TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

AML/PTF Thematic Review Report on the Life/Long Term Domestic Insurance Sector

Customer Due Diligence and Risk Assessment

September 2024

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Turks and Caicos Islands Financial Services Commission

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1. Acronyms

The following abbreviations are used throughout the report:

AML/PTF	Anti-Money Laundering and Prevention of Terrorist Financing
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
EDD	Enhanced Due Diligence
DNFBP	Designated Non-Financial Businesses and Professions
FSCO	Financial Services Commission Ordinance
KYC	Know Your Customer
ML	Money Laundering
MLRO/MLCO	Money Laundering Reporting Officer/ Money Laundering Compliance Officer
NPO	Non-Profit Organizations
PEP	Politically Exposed Person
POCO	Proceeds of Crime Ordinance
TF	Terrorist Financing
TCI	Turks and Caicos Islands
TCIFSC	Turks and Caicos Islands Financial Services Commission

2. Introduction

TCIFSC is an independent statutory body established under the FSCO 2001 and continued under the FSCO 2007. The TCIFSC is an integrated regulator with responsibility for the regulation of all financial services businesses and the supervision of DNFBPs and NPOs operating in or from the Turks and Caicos Islands. The TCIFSC, through the Commercial Registry, is also responsible for the administration of company formation, registration, patents, trademarks, and business names.

TCIFSC plays a crucial role in the fight against ML/TF and has responsibility for ensuring that licensees, DNFBPs and NPOs comply with their legal obligations under the POCO and AML/PTF Regulations and Code and takes appropriate enforcement action against regulated or supervised entities for breaches of the AML/PTF legislation. In 2020, TCIFSC revised its supervisory approach to ML/TF risks associated with regulated financial entities by transferring supervisory responsibility for AML/PTF of these entities to the respective prudential regulatory departments.

Schedule 2 of the AML/PTF Regulations 2010 stipulates that a company that carries on insurance business is a financial business only where it carries on (a) long term insurance business; or (b) any form of life insurance business or investment related insurance business that may be classified as general insurance business. Further, a person who carries on business as an insurance intermediary is a financial business only where the person acts with respect to any type of business referred to in (a) or (b) above.

In 2021, the Insurance Department issued a questionnaire to life/long term domestic insurers to assess their level of compliance with the requirements of the AML/PTF legislation in the TCI. In 2022, the questionnaire was revised[1] to incorporate insurance intermediaries acting for insurers that carry on financial business, as defined in Schedule 2 of the AML/PTF Regulations. Following a review of the questionnaires submitted by licensees, the department determined that a thematic review of the domestic life/long-term insurance sector should be undertaken to assess the ML/TF risks posed by the sector.

The thematic review focused on CDD, specifically customer identification, verification of source of income, and risk assessment of customers, conducted by domestic life/long-term insurers and insurance brokers that place or arrange insurance business with life/long-term insurers. CDD is a critical measure applied to prevent and detect ML/TF, and if executed correctly will mitigate the risk of ML/TF in financial businesses.

The thematic review included:

i) a desk review of the AML/PTF policy and procedure manuals implemented by all relevant insurers and brokers, and

ii) an on-site examination to understand the systems and controls established by these financial businesses, and the extent to which insurers rely on a broker's CDD procedures.

This publication summarises the findings of the thematic review and TCIFSC's expectations of regulated entities regarding the management of AML/PTF risks posed to the TCI insurance sector.

[1] https://tcifsc.tc/wp-content/uploads/2023/07/AML.PTF-letter-to-Brokers-July-2023.pdf

3. CFATF Mutual Evaluation

The CFATF Fourth Round Mutual Evaluation Report of January 2020 on the TCI identified that no risk assessments were conducted by domestic insurance companies, as their focus did not include AML/PTF obligations, and it was apparent that representatives of the domestic insurance sector were not fully aware of their AML/PTF obligations. According to the report, this was because the domestic insurance sector operates mainly through agents. The lack of entity-specific risk assessment and AML/PTF supervision of this sector also contributed to the low level of understanding of ML/TF risk. Regarding CDD requirements, the report also mentioned that basic customer identification documents were accepted by the companies for new business. Additionally, there was no evidence of updated information being collected for ongoing customer relationships.

The report also highlighted that given the low risk associated with the insurance sector, EDD measures were not applied to high-risk clients due to a marginal understanding of the EDD requirements for PEPs. Further, the definition of PEPs was limited to local politicians and their immediate family members and was not extended to close associates of these individuals, top civil servants, domestic persons holding top positions in international organizations or international PEPs. The application of required EDD measures to PEPs was also limited to source of fund information and management approval.

