possible attempts of money laundering or financing of terrorism, every Life Insurer needs to have an AML/CFT program which should, at a minimum, include:

3.1 Internal policies, procedures, and controls;
3.2 Appointment of a Principal compliance officer and a designated director;
3.3 Recruitment and training of employees/agents;
3.4 Internal Control/Audit;

The above key elements of the AML/CFT programme are discussed in detail below:

3.1 Internal policies, procedures and controls:

Each Life Insurer has to establish and implement policies, procedures and internal controls which would also integrate its agents in its AML/CFT program, as detailed below:

3.1.1 Know Your Customer (KYC) Norms

i. Considering the potential threat of usage of the financial services by a money launderer, Life Insurer should make reasonable efforts to determine the true identity of all customers requesting for its services especially the person who funds/pays for an insurance contract, either as beneficial owner or otherwise. For the purposes of these norms, the term customer also refers to the proposer/policyholder; beneficiaries and assignee. Where a client is a juridical person, verification of identity is required to be carried out on persons purporting to act and is authorized to act on behalf of a client.

ii. Effective procedures should be put in place to obtain requisite details for proper identification of new customers. Special care has to be exercised to ensure that the contracts are not under anonymous or fictitious names.

iii. Life Insurer to take steps to identify the beneficial owner and take all reasonable measures to verify his/her identity to their satisfaction so as to establish the beneficial ownership. Procedures for determination of Beneficial Ownership are prescribed at **Annexure I**

('Beneficial owner' for this purpose means 'an individual who ultimately owns the insurance policy or controls a customer of the Life Insurer or the person on whose behalf a transaction is being conducted and includes a person who exercises ultimate effective control over a juridical person.)

iv. A list of officially valid documents to be verified at the time of accepting the risk for compliance with KYC requirement for individuals and others is given in **Annexure II.** No further documentation is necessary for proof of residence where the document of identity submitted also gives the proof of residence. It is mandatory to obtain any one of the documents to clearly establish the customer identity in respect of all new insurance contracts. Recent photograph shall be collected in case of individual customers in relation to individual policy.

v. In case of small value policy holders and for spread of insurance into rural and low income sectors, especially micro-insurance, the KYC requirement may be relaxed for a total annual premium of Rs. 10,000/- on life insurance policies held by a single individual from the requirement of recent photograph and proof of residence.

vi. Documents collected towards the identity and address of the customer should be duly certified by an authorized person as identified by the Life Insurer. In cases where e-KYC services of the Unique Identification Authority of India (UIDAI) are availed for KYC verification (which is acceptable subject to specific and express consent of the customer to access his/her data through UIDAI system), certification requirements under this clause shall be deemed to be complied with. The e-KYC should be based on biometric (finger/iris) authentication as the primary mode with One Time Password (OTP) based authentication as a second factor.

vii. While implementing the KYC norms on juridical persons, Life Insurers will have to identify and verify their legal status through various documents (indicated, but not limited to, at Annexure II of this guidelines), to be collected in support of

- The name, legal form, proof of existence,
- Powers that regulate and bind the juridical persons,
- Address of the registered office/ main place of business

Systems/processes laid down to meet this requirement may be based on risk perception of the entity (e.g., in case of a public limited company verification and identification of shareholders of that company is not called for)

viii. Customer information should be collected from all relevant sources, including from agents.

ix. At any point in time during the contract period, where Life Insurer is no longer satisfied about the true identity of the customer, a Suspicious Transaction Report (STR) should be filed with Financial Intelligence Unit-India (FIU-IND).

3.1.2 Reliance on third party KYC:

For the purposes of KYC norms under clause 3.1.1, while Life Insurer is ultimately responsible for customer due diligence and undertaking enhanced due diligence measures, as applicable, Life Insurer may rely on a third party even if it is within the same financial group, subject to the conditions that-

i. the Life Insurer immediately obtains necessary information of customer due diligence carried out by the third party;

ii. the Life Insurer takes adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the customer due diligence requirements will be made available from the third party upon request without delay;

iii. the Life Insurer is satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with customer due diligence and record-keeping requirements in line with the requirements and obligations under the Act;

iv. the third party is not based in a country or jurisdiction assessed as high risk;

v. the Life Insurer is ultimately responsible for client due diligence and undertaking enhanced due diligence, if required;

