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ANTI MONEY LAUNDERING & KYC (AML & KYC)

New Amendment - PMLA Second Amendment, 2018

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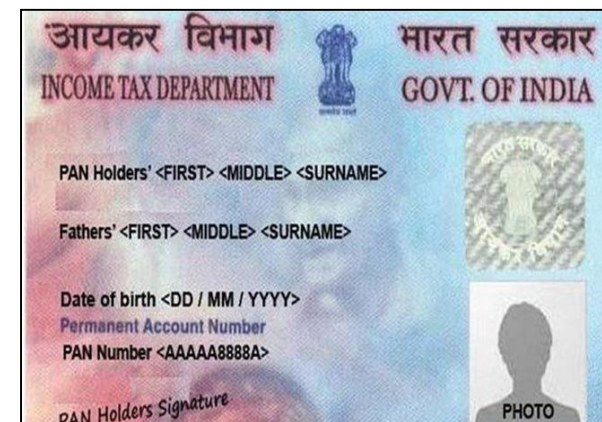
For all Resident-clients and Authorised person of Companies/Firms/Trusts/Unincorporated associations, submission of the following KYC documents under following conditions:-

PAN (OR) [Form 60+Certified copy of Identity & Residence Proofs]
(If no PAN then other KYC documents)

AND

Aadhaar Number :- Optional to collect Aadhaar as identity proof/address proof and redact/blackout Aadhaar number in soft copy & hard copy also

For New Business - Submit officially valid document with current address within a period of three months from date of proposal



Definition of Money Laundering-Prevention of Money Laundering Act 2002

Whosoever directly or indirectly:

- attempts to indulge or knowingly assists or knowingly is a party; or
- is actually involved in any process or activity connected with the proceeds of crime including its concealment, possession, acquisition or use, and
- projecting or claiming it as untainted property
- shall be guilty of offence of money laundering



Punishment' under the PML Act

- Rigorous imprisonment for a term not less than 3 years but may extend to 10 years and fine
- Failure to furnish information will attract a fine which will not be less than Rs.10,000 but extend to Rs.1 Lakh for each failure

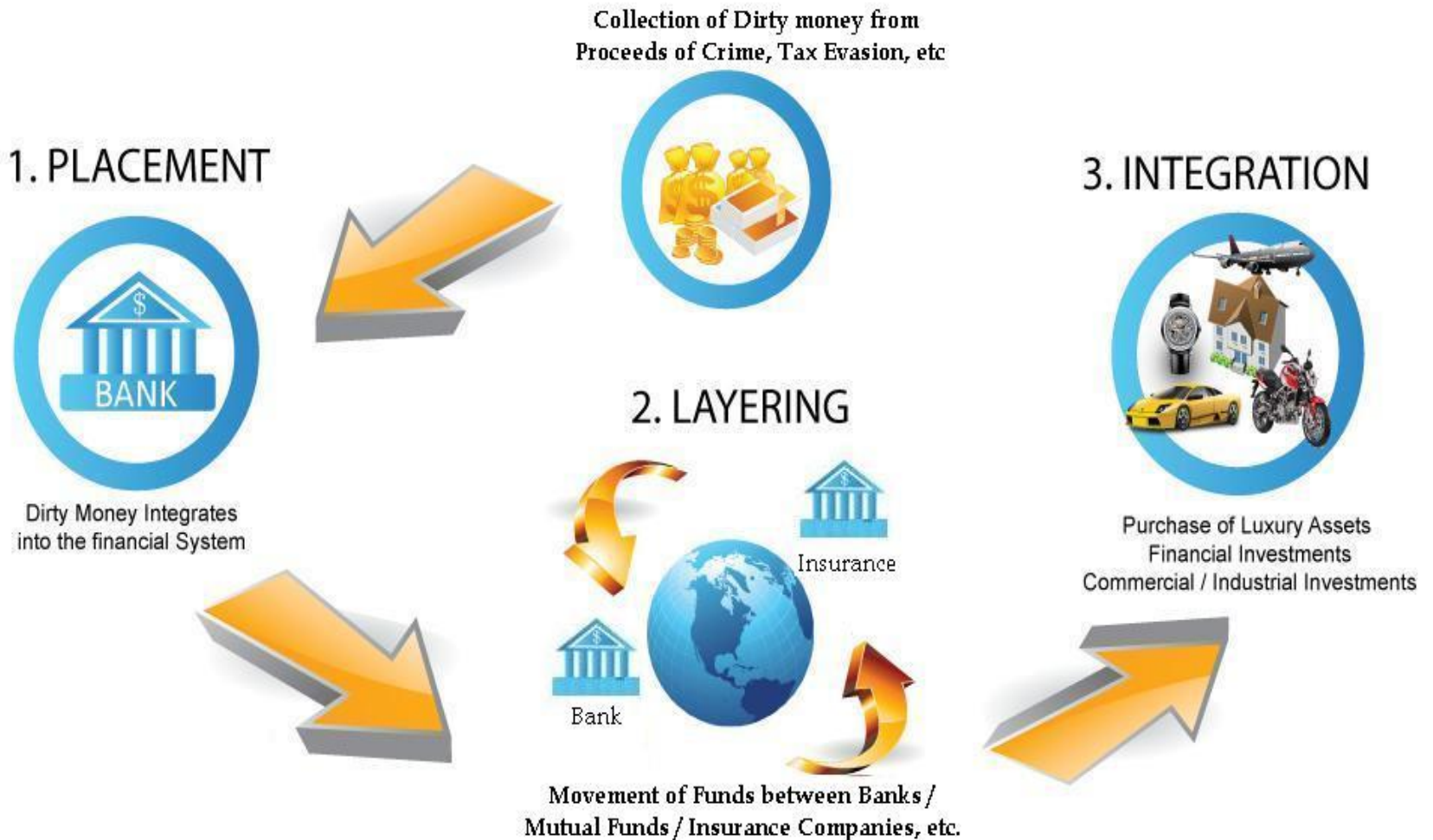


Money received / earned from following activities:

