OVERSEAS ASSURANCE CORPORATION (MALAYSIA) BERHAD
ANTI-MONEY LAUNDERING FRAMEWORK

The components of the **Anti-Money Laundering Framework** (AML Framework) together with any updates and/or modifications introduced from time to time are as follows:-

A. VERIFICATION

The guiding principle for Overseas Assurance Corporation (Malaysia) Berhad (hereinafter known as the Company) is that we should **verify and be satisfied** with the identity of our customers and the nature and legitimacy of the insurance transactions to be undertaken. The issues outlined below are not exhaustive but aims to provide what is considered good practices for the Company to adopt for proper verification. The Company must be able to justify when other means are adopted to achieve satisfactory verification. The considerations when verifying are, as follows :

i) Subject of verification

- Verification of all parties to an insurance contract should be undertaken.

- The Company should also be satisfied that the verification subject to the application for an insurance contract exists.

- Verification subjects include any underlying principals that the policy owners are acting on behalf of, and all the joint applications to the contract. Where there are a large number of verification subjects (eg. group PA and Medical), it may be sufficient to carry out verification on a limited group, such as the principal shareholders and the main directors of the company. Verification subjects could also include the beneficiaries, where they are not the policy owners.

ii) Method of verification

- Verification is a cumulative process, which generally does not rely on any single piece of documentary evidence.

- The best possible evidence could mean that which is the most difficult to replicate or acquire lawfully because of its reputable and / or official origin.

- It should also not be unduly influenced by the particular type of policy applied for.

- The build-up of a thorough portfolio of the customer under the 'Know your customer' policy, is a critical pre-condition to recognize a suspicious or unusual transaction. This will aid the insurance licensees in their verification of potential insurance contracts and the financial flows and transaction patterns of existing policy owners.

- The findings of the verification exercise should be conclusive, before any policy is contracted. If the transaction is concluded before the completion of the verification exercise for sound business reasons, the Company should ensure no claims are paid out prior to the conclusion of the verification exercise.

- Verification should be conclusive to a point of acceptance or refusal. If the policy owner does not pursue an application, that in itself may be a case for reporting if the circumstances give rise to the suspicion that the policy owner has reason to merit further verification.

iii) **Examples of verification procedures**

- Verification of the customer may already have taken place when a known and respected policy owner and / or member of key staff of the insurer introduces the customer. This should however only merely serves as a useful aid, and **not** altogether remove the requirement to perform the full verification exercise.

- Where the verification subject is an **individual**, personal information to be considered should include full name(s) used, date and place of birth, nationality, current permanent address, telephone number, fax number and e-mail address, occupation and name of employer (if self-employed, the nature of the self employment), as well as specimen signature of the verification subject.

- Some documents that may be considered the best possible to verify the above particulars of the individual are current valid passport, national registration identity card, armed forces identity card and driving licence which bears a photograph. Other documents that may be considered with some degree of care for the purpose of verification are birth certificates, an identity card issued by the employer of the applicant and credit cards.

- Where the verification subjects are **companies**, partnerships and any other institutions (including clubs, societies and charities), verification must be made on the individuals acting on behalf of the entity and all entity signatories should be duly accredited by the company secretary of the entity. Care should also be taken when using the following documents for verification such as certificate of incorporation, the name(s) and address(s) of the beneficial owner(s) and / or the person(s) on whose instructions on the account are empowered to act, constitutional documents, e.g. Memorandum and Articles of Association, Powers of Attorney or other authorities given by the entity, latest report and accounts, where possible, to establish the authenticity of the business, a signed statement as to the nature of the business and where appropriate, information should be sought from another institution. Particular attention may be necessary to verify the origin of these documents and the background against which they are produced. The originals or certified copies of certificates should be produced for verification.

iv) **Cases exempted from verification**

Even though the following cases are exempted from verification, the Company must continually be vigilant and be guided by the fact that **where it knows or has reason to believe or suspects that money is being laundered, or that money laundering is, may or has occurred, the exemptions below are no longer applicable**. Examples of cases that can be exempted from verification are, as follows :-

b) Where **payments of one policy are used to fund premiums payable in another policy for the same customer**. This is not regarded as entry into a business relationship, and as such do not require verification.

c) Where **third party evidence is required to support the exemption**. Here, the introducer of the customer is a reliable part and submits a written introduction. This introducer may be :

- a reliable local institution, which is subsequently verified by the insurance entity and supplemented by appropriate enquiries, where necessary.