4. Legal Obligations

In the TCI, financial businesses are required to comply with the AML/PTF legislation[2].

Section 4 of the AML/PTF Code stipulates that a financial business shall carry out and document a risk assessment for the purpose of:

a. assessing the ML and TF risks faced by the business and its customers,

b. determining how best to manage and mitigate those risks, and

c. designing, establishing, maintaining and implementing AML/PTF policies, systems and controls that comply with the requirements of AML/PTF Regulations and Code and that are appropriate.

Part II of the AML/PTF Regulations sets out the CDD measures that are to be followed by financial businesses (regulated and non-regulated), including:

a. enhanced due diligence measures, including provisions for dealing with PEPs, and

b. ongoing monitoring.

[2] https://tcifsc.tc/aml-ctf-legislation/

5. Overview of the Life/Long Term Insurance Sector

At the date of this report there were five licensed life/long term insurers, and one licensed general insurer authorised to conduct both life and general insurance business in the TCI, also referred to as a composite insurer. Of the six insurers, only one is incorporated in the TCI, while five are branches of insurers incorporated in The Bahamas, Bermuda, Cayman Islands, Barbados, and Trinidad and Tobago. Consequently, insurance business in the TCI is predominantly conducted through licensed insurance intermediaries, which include agents, sub-agents, and brokers.

For 2023, the dominant class of life business written in the TCI was creditor life insurance, which accounted for 53 percent (2022: 57 percent) of total gross premiums written by the sector. Creditor life insurance was offered to the loan and mortgage customers of a bank in the TCI. Ordinary life and group life insurance accounted for 38 percent (2022: 33 percent) and 9 percent (2022: 10 percent) of the sector, respectively. Group life insurance written by insurers was attached as a rider to health insurance policies.

6. Thematic Review Process

The thematic review focused on CDD measures including verification of identity, address, and source of funds, identification of PEPs, risk assessment of customers and ongoing monitoring. Additionally, as part of our procedure, we verified whether licensees were in compliance with the requirement to undertake sanctions screening of policyholders, and key principals where the policyholder is a company. Based on the size of the sector, the thematic review included all six insurers authorized to conduct life and long-term insurance business in the TCI and five insurance brokers that interact with these insurers on behalf of policyholders.

During the third quarter of 2023, the team commenced a desk review of the AML/PTF questionnaires, policy and procedure manuals, and supporting documents submitted by insurers and insurance brokers to understand their approach to complying with their obligations under the AML/PTF legislation.

In the fourth quarter of 2023, the team carried out on-site examinations to assess the effectiveness of the CDD controls that are in place for domestic insurance licensees categorised as financial businesses, through:

i) physical inspection of a selected sample of customer files maintained by brokers;

ii) "walk through" of the insurer's compliance electronic systems; and

iii) physical and virtual interviews with senior officers, including the MLRO/MLCO of the respective companies.

Licensees were required to provide the TCIFSC with:

1. A list of all current customers categorized by product type, including policy number and policy inception date.

2. A list of insurance products currently offered in the TCI.

3. Detailed description of each insurance product offered.

The selection criteria for the sample of policyholder files to be examined by the TCIFSC included i) identifying a cross-section of policies from each product type, ii) customers onboarded within the last 12 months, iii) customers that were identified as PEPs, iv) customers who were PEPs known to TCIFSC, v) customers originally from high-risk territories and vi) customers that were onboarded more than five years ago. Meetings were also held with senior officers to understand the AML/PTF risks identified by the licensee and the measures that were implemented to mitigate these risks.

Where deficiencies were identified during the review, a deficiency letter was issued to the individual licensee, stipulating required action, and providing an opportunity for feedback. A total of 11 deficiency letters were issued to licensees, requesting that specific action be undertaken by 30th June 2024, and/or submission of an action plan detailing the measures to be implemented by the licensee to achieve compliance with the AML/PTF legislation by 31st October 2024.

Consequently, the thematic review has provided TCIFSC with insight into the level of CDD and customer risk assessment compliance by the insurance sector.

7. Summary of Findings

7.1. Satisfactory Observations

i. **Insurers have documented AML/PTF policies and procedures in place.** Review of the AML/PTF policy and procedure manuals submitted by insurers revealed that adequate systems and controls were satisfactorily documented including CDD measures to effectively guard against ML/TF.

ii. **Application forms used by insurers were designed to collect basic CDD information.** Customer identification and relationship information, in accordance with the AML/PTF Code, were consistently obtained by insurers on the application forms completed before onboarding customers.

iii. **High risk customers are approved by senior management.** There was evidence from customer risk assessments conducted by some insurers that customers rated as high risk were approved by senior management before onboarding.

iv. **Insurers are aware of the sanctions regime that apply to the TCI.** Through dialogue with insurers, it was determined that the sanction lists circulated by TCIFSC were used to screen customers.