3.1.3 Enhanced Due Diligence (EDD):

i. Life Insurers should examine, as far as reasonably possible, the background and purpose of all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or lawful purpose. Where the risks of money laundering or terrorist financing are higher, Life Insurers should be required to conduct enhanced due diligence measures, consistent with the risks identified. In particular, they should increase the degree and nature of monitoring of the business relationship, in order to determine whether those transactions or activities appear unusual or suspicious.

ii. Conducting enhanced due diligence should not be limited to merely documenting income proofs. It would mean having measures and procedures which are more rigorous and robust than normal KYC. These measures should be commensurate to the risk. While it is not intended to be exhaustive, the following are some of the reasonable measures in carrying out enhanced due diligence:

- More frequent review of the customers' profile/transactions
- Application of additional measures like gathering information from publicly available sources or otherwise
- Review of the proposal/contract by a senior official of the Life Insurer.
- Reasonable measures to know the customer's source of funds commensurate with the assessed risk of customer and product profile which may include:
  - conducting independent enquiries on the details collected on /provided by the customer where required,
  - consulting a credible database, public or other, etc.,

Measures so laid down should be such that it would satisfy competent authorities (regulatory/enforcement authorities), if need be at a future date, that due diligence was in fact observed by the Life Insurer in compliance with the guidelines and the PML Act, based on the assessed risk involved in a transaction/contract.

3.1.4 Simplified Due Diligence:

Life Insurers may apply 'simplified measures' in the case of 'Low risk' customers taking into consideration the type of customer, business relationship, nature and value of transactions based on the overall money laundering and terrorist financing risks involved.

Simplified Client Due Diligence measures are not acceptable whenever there is a suspicion of money laundering or terrorist financing, or where specific higher-risk scenarios apply.

3.1.5 Implementation of Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA)

i. The Life Insurers should not enter into a contract with a customer whose identity matches with any person in the sanction list or with banned entities and those reported to have links with terrorists or terrorist organizations.

ii. A list of individuals and entities subject to UN sanction measures under UNSC Resolutions (hereinafter referred to as 'designated individuals/entities') would be circulated to the Life Insurers through Life Insurance Council, on receipt of the same from the Ministry of External Affairs (MEA). This is in addition to the list of banned entities compiled by Ministry of Home Affairs (MHA) that have been circulated to the Life Insurers till date. Life Insurers shall periodically check MHA website for updated list of banned entities.

iii. Life Insurers shall maintain an updated list of designated individuals/entities in electronic form and run a check on the given parameters on a regular basis to verify whether designated individuals/ entities are holding any insurance policies with the Life Insurer. An updated list of individuals and entities which are subject to various sanction measures as approved by Security Council Committee established pursuant to UNSC 1267 can be accessed from the United Nations website at http://www.un.org/sc/committees/1267/consolist.shtml

iv. By virtue of Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA), the Central Government is empowered to freeze, seize or attach funds of and/or prevent entry into or transit through India any individual or entities that are suspected to be engaged in terrorism. [The list is accessible at website http://www.mha.nic.in/BO]. To implement the said section an order reference F. No. 17015/10/2002-IS-VI dated 27th August, 2009 has been issued by the Government of India. The salient aspects of the order with particular reference to insurance sector are provided at **Annexure III**.

v. Shri A. Venkateswara Rao, Joint Director, Sectoral Development Department, Insurance Regulatory and Development Authority of India, 3rd Floor, Parishram Bhavan, Bashir Bagh, Hyderabad-500 004; E-mail: avrao@irda.gov.in; Telephone: 040 23381227; Fax: 040 6682 3334 is the UAPA Nodal Officer for the purposes of implementation of the said order in the insurance sector.

vi. A consolidated list of all the UAPA Nodal Officers of various agencies governed by the order will be circulated every year and on every change in the list, on receipt of the same from the Ministry of Home Affairs.

3.1.6 Contracts emanating from countries identified as deficient in AML/CFT regime:

i. Life Insurers are required to conduct enhanced due diligence while taking insurance risk exposure to individuals/entities connected with countries identified by FATF as having deficiencies in their AML/CFT regime.

ii. Special attention should be paid to business relationships and transactions, especially those which do not have apparent economic or visible lawful purpose. In all such cases, the background and purpose of such transactions will as far as possible, have to be examined and written findings maintained for assisting competent authorities. Agents will have to be appropriately alerted to ensure compliance with this stipulation.

iii. While using the FATF Public Statements, being circulated through the Life Insurance Council, Life Insurers should go beyond the FATF statements and consider publicly available information when identifying countries which do not or insufficiently apply the FATF Recommendations.

iv. Similar measures shall be applied on countries considered as high risk from terrorist financing or money laundering perspective based on prior experiences, transaction history or other factors (e.g., legal considerations, or allegations of official corruption).