- a professionally qualified person or an independent financial adviser operating from an acceptable jurisdiction, and whereby the insurance licensee is satisfied that the rules of his / her professional body regulator include ethical guidelines which together with the money laundering laws and regulations in his / her jurisdiction include requirements at least equivalent to those in the Guidelines.

- Where the introducer is reliable and has good standing instruction.

- Where the introducer is either an overseas branch or member of the same group as the receiving insurance licensee.

Details of the introduction should be kept as part of the records of the customer introduced.

A critical condition for the acceptability of such an introducer is that the terms of business between the Company and the introducer should require the introducer to complete verification of all customers introduced to the Company or to inform the Company of any unsatisfactory conclusion in respect of any such customer, to keep records in accordance with the Guidelines and to supply copies of any such records to the Company upon demand.

Where the Company is dissatisfied with any of the above conditions for the introducer, the Company should conduct its own verification of the customer and not regard it as an exempt case.

d) **Where third party evidence is not required to support the exemption :**

- Where the customer is a licensed and / or supervised financial institution.

- Where there are small one-off applications, unless between entry and termination it appears that two or more one-off transactions are in fact linked and constitute a significant one-off transaction. In the absence of any contrary evidence, a period of three months or more of separation between one-off transactions are deemed as not linked.

- Where payments are made through post, credit card or electronically such as through the Internet, and such mode of payment is regarded reasonable, and where payment is from the customer's account held in another institution which is registered / authorized / exempt under local insurance (and banking) laws, the name(s) of the customer for business corresponds with the name(s) of the paying account holder, the receiving insurance licensee keeps a record of the customer's account with that other institution and there is no suspicion of money laundering. In such cases, it may be assumed that the other institution has completed the necessary verification.

v) **Results of verification**

- Where the verification results are satisfactory, the records are to be kept as expounded in the Guidelines, and there is no further evidence of identity required. The file of each customer should show steps taken and the evidence obtained in the process of undertaking each verification, or where relevant, the reasons for justifying exemption.

- If verification fails not on the grounds that it is a suspicious transaction, any funds should be returned to its source. Where failure is due to the grounds that it is a suspicious transaction, a report should be made according to the reporting procedure instituted by the Company and the Guidelines, and guidance on the next step may also be sought from BNM, where necessary.

B. KEEPING OF RECORDS

i) **Deciding on the Appropriate Record Keeping System**

In deciding on the appropriate record keeping system to facilitate the ease of recognition and reporting of suspicious transactions, the Company should weigh the requirements of the Guidelines and any statutory requirements and the needs of the investigating authorities, against normal business considerations. Again, the Company may use its discretion to modify its existing record keeping systems and balance such systems with the requirements specified in the Guidelines, in order to implement the appropriate record keeping system for tracking money laundering activities in the insurance business. As a guide, an effective and appropriate record keeping system should be able to address the following :

- All requirements in the Guidelines and any relevant statutory requirements are met;

- The relevant authorities and the internal and external auditors will be able to judge reliably the Company's transactions and their compliances with the Guidelines;

- o Any transactions effected via the Company can be reconstructed; and
- o The Company can within a reasonable time, satisfy any enquiries or orders from the appropriate authorities as to disclosure of information.

ii) **Parties Responsible for the Record Keeping**

The Company should keep all the necessary records pertaining to its policy owners and their insurance transactions.

iii) **Record Keeping Procedures**

The Company should ensure that, minimally, it has adequate procedures and records to access :

- o The initial proposal documentation including, where completed the customer's financial assessment, the customer's needs analysis, copies of regulatory documentation, details of the payment method, illustration of benefits and copy documentation in support of verification by insurance licensees;
- o All post-sale records associated with the maintenance of the contract, up to and including maturity of the contract; and
- o Details of the maturing processing and / or claim settlement, including completed "discharge documentation".

iv) **Contents of the Records**

- o Generally the records should have a description of the nature of all the evidence received relating to the identity of the verification subject or information on sourcing or on how to obtain a copy if the evidence itself or a copy of it is not readily available.
- o Generally the records should comprise details of personal identity, including the names and addresses of the policy owner and any other parties connected to the insurance contract.
- o The details of the transaction should also be recorded and should include the nature of the transactions, policy premium,

memoranda of institution(s) and authority(ies), book entries, the date of transaction and the form (eg. cash, cheques, etc) in which premiums are paid.

- Especially in the case of long-term insurance, records should consist of full documentary evidence gathered by the Company between entry and termination of the policy. If there are termination of policies, the record should include the expiry and any early termination of a policy.

- All relevant records are to be kept in readily retrievable forms and be accessible with ease. The records may be retained by way of original document, stored on microform, or as electronic data.