7.2. Deficiencies

i. **Three licensees (two long-term insurers and one broker) were without an MLRO/MLCO, in breach of regulations 21 and 22 of the AML/PTF Regulations.** The absence of an MLRO/MLCO heightens ML/TF risks as CDD and risk assessment processes may be incomplete or inadequate, leading to poorly executed controls and processes. The entities were instructed to put measures in place to ensure that a suitable officer, approved by the TCIFSC, was appointed as MLRO/MLCO to achieve compliance and to execute the functions prescribed in the AML/PTF Regulations.

ii. **Insurance brokers did not have extensive AML/PTF systems and controls in place.** Generally, brokers meet face-to-face with customers to facilitate the completion of application forms and collect the minimum due diligence documents**.** The completed application form, along with the relevant CDD documents, were submitted to the insurer for processing without any formal risk assessment of the customer being completed by the broker**.** The brokers were required to establish documented AML/PTF policies and procedures, implement systems and procedures to ensure that CDD requirements are consistently applied, establish systems to ensure that PEPs are identified, and ensure that the appropriate level of ongoing monitoring is conducted based on the level of risk.

iii. **Two insurers did not collect adequate CDD information and did not provide the TCIFSC with evidence of risk assessment being completed on customers**. Further, there was no evidence that CDD or EDD measures were applied, or risk assessment completed by the broker acting on behalf of the insurer, before onboarding customers. The insurers were instructed to i) adopt a risk-based approach that considers all four risk categories (customer, product, delivery and country risk), ii) implement a customer risk rating framework and apply appropriate due diligence measures for each risk category, iii) ensure that appropriate EDD is applied to all PEPs and other high-risk customers are reviewed and approved before onboarding, iv) ensure that proper verification of identity, including source of funds, is consistently applied to all prospective customers, and ongoing monitoring is carried out.

iv. **CDD information was not being reviewed and updated on an ongoing basis as required by the legislation.** From the list of policies submitted, the Insurance Department reviewed a sample of 114 policies **(Appendix 1).** The review revealed that, from an industry perspective, various CDD measures, for example, verification of addresses, verification of source of funds, and copies of current identification, were not consistently applied at onboarding and during the business relationship. Regulation 11 (amended) of the AML/PTF Regulations stipulates that a financial business shall apply CDD to existing customers based on materiality and risk and conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained. Insurers and brokers were instructed to ensure that proper CDD measures are consistently applied to all prospective customers and measures implemented to ensure ongoing CDD monitoring for existing customers by 31st October 2024.

7.3. TCIFSC's expectations of regulated entities

To help insurers and brokers understand where improvements or changes should be made, sections 7.4 and 7.5 below provide a non-exhaustive list of the TCIFSC's expectations of regulated entities, in line with the CDD and customer risk assessment requirements of the AML/PTF legislation and good practices recommended or identified during the thematic review.

7.4. Customer Due Diligence and Risk Assessment

TCIFSC's Expectations:

A regulated entity should:

a) **Develop suitable KYC and CDD measures that are documented in a policy and procedures manual, properly implemented, and put into practice.**
b) **Assess and carry out CDD, applying a risk-based approach.**
c) **Carry out customer risk assessments, considering the relevant risk factors (e.g., customer information, transaction types, delivery channels, geography, and products and services), and assign a risk rating to each customer.**
d) **Document the results of EDD on PEPs and high-risk customers.**
e) **Verify a customer's identity and primary residence, where applicable.**
f) **Assess a customer's source of wealth, if the customer presents a higher risk.**
g) **Screen all potential and existing customers against published sanctions lists.**
h) **Ensure that where reliance is placed on brokers to conduct CDD, the requirements mandated by regulation 14 of the AML/PTF Regulations are complied with.**

Good Practices	***Poor Practices*** [3]
1. Copies of photo identification maintained on file are legible and clearly identify the applicant.	Copies of photo identification maintained on file are of poor quality, as the applicant's features are not distinguishable.
2. Copies of identification documents are signed by the broker/agent/customer representative indicating that the original was seen and verified.	No evidence that original identification documents were presented and verified.