3.1.7 When should KYC be done?

i. Knowing New Customers:

a. In case of new contracts, KYC shall be done before the issue of every new insurance contract. Life Insurers may rely on the identification and verification steps that they have already undertaken in case of a customer, unless they have doubts about the veracity of the information with them.

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

ii. Knowing Existing Customers:

Since Life Insurers, invariably collect considerable background information of the policyholder as also the beneficiary before entering into contracts no major constraints are expected in this exercise, in respect of the existing contracts. The AML/CFT requirements have been made effective for the existing customers (those who became customers effective from 1st January 2006).

iii. KYC on On-going basis:

Besides verification of identity of the customer at the time of initial issuance of contract, KYC should also be carried out at the claim payout stage and at times when additional top up remittances are inconsistent with the customer's known profile. Any change which is inconsistent with the normal and expected activity of the customer should attract the attention of the Life Insurers for further ongoing KYC processes and action as considered necessary.

3.1.8 Risk Assessment

Life Insurer shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk, severally and together, for customers, countries or geographic areas, and products, services, transactions or delivery channels that are consistent with the national risk assessment duly notified by the Central Government (to be informed by IRDAI soon after such notification).

The risk assessment shall be documented and be kept up-to-date. The Life Insurer shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. It shall be made available to competent authorities and self-regulating bodies, as and when required.

In the context of the very large base of insurance customers and the significant differences in the extent of risk posed by them, as part of the risk assessment, the Life Insurers shall at a minimum, classify the customer into high risk and low risk, based on the individual's profile and product profile, to decide upon the extent of due diligence.

i. For the purpose of risk categorization, individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. Illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society, government departments and government owned companies, regulators and statutory bodies. In such cases, the policy may require that only the basic requirements of verifying the identity and location of the customer are to be met. Notwithstanding the above, in case of continuing policies, if the situation warrants, as for example if the customer profile is inconsistent with his investment through top-ups, a re-look on customer profile is to be carried out.

ii. For the high risk profiles, like for customers who are non-residents, high net worth individuals, trusts, charities, NGO's and organizations receiving donations, companies having close family shareholding or beneficial ownership, firms with sleeping partners, politically exposed persons (PEPs), and those with dubious reputation as per available public information who need higher due diligence, KYC and underwriting procedures should ensure higher verification and counter checks.

iii. For the purposes of risk categorization, term life insurance contracts may be considered as low risk products, unless the details indicate otherwise.

3.1.9 Contracts with Politically Exposed Persons (PEPs)

i. Life Insurers shall devise procedure to ensure that proposals for contracts with high risk customers are concluded after approval of senior management officials. It is however, emphasized that proposals of Politically Exposed Persons (PEPs)(as specified in the AML/CFT Master Circular issued by Reserve Bank of India from time to time) in particular requires approval of senior management, not below the level of Head (underwriting) /Chief Risk Officer.

ii. Life Insurers are directed to lay down appropriate on-going risk management procedures for identifying and applying enhanced due diligence measures to PEPs, 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.

iii. If the on-going risk management procedures indicate that the customer or beneficial owner is found to be, or subsequently becomes a PEP, Life Insurers shall inform the senior management on this business relationship and apply enhanced due diligence measures on such relationship.

3.1.10 New Business Practices/Developments:

i. Life Insurers shall pay special attention to money laundering threats that may arise from
   - Development of new products
   - New business practices including new delivery mechanisms
   - Use of new or developing technologies for both new and pre-existing products.

ii. Special attention should especially, be paid to the 'non-face-to-face' business relationships brought into effect through these methods.

iii. Life Insurers should lay down systems to prevent the misuse in money laundering framework. Safeguards will have to be built to manage typical risks associated in these methods like the following:
   - Ease of access to the facility;
   - Speed of electronic transactions;
   - Ease of making multiple fictitious applications without incurring extra cost or the risk of detection;
   - Absence of physical documents; etc.

iv. The extent of verification in respect of such 'non face-to-face' customers will depend on the risk profile of the product and that of the customer.

v. Life Insurers shall have in place procedures to manage specific increased risks associated with such relationships e.g. verification of details of the customer through on-site visits.