- Any records kept by third parties are regarded as readily retrievable only if the Company is reasonably satisfied that the third party is able and willing to keep such records and to disclose them when required.

- The Company is also required to maintain a **separate register of all enquiries made to it by any law enforcement authority** or their foreign equivalent. The minimum details of the register are the date and nature of the enquiry, the name and agency of the enquiring office, the powers being exercised and the details of the policies involved.

v) **Retention of Records**

- The following data should be kept for a period of not less than six years :

  - Customer records, from the date of the transaction has been terminated, whether due to early termination, surrender of expiry of a policy;

  - The account ledger records, from the date of entering the transaction into the ledger; and

  - Records in support of entries in the accounts in whatever form they are used, eg. credit / debit slips and cheques and other forms of vouchers, from when the records were cheated.

  - The above requirement on the retention period will not apply where the Company have transmitted the record to the relevant law enforcement agency.

C. RECOGNITION AND REPORTING OF SUSPICIOUS CUSTOMERS / TRANSACTIONS

i) Recognition of Suspicious Customers / Transactions

To facilitate the recognition of suspicious customers / transactions, it is vital that the Company minimally observe the "know your customer" principle, including sourcing relevant information about the customer's economic / financial background. With a profile of the customer established, it will also facilitate the Company to vigilantly monitor the financial flows and transaction patterns of existing policy owners, particularly where there is a significant, unexpected and unexplained change in the behaviour of an account. In determining a case of the possibility of money laundering and of criminal conduct, it is also more than the absence of certainty that some one is innocent, but rather an inclination to believe that for reasons that can be identified, there has been a criminal conduct. There is also an absence of factual information to negate any suspicions. "Suspicious" could also mean unusual in the context of that particular customer's profile.

Generally, suspicious transactions may fall under the following categories :

- Any unusual or disadvantageous early termination of an insurance policy.

- An unusual employment of an intermediary in the course of some usual transaction or financial activity, eg. payment of claims or high commission to an unusual intermediary.

- An unusual method of payment.

Specific examples of suspicious transactions are listed in Appendix i. These examples are not intended to be exhaustive. The list however provides some examples and guide on some of the ways in which money can be laundered in the insurance industry.

ii) Reporting of Suspicious Customers / Transactions

The Company will institute a formal system of reporting of suspicious transactions and document in a manual and to make this manual known and accessible to all relevant staff. The procedures of the reporting system should minimally incorporate the following features :

- A Compliance Officer to whom all suspicious transaction is to be reported has to be appointed.

- All transactions that are regarded as suspicious must be reported **immediately** to the Compliance Officer. The procedure to reporting must be drawn out clearly in order not to delay reporting.

- A Compliance Officer to whom all cases of suspicious transactions are reported to, and who in turn is responsible to report such transactions to BNM. The Compliance Officer should be familiar with the different types of transaction which the insurance licensee handles and which may give rise to opportunities for money laundering. The Compliance Officer should also be a source and be able to advise the reporting personnel whether a particular case is a suspicious transaction.

- The Compliance Officer should be a senior officer or be part of a unit which is headed by senior management to :-

  - ensure speedy and appropriate action and reaction to any matters relating to the Guidelines or the appropriate enforcing Act.

  - provide advisory service to deliberate whether a particular transaction is used to launder money.

  - focus on and be responsible to run regular training and update of relevant staff.

- A clear and written structure and procedure to expedite reporting.

- For a branch or subsidiary in the group, it should report to the host authority and to immediately inform the Compliance Officer of the Head Office.

- The Company shall maintain a complete file on all transactions that have been reported to the Compliance Officer, including any transactions that are not reported to BNM.

- The Compliance Officer is required to report immediately any suspicious transactions to Pengarah, Jabatan Pengawalan Insurans, BNM using the reporting form in Appendix ii. In the event that urgent disclosure is required, especially where the suspicious transaction is related to an on-going investigation, an initial notification should be made by fax / phone to Pengarah, Jabatan Pengawalan Insurans or any other person designated by him.

- Where a further investigation of the customer is required following the reporting of a suspicious transaction to BNM, care should be taken to ensure that the customer is not aware that such a report has been made to BNM, or any other law enforcement agencies.

- Where a report has been made, care should be taken to ensure that the customer does not become aware that such a report has been made.

iii) **Reporting to Board of Directors (BOD) and Senior Management**

In line with the overall duty of the BOD and senior management under the principles expounded in the framework of corporate governance for the Company, it shall decide on the extent and frequency of reporting suspicious transactions to its senior management and BOD, to ensure that they are kept fully informed of any attempts to use the Company to launder money which may undermine its soundness and integrity.