[3] Finding from the thematic review

3. The source of income is verified, for example by a letter from the customer's employer, copies of recent pay slips, or other means.	No evidence that appropriate documentation was obtained to verify the applicant's employment and other source of income.
4. Verification of customers' primary residential address is conducted by way of a utility bill or other methods stipulated in policy manuals.	No evidence that the customer's residential address was verified.
5. All customers are subjected to a risk assessment that considers all relevant risk elements before onboarding.	No evidence that a risk assessment was conducted before onboarding customers. In some cases, customer risk assessment was limited to customers identified as PEPs.
6. Customer risk assessment including the rating assigned, is documented.	No evidence that KYC information gathered was used to make an informed decision for risk rating the customer.
7. CDD is a continuous process. Existing customers are required to provide updated CDD documents, including photo identification if expired and proof of address if outdated.	No evidence to suggest that customers are reviewed and CDD information is updated periodically.
8. Customer onboarding and risk assessment procedures are documented in a Board approved AML/PTF policy manual.	No evidence of documented customer onboarding or risk assessment procedures.
9. Customer risk assessment includes the use of screening tools and sanctions lists for onboarding and ongoing monitoring.	No evidence of screening tools or sanctions lists being used for onboarding and ongoing monitoring of existing customers.
10. Insurers obtain adequate assurance in writing from the broker before placing reliance on the broker to apply CDD measures.	No evidence that insurers obtain written assurance from brokers before reliance was placed on the broker to conduct CDD. No evidence that the insurer reviewed or had plans to review/audit the broker's CDD procedures.

7.5. Politically Exposed Persons and High-Risk Customers

TCIFSC's Expectations: **A regulated entity should:** **a) Have a documented AML/PTF policy that includes measures for dealing with PEPs and other high risks customers that are properly implemented and put into practice.** **b) Ascertain whether any of its customers are PEPs, family members, or close associates of PEPs, in accordance with the AML/PTF Code.**

c) Always apply EDD measures where there is a higher risk of ML/TF, in accordance with AML/PTF obligations. **d) Assess and verify PEP's and other high risk customers' source of wealth.** **e) Screen all PEPs, particularly foreign PEPs, and other high-risk customers against the relevant sanction lists.** **f) Maintain a register or system to be able to clearly identify PEPs, family members, close associates and other high-risk customers.** **g) Conduct enhanced ongoing monitoring of all customers that are PEPs and other high-risk customers in accordance with the AML Code.**

Good Practices	***Poor Practices***
1. The application form is designed to capture information on PEPs, or a PEP declaration form is used that defines a PEP and asks whether the customer identifies as a PEP.	Application forms that are not designed to capture information on PEPs or a separate form used for applicants to indicate their PEP status.
2. Written policies are established to assist employees with the identification of PEPs or high-risk customers. The definition of PEPs extends to close associates of these individuals, top civil servants, and domestic persons holding top positions in international organizations or international PEPs.	No written guidelines to assist employees with a broad interpretation of who is considered a PEP or high-risk customer.
3. Appropriate screening is conducted to identify whether a customer is a PEP or high-risk customer.	No evidence of screening for PEPs or high-risk customers.
4. There are established procedures for the independent verification of source of income/wealth.	No evidence of the independent verification of source of income/wealth.
5. An EDD checklist is used to document assessment of high-risk customers and sign-off by senior management before onboarding.	No evidence of EDD on high-risk customers and sign-off by senior management before onboarding.
6. An appropriate system is in place for reviewing and reassessing PEPs and other high-risk customers on an ongoing basis.	No evidence of monitoring of PEPs and other high-risk customers on an ongoing basis.

8. Action Taken and Next Steps

TCIFSC has finalized the on-site inspections and issued individual deficiency letters to the respective entities. We will continue to monitor the licensees to ensure compliance within the stipulated timelines. Failure to satisfactorily address the deficiencies will result in appropriate enforcement action being taken against the licensee.

All entities are encouraged to note the findings of this publication, and the guidance shared to develop policies and procedures that will improve and strengthen their CDD controls, customer risk assessment and effectiveness.

TCIFSC would like to take this opportunity to thank all licensees who were involved in this thematic review. We are committed to working with the sector to further enhance compliance with the AML/PTF legislation and international standards. If there are any queries regarding the contents of this report, please contact the Insurance Department at **ins-reports@tcifsc.tc**

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Appendix 1: Findings from review of a selected sample of Policyholder Files

	Total	**% of Total**
Total number of files reviewed	**114**	**100%**
Number of files with:		
a) Unclear copies of photo identification	19	17%
b) Copy of identification not verified to indicate original seen	78	68%
c) Expired identification (current at onboarding)	53	46%
d) Source of funds not verified	79	69%
e) Residential address not verified/document outdated	67	59%
f) PEP status not ascertained at time of application	55	48%
g) Customer risk assessment not carried out	58	51%