3.1.11 Products to be covered:

The AML/CFT requirements focus on the vulnerability of the products offered by the Life Insurers to any of the processes of money laundering. Examples of vulnerable features/products are illustrated in **Annexure IV**. Based on the vulnerability criterion and after examining the product and business coverage it has been decided that the following categories of products/business lines may be exempted from the purview of AML/CFT requirements:

i. Reinsurance and retrocession contracts where the treaties are between Life Insurers for reallocation of risks within the insurance industry and do not involve transactions with customers.

ii. Group insurance businesses which are typically issued to a company, financial institution, or association and generally restrict the ability of an individual insured or participant to manipulate its investment

Life Insurers shall carry out risk assessment of various products before deciding on the extent of due diligence measures to be applied in each case.

3.1.12 Verification at the time of redemption/surrender:

i. In life insurance business, no payments should be allowed to third parties except as provided in the contract or in cases like superannuation/gratuity accumulations and payments to legal heirs in case of death benefits.

ii. Free look cancellations need particular attention of the Life Insurer especially in cases of client indulging in free look cancellation on more than one occasion.

iii. AML/CFT checks become more important in case the policy has been assigned by the policyholder to a third party not related to him (except where the assignment is to Banks/FIs/Capital Market intermediaries regulated by IRDAI/RBI/SEBI). Notwithstanding the above, Life Insurers are required to ensure that no vulnerable cases go undetected. Especially where there is suspicion of money laundering or terrorist financing, or where there are factors to indicate a higher risk, AML/CFT checks will have to be carried out on such assignments and STR should be filed with FIU-IND, if necessary (Refer to 3.1.13 below).

3.1.13 Reporting Obligations:

The AML/CFT program envisages submission of Reports on certain transactions to Financial Intelligence Unit-India (FIU-IND) set up by the Government of India to coordinate and strengthen collection and sharing of financial intelligence through effective national, regional and global network to combat money laundering and related crimes. FIU-IND is the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. Every Life Insurer shall evolve an internal mechanism, for detecting the transactions referred to in the following paras for furnishing information about such transactions in the formats that may be accessed at the FIU-IND Website at http://fiuindia.gov.in.

i. **Suspicious Transactions Report (STR):**

a. Suspicious activity monitoring program should be appropriate to the company and the products it sells. Special attention should be paid to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. Background of such transactions, including all documents /office records /memorandums pertaining to such transactions, as far as possible, should be examined by the Principal Compliance Officer for recording his findings. These records are required to be preserved for five years as indicated in clause 3.1.14. An illustrative list of such transactions is provided in **Annexure V**.

b. Life Insurers should report the suspicious transactions within 7 working days on being satisfied that the transaction is suspicious. Such reports shall include attempted transactions, whether or not made in cash.

c. Life Insurers shall lay down proper mechanisms to check any kind of attempts to avoid disclosure of PAN details. In case of possible attempts to circumvent the requirements, the same shall be reviewed from the angle of suspicious activities and shall be reported to FIU-IND, if required.

d. Directors, officers and employees (permanent and temporary) of Life Insurers shall be prohibited from disclosing to anybody, the fact that a Suspicious Transactions Report or related information of a policyholder/prospect is being reported or provided to the FIU-IND.

ii. **Monitoring and Reporting of Cash Transactions:**

Remittance of premium is an important stage of entering into contract; hence, cash transactions need more diligence and care.

a. With a view to ensuring that premiums are paid out of clearly identifiable sources of funds, it has been decided to permit premium/proposal deposits remittances in cash beyond Rs. 50,000/- per transaction subject to the customer quoting PAN. Life Insurers shall verify the authenticity of the details of PAN so obtained. In case of customers not required to have PAN or with only agricultural income, Form 60/61 prescribed under the provisions of Income Tax Rules shall be obtained.

b. All cash transactions of the value of more than Rs. 10,00,000/- or its equivalent in foreign currency; all series of cash transactions integrally connected to each other which have been individually valued below Rs. 10,00,000/- or its equivalent in foreign currency where such series of transactions have taken place within a calendar month and the monthly aggregate exceeds an amount of Rs. 10,00,000/- or its equivalent in foreign currency shall be reported to FIU-IND by the 15th of the succeeding month

c. The above clauses should not be selectively interpreted on individual transaction basis. Splitting of the insurance policies/issue of number of policies to one or more entities facilitating individuals to defeat the spirit of the AML/CFT guidelines should be avoided.

iii. **Reporting of receipts by Non-Profit Organizations:**

All transactions, involving receipts by non-profit organizations (either in the form of assignments and/or in the form of top-up remittances) of value more than Rs. 10,00,000/- or its equivalent in foreign currency, should be reported to FIU-IND by the 15th day of the succeeding month.

iv. **Reporting of Counterfeit Currency/Forged Bank notes (CCR):**

All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security or a document has taken place facilitating the transactions, should be reported to FIU-IND by the 15th day of succeeding month.