D. **TRAINING**

The effectiveness of the vigilance system in the insurance industry depends on the extent to which the staff of the Company comprehend the issues surrounding money laundering, our respective obligations under the AML Framework, as well as our obligations to comply with both the Guidelines and any relevant legislation. These can be achieved by a conscious and systematic effort to build an environment and culture of awareness and vigilance of money laundering activities at all levels within the Company. In this regard, the Company should institute a systematic programme of training for their staff. The unit in charge of compliance and / or the Compliance Officer should also play a proactive role with regards to providing regular, effective as well as relevant training relating to the implementation and compliance of the Guidelines.

The Company should train all their **key staff**, and to decide how best to meet their training needs under the Guidelines. As a guide, the minimum training requirements should be as follows :-

a) *New employees*

The training should generally include :-

i) a description of the nature and processes of laundering;

ii) an explanation of the staff's obligations under the Guidelines and any legal obligations contracted in the relevant legislation; and

iii) an explanation of vigilance policy and system, with particular emphasis on verification, the recognition of suspicious transactions and the need to report such suspicions to the Compliance Officer.

b) *"Front-line" staff (including agents), marketing staff, underwriting / processing and claims-handling staff*

These are personnel who deal directly with the public and are the first point of contact with money launderers and their efforts are vital to the implementation of vigilance policy. They need to be aware of their obligations under the Guidelines, their legal responsibilities and the vigilance systems in place, in particular in relation to the obligation to identify and report suspicious transactions. These staff should be made aware that the offer of suspicious funds or the request to undertake a suspicious transaction should be reported to the Compliance Officer in accordance with the vigilance systems, regardless of whether the funds are accepted or the transaction proceeded with.

c) *Administration / operations supervisors, managers (including senior management) and BOD*

A higher level of briefing encompassing all aspects of the Guidelines, vigilance policy and systems should be provided to those with the responsibility for supervising or managing staff. The training should include briefing on the relevant laws and any offences and penalties arising from any relevant legislation, procedures relating to the service of production and restraint orders, internal reporting procedures and the requirements for verification of identity and the retention of records.

d) *Compliance Officers*

In-depth and thorough training of all aspects of the Guidelines, the relevant laws, vigilance policy and the AML Framework are essential for the Compliance Officers. In addition, there should be extensive continuous instruction on verification, record keeping and reporting of suspicious transactions, besides feedback arrangements and liaison with the relevant authorities.

e) *Updates and refreshers*

Refresher and update training should be given at regular intervals, best achieved on six-monthly review of training, especially in areas such as the recognition and reporting of suspected money laundering transactions to ensure that key staff remain familiar with and are updated as to their responsibilities. There should also be regular updates in administrative and legal requirements and obligations.

E. CLEAR CORPORATE STATEMENT ON ANTI-MONEY LAUNDERING POLICY

The Company should have an explicit policy not to underwrite any business where the customer fails to provide sufficient identification evidence. The Company should also provide a clear indication at the outset to potential customers of the importance and the consequences of failing to provide the necessary identification evidence. A customer should be made aware of his / her obligation to provide sufficient identification evidence. The Company can achieve this by incorporating the need for full identification evidence on policy forms. In general, verification should be satisfactorily completed before a transaction is concluded or before the customer has received the proceeds of surrender. The corporate statement on anti-money laundering should be communicated in writing to all staff, whether in branches, departments or subsidiaries and it should be reviewed on a regular basis.

F. INTERNAL AUDIT

The Company should instruct its internal audit department to monitor the compliance and effectiveness of the anti-money laundering measures undertaken on a regular basis. Branches and subsidiaries are required to make similar arrangements and to inform the Head Office of the status of compliance and the effectiveness of anti-money laundering measures undertaken.

G. MANUALS

The Company should set out comprehensive manuals to communicate all relevant aspects of the AML Framework to all key staff. This manual should be updated regularly to reflect amendments in the Guidelines and any legal requirements.

H. COMPLIANCE WITH RELEVANT LEGISLATION

OVERSEAS ASSURANCE CORPORATION (MALAYSIA) BERHAD
ANTI-MONEY LAUNDERING FRAMEWORK

The Company should conform to high standards of ethics and integrity in relation to its business while adhering to all relevant legislation pertaining to money laundering activities. In adopting appropriate anti-money laundering measures as prescribed in the Guidelines, the Company should also keep abreast and conform to the latest national and international developments on money laundering. In this regard, the licensees are operating within the parameters of section 195 of the Insurance Act 1996 on secrecy when there are reasonable grounds for suspecting money laundering activities and appropriate measures are taken as set-out in the Guidelines.

