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1. INTRODUCTION

- 1.1. The Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Sectoral Guidelines 2 (Sectoral Guidelines 2) is issued pursuant to sections 13, 14, 16, 18, 19 and 83 of the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLATFA).
- 1.2. The Sectoral Guidelines 2 is established and formulated to supplement the requirements of the Standard Guidelines on AML/CFT. These guidelines address the requirements that must be complied with by the reporting institutions under the AMLATFA to effectively combat money laundering and financing of terrorism activities.
- 1.3. This Sectoral Guidelines 2 must be read together with the Standard Guidelines on AML/CFT that the reporting institutions are subjected to, except for those areas stipulated in this Sectoral Guidelines 2.
- 1.4. The objective of the Sectoral Guidelines 2 is to provide guidance and minimum standards on AML/CFT measures in order to enable the reporting institution to develop its own internal AML/CFT policies, procedures and controls.

2. APPLICABILITY

- 2.1. This Sectoral Guidelines 2 is applicable to institutions which are reporting institutions under the AMLATFA and the term 'reporting institution' in this document refers to the institutions listed in **Appendix I**.
- 2.2. This Sectoral Guidelines 2 is also applicable to products and services offered by both the insurance and takaful industries. The conventional terms used in these Guidelines correspond to the Islamic products, terms and concepts listed in **Appendix II**.
- 2.3. The Standard Guidelines on AML/CFT and the Sectoral Guidelines 2 supersede the following guidelines:
 - Guidelines on Anti-Money Laundering Measures for the Insurance Industry (JPI/GPI 27);
 - Anti-Money Laundering Act 2001 – Verification Procedures (JPI: 20/2004);
 - Anti-Money Laundering Act 2001 – Compliance Officers (JPI: 26/2004);
 - Guidelines on Anti-Money Laundering Measures For the Takaful Industry (JPIT/4/2001/TO); and
 - Anti-Money Laundering Act 2001 – Verification Procedures (JPIT/09/2004/TO).

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2.4. This Sectoral Guidelines 2 is also applicable to foreign branches and subsidiaries of the reporting institutions listed in Appendix I that carry out any of the businesses or activities listed in the First Schedule to the AMLATFA.

2.5. The reporting institution should observe the Sectoral Guidelines 2 in accordance with the requirement stipulated under paragraph 2.2 of the Standard Guidelines on AML/CFT. Where there are legal impediments in the host country which may result in the foreign branch or subsidiary of the reporting institution in the host country not being able to meet this Sectoral Guidelines 2, the reporting institution is required to institute the measures specified under paragraph 2.3 of the Standard Guidelines on AML/CFT. In addition, the Board of Directors may consider ceasing the operations of the said branch or subsidiary that fails to observe the AML/CFT requirement or put in place the necessary mitigating controls as specified under those paragraphs.

3. CUSTOMER ACCEPTANCE POLICY

3.1. Risk Profiling

3.1.1. In addition to the risk profiling requirements set out in the Standard Guidelines on AML/CFT, the reporting institution should review and update its customers' profiles regularly especially when there are changes in their employment or nature of business.

4. CUSTOMER DUE DILIGENCE

4.1. General

4.1.1. The extent of the information required from the reporting institution's customer at the identification stage may be based on the severity of the following:

- Money laundering and terrorism financing risks associated with the customer, based on the background of the customer and the suspicious circumstances in which the transaction was conducted;
- Type or form of transaction undertaken, whether it is of a suspicious nature that requires more rigorous identification and verification procedures;
- Whether the transaction involves a new type of service or product or engages new technology, which alters the delivery mode and transaction process, whereby, care must be taken to ensure that customer identification and verification requirements are adequately complied. To ensure that new insurance or takaful products or services as well as delivery mode does not create an avenue for money

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laundering and terrorism financing activities, the reporting institution must ensure that prior to the launch of any new insurance or takaful products/services or engagement of a new technology, controls to combat money laundering and terrorism financing practices are in place to address any risks these new products/services or technology may pose; and

- The type of customers, i.e., whether they are insurance policy owners or beneficiaries and the entities that they represent.