3.1.14 Record Keeping

i. The Life Insurer, its designated director, officers and employees are required to maintain the information/records of types of transactions mentioned under Rule 3 and

4 of PML Rules 2005 as well as those relating to the verification of identity of clients for a period of five years. The records referred to in the said Rule 3 shall be maintained for a period of five years from the date of transaction. Records pertaining to all other transactions, (for which Life Insurers are obliged to maintain records under other applicable Legislations/Regulations/Rules) Life Insurers are directed to retain records as provided in the said Legislation/Regulations/Rules but not less than for a period of five years from the date of end of the business relationship with the customer.

ii. Records can be maintained in electronic form and/or physical form. In cases where services offered by a third party service providers are utilized,

   a. Life Insurer shall be satisfied about the organizational capabilities, and that technology, systems and measures are in place to safeguard the privacy of the data maintained and to prevent unauthorized access, alteration, destruction, disclosure or dissemination of records and data

   b. The physical or electronic access to the premises, facilities, automatic data processing systems, data storage sites and facilities including back-up sites and facilities and to the electronic data communication network of the service provider is controlled, monitored and recorded;

   c. The service provider has established standard transmission and encryption formats and non-repudiation safeguards for electronic communication of data.

iii. Life Insurer should implement specific procedures for retaining internal records of transactions both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved (if any) so as to provide, if necessary, evidence for prosecution of criminal activity. Life Insurers should retain the records of those contracts, which have been settled by claim (maturity or death), surrender or cancellation, for a period of at least five years after that settlement.

iv. In situations, where the records relate to ongoing investigations, or transactions which have been the subject of a disclosure, they should be retained until it is confirmed that the case has been closed where practicable, Life Insurers are required to seek and retain relevant identification documents for all such transactions and to report such transactions of suspicious funds.

v. In case of customer identification data obtained through the customer due diligence process, account files and business correspondence should be retained for at least five years after the business relationship is ended.

3.1.15 Sharing of Information:

Sharing of information on customers may be permitted between organizations such as Income tax authorities, Law Enforcement authorities and such other authorities as required under law or by the order of court.

3.2 Compliance Arrangements:

3.2.1 A detailed AML/CFT Policy should be drawn up encompassing aspects of Customer acceptance policy, Customer Identification procedure, Monitoring of transactions, Risk management framework as evolved by the Life Insurer. The policy should have the approval of the board and should be reviewed annually and changes effected based on experience.

3.2.2 Responsibility on behalf of the agents:

The guidelines place the responsibility of a robust AML/CFT program on the Life Insurers. Nonetheless, it is necessary that the following steps are taken to strengthen the level of control on the agents engaged by the Life Insurers:

a. The list of rules and regulations covering performance of agents must be put in place. A clause should be added making KYC norms mandatory and specific process document can be included as part of the contracts.

b. Services of defaulting agents who expose the Life Insurers to AML/CFT related risks on multiple occasions should be terminated and the details reported to IRDAI for further action.

3.2.3 Appointment of a Designated Director and a Principal Compliance Officer:

a. Appointment:

i. A "Designated Director" (as defined under the PML Rules 2015 as amended from time to time) to ensure overall implementation of the obligations imposed under chapter IV of the Act and the Rules shall be appointed.

ii. A Principal Compliance Officer (PCO) at a senior level and preferably not below the level of Head (Audit/Compliance)/Chief Risk Officer shall be appointed to ensure compliance with the obligations imposed under chapter IV of the Act and the Rules.

iii. The contact details of the designated director and the principal compliance officer for AML/CFT guidelines shall be communicated to IRDAI and FIU-IND within 7 (seven) days .