I. CO-OPERATION WITH RELEVANT LAW ENFORCEMENT AGENCIES

The Company should co-operate with national and any international competent authorities and law enforcement authorities in combating money laundering operations.

J. INSPECTION BY BNM OFFICERS

In facilitating the detection and prevention of money laundering, BNM officers or any person appointed to pursuant to section 3(3) of the Insurance Act 1996 may inspect regularly the compliance of the Company with the anti-money laundering measures promulgated in the Guidelines and the relevant legislation. Records pertaining to money laundering should be maintained properly for BNM's inspection.

APPENDIX i

EXAMPLES OF SUSPICIOUS TRANSACTIONS

General Comments

The list below shows some basic ways that money can be laundered in the insurance industry. It is to be noted that each transaction may or may not be sufficient to suggest that money laundering is taking place whilst a combination of such situations may also allude to such a transaction.

(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 copies of the accounts or other documents of incorporation.
3. A customer with no discernible reason for using the insurer's service, eg. Customers with distant addresses who could find the same service nearer their home base, or customers whose requirement 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 or introducer are based in countries where production of drugs or drug trafficking may be prevalent.
5. Any transaction in which the insured is unknown (eg. Treaty reinsurance, business introduced under binding authorities, etc)

(ii) Abnormal Transactions or which 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 premium, with 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 premium being credited to an account different from the original account.
5. Any transaction which the nature, size or frequency appears unusual, eg. 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 sum contract from an existing customer whose current contracts are small and of 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, eg. With reference to 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 premium 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 premiums, each purchased for cash and then cancelled with return of premium to the third party.
1. Large or unusual payment of premiums or transaction settlement by cash.
2. Overpayment of premium with a request to refund the excess to a third party or different country.
3. 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 policyowner.
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 Reinsurance

1. Strong likelihood of risks occurring, resulting in substantial claims, with consequently high premium.
2. Claims paid to persons other than the insured.
3. Claims which, while appearing legitimate, occur with abnormal regularity.
4. Regular small claims within 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.

APPENDIX ii

MONEY LAUNDERING IN THE INSURANCE INDUSTRY REPORTING OF SUSPICIOUS TRANSACTIONS TO BANK NEGARA MALAYSIA

Report No. : ________________
(Serial No./reporting year)

A. Details of Reporting Insurance Entity 1/

1. Reporting Institution : ____________________________________
2. Address : ____________________________________
   ____
3. Telephone No.: ______________
4. Fax : ______________

B. Details of Reporting Officer/Compliance Officer

1. Name : ______________________
2. Designation : ______________________
3. Telephone : ______________________
4. E-mail Address: ______________________

C. Customer's Particulars 2/

1. Name : ______________________________
2. Birthdate/Registration date*: _________________
3. Nationality/
   Country of Registration : __________________

4. NRIC/Passport/
Registration No : * ______________________

5. Address : ______________________________

____

6. Telephone No.: ______________________

7. Fax No. : ______________________

8. Occupation/Designation/
Business Activities * : ______________________

9. Name & Address of
Employer/
Own Office *: ______________________________

____

____

D. **<u>Policy Details</u>**
(contracted or otherwise – to complete where appropriate)

1. Policy No : ______________________________

2. Type of Policy : ______________________________

3. Date of Commencement :______________________________

4. Name of Agent : ______________________________

5. Agent's NRIC/
Passport No : ______________________________

6. Contact Address : ______________________________

____

OVERSEAS ASSURANCE CORPORATION (MALAYSIA) BERHAD
ANTI-MONEY LAUNDERING FRAMEWORK

7. Agency Name / Address : ____________________

____

____

8. Sum Insured : ____________________

9. Payment mode : ____________________
(Yrly/half-yrly/quarterly/monthly/lump sum)*

10. Premiums payable in
- Original currency : ____________________
- RM equivalent : ____________________

11. Name of Beneficiary : ____________________

12. Customer's relationship with beneficiary : ____________________

13. Address of beneficiary : ____________________

____

E. **Details of Suspicious Transactions 3/**

1. Amount involved : ____________________

2. Date of transaction regarded suspicious : ____________________

3. Source of funds: ____________________

4. Destination of funds: ____________________

5. Nature /type of transaction : ____________________

6. Reason(s) for suspicion: ____________________________________

____

____

7. Other relevant information: ____________________________________

____

____

Details of Authorised officer 4/ :

Name : ____________________________________
Designation :

____

Signature : ____________________________________

Insurance Entity : ____________________________

Company Stamp :

Date