4.1.2. The relevant documents required for customer due diligence as stipulated under the Standard Guidelines on AML/CFT should be sighted, and details of the applicant must be verified against those documents. For insurance policies (both single and annual insurance premium policies) with insurance premiums exceeding RM50,000 and RM100,000 per annum in respect of individual and group policies respectively, a copy of the verified documents should be retained by the reporting institution.

4.1.3. For any business transactions made through its agents, the reporting institution should be able to enforce on its agents to conduct customer due diligence process as required under the Standard Guidelines on AML/CFT and this Sectoral Guidelines 2. The reporting institution is advised to set out the processes that must be undertaken by the agents in conducting customer due diligence as well as appropriate enforceable action by the reporting institution in its arrangement/agreement with the agents. For example, agents should sight the original identification documents of the customers and verify the details of the customers.

4.2. Individual Customers

4.2.1. In addition to the customer information that is required in the Standard Guidelines on AML/CFT, the reporting institution should also obtain the following additional information when conducting customer due diligence for individual customers:

- occupation type/self employed;
- name of employer or nature of self-employment/ nature of business; and
- contact number (home, office or mobile).

4.3. Reinsurance Arrangements

4.3.1. Due to the nature of the business and the lack of contractual relationship between the insurance policy owner and the reinsurer, the reporting institution is required to carry out

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verification only on the ceding company, and not their ceding company's customers. The following verification procedure applies to reinsurance arrangements:

- 4.3.1.1. Verification is not required where the ceding company is licensed under the Insurance Act 1996 or the Offshore Insurance Act 1990, or a takaful operator licensed under the Takaful Act 1984.
- 4.3.1.2. Reinsurers should take necessary steps to verify that the ceding company is authorised to carry on insurance business in its home jurisdiction which enforces AML standards equivalent those in the AMLATFA.
- 4.3.1.3. For this purpose, the reinsurers could use a questionnaire to assess the level of AML/CFT standards imposed on the ceding company in its home jurisdiction. At minimum, the following questions could be posed to the ceding company:
 - Is money laundering/financing of terrorism a criminal offence under its home's jurisdiction?;
 - Has the ceding company's home jurisdiction established laws/regulations concerning AML/CFT?;
 - Is the ceding company subject to anti-money laundering laws/regulations?;
 - Has the ceding company establish a conformity programme that contains AML/CFT 'Know Your Customer' (KYC) policies and procedures, according to local and international laws, rules and standards?; and
 - Is the implementation of AML/CFT KYC policies and procedures being supervised and regulated on a regular basis?.

4.4. Foreign Politically Exposed Persons (PEPs)

- 4.4.1. The reporting institution should monitor transactions which are connected to PEPs in order to detect discrepancies in their transactions and activities based on their profiles.
- 4.5. Identification and verification of the customer/beneficiary may take place after the insurance contract has been concluded, but at or before the time of payout or when the beneficiary intends to exercise vested rights under the insurance policy. The verification procedure may be performed at or before the time the benefits are paid out in the following circumstances:
 - 4.5.1. Any insurance policy sold with insurance premiums not exceeding RM5,000 per annum or RM10,000 for any single insurance

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premium policy (applicable to insurance policies with surrender value or death benefits);

- 4.5.2. Verification of beneficiaries (if different from the applicant); and
- 4.5.3. Verification of individual members covered under group insurance policies (verification of the group insurance policy owner should be carried out at the point of sale).

4.6. Similarly, verification for insurance policies sold without face-to-face contact (e.g. through call centres, Internet, direct mailing and telemarketing) may be performed at or before the time the benefits are paid out if the insurance premiums do not exceed RM5,000 per annum or RM10,000 for any single insurance premium policy. The verification for insurance premiums exceeding the above stated amounts shall be performed through face-to-face interaction as specified under the Standard Guidelines on AML/CFT as soon as possible before the insurance cover is issued.

4.7. In the event, the risks of money laundering and financing of terrorism are low and there are publicly available measures to sufficiently identify a customer (e.g. Government agency, public educational institution or company listed on Bursa Malaysia), the reporting institution would only need to ascertain whether such customer, falls within the categories mentioned in this paragraph.