3.3 Recruitment and Training of employees/agents:

i. As most part of the insurance business is through agents who bring in 'non face to face' business relationships with the policyholders, the selection process of agents should be monitored carefully. The committee monitoring the agents should monitor sales practices followed by agents and ensure that if any unfair practice is being reported, then action is taken after due investigation. Periodic risk management reviews should be conducted to ensure Life Insurer's strict adherence to laid down process and strong ethical and control environment. The concept of AML/CFT should be part of in-house training curriculum for agents.

ii. Life Insurers should have adequate screening procedures when hiring employees.

iii. Instruction manuals on the procedures for selling insurance products, customer identification, record-keeping, acceptance and processing of insurance proposals, issue of insurance policies should be set out.

iv. The following training requirements are considered essential based on the class of employees:

a. *New employees:* A general appreciation of the background to money laundering, and the subsequent need for identifying and reporting of any suspicious transactions to the appropriate designated point should be provided to all new employees who will be dealing with customers or their transactions, irrespective of the level of seniority.

b. *Sales/Advisory staff:* Members of staff who are dealing directly with the public (whether as members of staff or agents) are the first point of contact with potential money launderers and their efforts are therefore vital to the strategy in the fight against money laundering. It is vital that "front-line" staff is made aware of the Life Insurer's policy for dealing with non-regular customers particularly where large transactions are involved, and the need for extra vigilance in these cases.

c. *Processing staff:* Those members of staff who receive completed proposals and cheques for payment of the premium contribution must receive appropriate training in the processing and verification procedures.

d. *Administration/Operations supervisors and managers:* A higher level of instruction covering all aspects of money laundering procedures should be provided to those responsible for supervising or managing staff.

e. *Ongoing training:* It will also be necessary to make arrangements for refresher training at regular intervals to ensure that agents/ /staff are duly updated on their responsibilities. Timing and content of training packages for various levels of agents/ /staff will need to be adapted by individual Life Insurers for their own needs.

f. Records of training imparted to agents//staff in the various categories detailed above shall be maintained.

3.4 Internal Control/Audit:

Life Insurers internal audit/inspection departments should verify on a regular basis, compliance with policies, procedures and controls relating to money laundering activities. The reports should specifically comment on the robustness of the internal policies and processes in this regard and make constructive suggestions where necessary, to strengthen the policy and implementation aspects.

This has the approval of the Competent Authority.

28/9/15
(Sriram Taranikanti)
Executive Director

Annexure I

Procedures for determination of Beneficial Ownership:

In order to have a uniform approach across the financial sector, the following procedures for determination of Beneficial Ownership as mentioned in Rule 9(3) of PML Rules, 2005 as amended from time to time are prescribed:

(a) where the client is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.

Explanation.- For the purpose of this sub-clause-

1. "Controlling ownership interest" means ownership of or entitlement to more than twenty-five percent of shares or capital or profits of the company;

2. "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements;

(b) where the client is a partnership firm, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of/entitlement to more than fifteen percent of capital or profits of the partnership;

I where the client is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen percent of the property or capital or profits of such association or body of individuals;

(d) where no natural person is identified under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official;

(e) where the client is a trust, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with fifteen percent or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and

(f) where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

Annexure II

List of Officially Valid Documents for KYC purposes

Features	Documents
Insurance Contracts with individuals	i. Passport ii. PAN Card iii. Voter's Identity Card issued by Election Commission of India iv. Driving License v. Job card issued by NREGA duly signed by an officer of the State Government vi. Letter issued by the Unique Identification Authority of India or National Population Register containing details of name, address and Aadhaar number. Provided that where simplified measures are applied for verifying the identity of the clients the following documents shall be deemed to be 'officially valid documents': (a) identity card with applicant's Photograph issued by Central/State Government Departments, Statutory/ Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions; (b) letter issued by a gazetted officer, with a duly attested photograph of the person; Provided further that where simplified measures are applied for verifying the limited purpose of proof of address of the clients, where a prospective customer is unable to produce any proof of address, the following documents shall be deemed to be 'officially valid documents': (a) utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill); (b) property or Municipal tax receipt; I bank account or Post Office savings account statement; (d) pension or family pension payment orders (PPOs) issued to retired employees by Government Department or Public Sector

	Undertakings, if they contain the address; (e) letter of allotment of accommodation from employer issued by State or Central Government departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies. Similarly, leave and licence agreements with such employers allotting official accommodation; and (f) documents issued by Government departments of foreign jurisdiction and letter issued by Foreign Embassy or Mission in India.
Insurance Contracts with companies	i. Certificate of incorporation and Memorandum & Articles of Association ii. Resolution of the Board of Directors iii. Power of Attorney granted to its managers, officers or employees to transact business on its behalf iv. An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf
Insurance Contracts with partnership firms	i. Registration certificate, if registered ii. Partnership deed iii. Any officially valid document in respect of the person holding an attorney to transact on its behalf. iv.
Insurance Contracts with trusts & foundations	i. Certificate of registration ii. Trust Deed iii. Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/ managers/ directors and their addresses

Any other 'Officially valid document' that shall be notified by the Central Government, in consultation with the Regulator from time to time.

Annexure III

Implementation of Section 51A of UAPA:

To implement the said section an order reference F. No. 17015/10/2002-IS-VI dated 27th August, 2009 has been issued by the Government of India. The salient aspects of the order with particular reference to insurance sector are detailed in the following paras:

(1) Procedure for freezing of insurance policies of 'designated individuals/entities'

In case any matching records are identified, the procedure required to be adopted is as follows:

a. Life Insurers shall immediately and in any case within 24 hours from the time of identifying a match, inform full particulars of the insurance policies held by such a customer on their books to the Joint Secretary (IS-I), Ministry of Home Affairs, at Fax No.011-23092569 and also convey over telephone on 011-23092736. The particulars apart from being sent by post should necessarily be conveyed on e-mail id: jsis@nic.in.

b. The Life Insurers shall also send a copy of the communication mentioned in (1) (a) above to the UAPA Nodal Officer of the State/UT where the account is held, IRDAI and FIU-IND.

c. In case, the match of any of the customers with the particulars of designated individuals/entities is beyond doubt, Life Insurers would prevent designated individuals/entities from conducting any transactions, under intimation to the Joint Secretary (IS-I), Ministry of Home Affairs at Fax no. 011-23092569 and also convey over telephone on 011-23092736. The particulars apart from being sent by post should necessarily be conveyed on e-mail id: jsis@nic.in.

d. Life Insurers shall file a Suspicious Transaction Report (STR) with FIU-IND in respect of the insurance policies covered by paragraph (1) (a) above, carried through or attempted, in the prescribed format.

e. On receipt of the particulars of suspected designated individual/entities IS-I Division of MHA would cause a verification to be conducted by the State Police and/or the Central Agencies so as to ensure that the individuals/entities identified by the Life Insurers are the ones listed as designated individuals/entities and the insurance policies, reported by Life Insurers are held by the designated individuals/entities.

f. In case, the results of the verification indicate that the insurance policies are owned by or are held for the benefit of the designated individuals/entities, an order to freeze these insurance policies under section 51A of the UAPA would be issued within 24 hours of such verification and conveyed electronically to the concerned office of Life Insurer under intimation to IRDAI and FIU-IND.

g. The said order shall take place without prior notice to the designated individuals/entities.

'Freezing of insurance contracts' would require not-permitting any transaction (financial or otherwise), against the specific contract in question.

(2) Procedure for unfreezing of insurance policies of individuals/entities inadvertently affected by the freezing mechanism, upon verification that the individual/ entity is not a designated individual/entity

a. Any individual or entity, if they have evidence to prove that the insurance policies, owned/held by them has been inadvertently frozen, shall move an application giving the requisite evidence, in writing, to the concerned Life Insurers.

b. Life Insurers shall inform and forward a copy of the application together with full details of the insurance policies inadvertently frozen as given by any individual or entity, to the Nodal Officer of IS-I Division of MHA within two working days.

c. The Joint Secretary (IS-I), MHA, the Nodal Officer for IS-I Division of MHA shall cause such verification as may be required on the basis of the evidence furnished by the individual/entity and if he is satisfied, he shall pass an order, within 15 working days, unfreezing the insurance policies owned/held by such applicant, under intimation to the concerned Life Insurer. However, if it is not possible for any reason to pass an Order unfreezing the assets within 15 working days, the Nodal Officer of IS-I Division shall inform the applicant.