4.8. Further verification by reporting institution on insurance policy owners of policies sold via any financial institution would not be required if the reporting institution is satisfied that prior verification has been conducted by the financial institution¹.

4.9. Where customer due diligence has previously been conducted by the reporting institution, further verification by the reporting institution is not required:

- 4.9.1. for renewal and reinstatement of policies with no significant changes to the terms and conditions of the insurance policy (including benefits under the insurance policy);

- 4.9.2. for applications of pure insurance covers which do not provide for payment of surrender values, including hospital and surgical insurance, critical illness insurance and pure term life insurance covers if the annual insurance premium does not exceed

¹ The reporting institution shall enter into a formal arrangement with its bancassurance partners/third parties/intermediaries. The content of the agreement shall be subject to paragraph 5.7.3 of the Standard Guidelines.

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RM5,000 per annum or RM10,000 for single insurance premium; and

4.9.3. for general insurance applications if the annual insurance premium does not exceed RM5,000 per annum.

4.10. The reporting institution should not commence business relations or perform any transaction, or in the case of existing business relations with customers, it should terminate such business relations if the customer fails to comply with the customer due diligence requirements and consider lodging a suspicious transaction report with the Financial Intelligence Unit in Bank Negara Malaysia. However, the reporting institution should assess its contractual obligation before making such decision.

5. ONGOING MONITORING

5.1. In addition to the requirements provided in Standard Guidelines on AML/CFT, the reporting institution could also be guided by the examples listed in **Appendix III** in order to detect transactions and activities that may be suspicious.

6. SUSPICIOUS TRANSACTION REPORTING

6.1. The reporting institution shall be subject to the requirement and mechanisms on reporting of suspicious transactions as set out in the Standard Guidelines on AML/CFT.

7. AML/CFT COMPLIANCE PROGRAMME

7.1. Independent Audit

7.1.1. The role and function of the Board of Directors with regards to the independent audit as specified in the Standard Guidelines on AML/CFT may be facilitated through or assisted by the Audit Committee.

7.1.2. The Audit Committee of the reporting institution is responsible to review internal control issues identified by the auditors and regulatory authorities and to evaluate the adequacy and effectiveness of the internal controls for its AML/CFT measures. At the minimum, the Audit Committee should:

- ensure that independent audits are conducted to check and test the effectiveness of the policies, procedures and controls for AML/CFT measures;
- ensure the effectiveness of internal audit function in assessing and evaluating the AML/CFT controls;
- ensure the AML/CFT measures are in compliance with the AMLATFA, its regulations and the relevant Guidelines; and

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- assess whether current AML/CFT measures which have been put in place are in line with the latest developments and changes of the relevant AML/CFT requirements.

7.1.3. The Audit Committee must submit a written report on the audit findings to the Board of Directors on a regular basis. Hence, the report should be used to highlight inadequacies of any AML/CFT measures and control systems within the reporting institution and the Board of Directors should ensure that necessary steps are taken to rectify the situation.

7.2. Training for Insurance Agent

7.2.1. The reporting institution must adopt a risk-based approach in ensuring that its insurance and takaful agents received initial and ongoing training on relevant AML/CFT, especially on customer due diligence, as the agent deals directly with new businesses and the acceptance of new customers.

7.2.2. The insurance and takaful agent should be made aware of its legal responsibilities and the AML/CFT policies and procedures of the reporting institution, in particular the customer acceptance policy and all other relevant policies and procedures, the requirements of verification and records, the recognition and reporting of transactions suspected to involve in money laundering and financing of terrorism. The insurance and takaful agent also needs to be aware that his suspicions should be reported to the AML/CFT Compliance Officer at the reporting institution in accordance with the reporting mechanism.

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8. Appendix I

The Sectoral Guidelines 2 is applicable to the reporting institutions under the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (AMLATFA), carrying out the following business and activity, as listed in the First Schedule to the AMLATFA:

1. Insurance business and insurance broking business as defined or provided in the Insurance Act 1996; and
2. Takaful business as defined in Takaful Act 1984.

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9. Appendix II

Conventional Term	Islamic Term
Bancassurance	Bancatakaful
Contract	Aqad
General Insurance	General Takaful
Life Insurance	Family Takaful
Insurance	Takaful
Insurance policy	Takaful plan
Insurance premium	Takaful contribution
Reinsurers	Retakaful

Applicable Concepts

Mudharabah

Mudharabah is an arrangement or agreement between a capital provider and an entrepreneur, whereby the entrepreneur can mobilise funds for its business activity. Any profits made will be shared between the capital provider and the entrepreneur according to an agreed ratio while losses are borne solely by the capital provider.

Takaful

Mutual guarantee provided by a group of people against a defined risk or catastrophe befalling one's life, property or any form of valuable things.

Wakalah

Agent-principal relationship, where a person nominates another to act on his behalf.

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10. Appendix III

Examples of Transactions That May Trigger Suspicion

(A) Brokerage and Sales

(i) New Business

1. A personal lines customer for whom verification of identity proves unusually difficult, who is evasive or reluctant to provide full details.
2. A corporate/trust customer where there are difficulties and delays in obtaining a copy of the statements of accounts or other documents of incorporation.
3. A customer with no discernible reason for using the insurer's service, e.g. customers with distant addresses who could find the same service nearer their home base, or customers whose requirements are not in the normal pattern of or inconsistent with the insurer's business and could be more easily serviced elsewhere.
4. A customer introduced by an overseas broker, affiliate or other intermediary, when both customer and introducer are based in countries where production of drugs or drug trafficking may be prevalent.
5. Any transaction in which the insured is unknown (e.g. treaty reinsurance, business introduced under binding authorities, etc.).

(ii) Transactions which are abnormal or do not make economic sense

1. Proposals from an intermediary not in keeping with the normal business introduced.
2. Proposals not in keeping with an insured's normal requirements, the markets in which the insured or intermediary is active and the business which the insured operates.
3. Early cancellation of policies with return of insurance premium, for no discernible purpose or in circumstances which appear unusual.
4. A number of policies entered into by the same insurer/intermediary for small amounts and then cancelled at the same time, the return of insurance premium being credited to an account different from the original account.
5. Any transaction in which the nature, size or frequency appears unusual, e.g. early termination or cancellation, especially where cash had been tendered and/or the refund cheque is to a third party or a sudden purchase of a lump

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sum contract from an existing customer whose current contracts are small and with regular payments only.

6. Assignment of policies to apparently unrelated third parties.
7. Transactions not in keeping with normal practice in the market to which they relate, e.g. with reference to the size or class of business.
8. Other transactions linked to the transaction in question which could be designed to disguise money and divert it into other forms or other destinations or beneficiaries.
9. Willingness to pay insurance premiums on high risks, which have a likelihood of regular claims being made.

(B) Settlement

(i) Payment

1. A number of policies taken out by the same insured for low insurance premiums, each purchased for cash and then cancelled with return of insurance premium to a third party.
2. Large or unusual payment of insurance premiums or transaction settlement by cash.
3. Overpayment of insurance premiums with a request to refund the excess to a third party or different country.
4. Payment by way of third party cheque or money transfers where there is a variation between the account holder, the signatory and the prospective insured.

(ii) Disposition

1. Payment of claims to a third party without any apparent connection to the insurance policy owner.
2. Abnormal settlement instructions, including payment to apparently unconnected parties or to countries in which the insured is not known to operate.

(iii) Claims and Reinsurances

1. Strong likelihood of risks occurring, resulting in substantial claims, with consequently high insurance premiums.
2. Claims paid to persons other than the insured.

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3. Claims which, while appearing legitimate, occur with abnormal regularity.
4. Regular small claims within insurance premium limit.
5. Treaty reinsurances with high incidence of small claims.
6. Regular reinsurance claims paid overseas to third parties.
7. Recent change of ownership/assignment of policies just prior to a loss.
8. Abnormal loss ratios for the nature and class of risk bound under a binding authority.