(3) Implementation of requests received from foreign countries under U.N. Security Council Resolution 1373 of 2001

a. U.N. Security Council Resolution 1373 obligates countries to freeze without delay the funds or other assets of persons who commit, or attempt to commit, terrorist acts or participate in or facilitate the commission of terrorist acts; of entities owned or controlled directly or indirectly by such persons; and of persons and entities acting on behalf of, or at the direction of such persons and entities, including funds or other assets, derived or generated from property owned or controlled, directly or indirectly, by such persons and associated persons and entities.

b. To give effect to the requests of foreign countries under U.N. Security Council Resolution 1373, the Ministry of External Affairs shall examine the requests made by the foreign countries and forward it electronically, with their comments, to the UAPA Nodal Officer for IS-I Division for freezing of funds or other assets.

c. The UAPA Nodal Officer of IS-I Division of MHA, shall cause the request to be examined, within 5 working days, so as to satisfy itself that on the basis of applicable legal principles, the requested designation is supported by reasonable grounds, or a reasonable basis, to suspect or believe that the proposed designee is a terrorist, one who finances terrorism or a terrorist organization, and upon his satisfaction, request would be electronically forwarded to the Nodal Officer in IRDAI. The proposed designee, as mentioned above would be treated as designated individuals/entities.

d. Upon receipt of the request by Nodal Officer in IRDAI from the UAPA Nodal Officer of IS-I Division, the list would be forwarded to Life Insurers and the procedure as enumerated at paragraphs (1) on freezing of insurance policies shall be followed.

e. The freezing orders shall take place without prior notice to the designated persons involved.

(4) IRDAI would communicate all Orders under section 51A of UAPA relating to insurance policies, to all the Life Insurers after receipt of the same from IS-I Division of MHA.

Annexure IV

Vulnerable Features/Products:

1. Single premium products-where the money is invested in lump sum and surrendered at the earliest opportunity;
2. Free look cancellations-especially the big ticket cases;

Note: The list is only illustrative and not exhaustive

Annexure V

Illustrative list of Suspicious Transactions:

1. Customer insisting on anonymity, reluctance to provide identifying information, or providing minimal, seemingly fictitious information
2. Cash based suspicious transactions for payment of premium and top ups over and above Rs. 5 lakh per person per month.
3. Frequent free look cancellations by customers;
4. Assignments to unrelated parties without valid consideration;
5. Request for purchase of a policy in amount considered beyond apparent need;
6. Policy from a place where customer does not reside or is not employed;
7. Unusual terminating of policies and refunds;
8. Frequent request for change in address
9. Borrowing the maximum amount against a policy soon after buying it
10. 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
11. Overpayment of premiums with a request for a refund of the amount overpaid.
12. Multiple DD each of denomination for less than Rs. 50,000/- for payment of premium and top ups over and above Rs. 2 lakh per person per month.

13. Media reports about a customer
14. Information sought by Enforcement agencies

Note: The list is only illustrative and not exhaustive. For more examples on Suspicious Transactions please visit http://www.iaisweb.org

Appendix

List of Circulars

Sl. No.	Circular Ref	Date	Contents
1.	013/IRDA/Life/Jul-06	27th July 2006	Clarification on AML Guidelines
2.	021/IRDA/Life/PAN/Jul-2009*	23rd July 2009	Requirement of PAN for insurance products
3.	028/IRDA/Life/PAN/Aug-2009*	18th August 2009	Requirement of PAN for insurance products
4.	IRDA/F&A/CIR/AML-CFT/158/09/2010	24th September 2010	Master Circular on AML /CFT guidelines -2010
5.	IRDA/F&I/CIR/AML/180/11/2010	12th November 2010	AML/CFT guidelines
6.	IRDA/F&I/CIR/AML/145/07/2011	4th July 2011	Reporting Formats
7.	IRDA/F&I/CIR/AML/151/07/2011	5th July 2011	PML Third Amendments Rules 2010
8.	IRDA/F&I/CIR/AML/231/10/2011	5th October 2011	AML/CFT guidelines-Cash Acceptance Threshold
9.	IRDA/F&I/CIR/AML/028/01/2012	27th January 2012	AML/CFT guidelines
10.	IRDA/ F&I /CIR/AML/ 233 /10/2012	5th October 2012	UAPA Nodal Officer of IRDAI
11.	IRDA/SDD/MISC/CIR/ 261/12/2012	27th December 2012	AML/CFT guidelines
12.	IRDA/SDD /GDL/CIR/019/02/2013	4th February 2013	AML/CFT guidelines-Procedures for Determination of Beneficial Ownership
13.	IRDA/SDD/GDL/CIR/104/05/2013	23rd May 2013	AML/CFT guidelines
14.	IRDA/SDD/MISC/CIR/158/08/2013	8th August 2013	AML/CFT guidelines
15.	IRDA/SDD/CIR/AML/207/10/2013	21st October 2013	e-KYC services of UIDAI

* The above circulars shall be superceded by this circular