- Illegal drugs Trade
- Blackmail
- Extortion
- Smuggling
- Human Trafficking
- Customs/ Excise Fraud
- Tax Evasion
- Art & Antique theft & fraud
- Forgery
- Theft
- Illegal arms trade
- Sex trade
- Corruption
- Fraud



A TYPICAL MONEY LAUNDERING SCHEME



There are three stages of money laundering which are resorted to by the launderers

1. Placement



Placement means to physically dispose off cash proceeds derived from illegal activity.

This is when money is first brought into the system

2. Layering



Layering involves 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.

Multiple accounts, banks, intermediaries, corporations trusts, countries are used to disguise the origin.

3. Integration



Integration means to create the impression of apparent legitimacy to criminally derived wealth.

It is also important to note that all money laundering transactions need not go through the layering process.

KYC helps in establishing the identity of client. Identity can be established by obtaining ID proof, Address proof, photographs, etc.

Documents	Less than 10 ,000	10,000, Below 50,000	50 ,000 Below 3,00,000	3,00,000 and above
ID Proof	Y	Y	Y	Y
Photograph	N	Y	Y	Y
Address Proof	Y	Y	Y	Y
Income proof	N	Optional	Optional	Y

KYC to be carried out for the following people:

1. Life Assured
2. Proposer
3. Third Party Premium Payor
4. Beneficial Owner (If the proposer or premium Beneficial Owner (if the proposer or premium payor is other than an individual)
5. KYC is applicable at New Business, Top up remittances (High), Assignment and claim stage. If the client involved is not an individual then beneficial owner of such entity needs to be identified and KYC documents obtained

***Note:- KYC is an ongoing process

A. High Risk Customers

- Persons with varying income distribution (Self Employed & Business persons),
- Persons without Standard Address / ID Proof
- Jeweler - dealers,
- Antique dealers,
- Diamond traders,
- House wives with high income subject to their Income declaration
- Politically Exposed Persons (PEPs) are individuals who are or have been entrusted with prominent public functions. PEP norms may also be applied to the accounts of the family members or close relatives of the above referred individuals
- More than 10,00,000/- receipts from Non Profit Organizations

B. Low Risk Customers

- Salary holders including NRIs,
- Government servants,
- Professionals,
- Customers who are Farmers / from lower economic strata,

Single Pay

1. Low Risk product and a low risk customer - Single premium up to 2.99 lakhs will be a low Risk transaction
2. High Risk product and Low risk customer - Single premium up to 2.99 lakhs will be a low Risk transaction
3. All other single premium contributions would be considered as low risk transactions if the Single Premium is less than 2.99 lakh

Regular Pay

1. Low Risk product and a Low risk customer - Regular premium up to 2.99 lakhs will be a low Risk transaction
2. High Risk product and a Low risk customer - Regular premium up to 2.99 lakhs will be a low Risk transaction
3. All other regular premium contributions would be considered as Low risk transactions if the Annualized Premium is less than 2.99 lakhs

Financial Underwriting

- Financial underwriting is done to determine the amount of insurance to be offered to the customer
- Proofs such as Income tax returns are acceptable for financial underwriting as they prove the amount of income of the customer and enable the underwriter to determine the income multiples, required for calculating the sum insured

Money Laundering Requirements

- Money laundering requirements attempt to understand the source of funds of the customer to ensure that 'dirty' money is not being converted into legitimate money
- Crime can only fully succeed if the funds generated can be utilised without their true source being known. Hence we need to check whether the income proof justifies the premium paid.
- Income tax returns are adequate proof of income of a customer but they are not good proofs of the 'Source of Funds' of the customer. For money laundering compliance we need to understand and document the source of funds

- As most part of the insurance business is through agents / corporate agents who bring in non face to face business relationships with the policyholders, the selection process of agents / corporate agents shall be monitored carefully. The committee monitoring the agents shall 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 shall be conducted to ensure company's strict adherence to laid down processes
- Insurance companies shall have adequate screening procedures when hiring employees
- The concept of AML shall be part of in-house training curriculum for agents



What is a Suspicious Transactions

A suspicious transaction is one for which there are reasonable grounds to suspect that the transaction is related to a money laundering offence or a terrorist activity financing offence. A suspicious transaction can include one that was attempted



- A financially sound insurance sector contributes to economic growth and well-being by supporting risk management, allocation of resources, and mobilization of long-term savings
- Every insurer should identify the beneficial owner and take all reasonable measures to verify his/her identity to their satisfaction so as to establish the beneficial ownership
- Documents collected towards the identity and address of the customer should be duly certified by an authorized person as identified by the Life Insurer
- Transactions where the risks of money laundering or terrorist financing are higher, Life Insurer should be required to conduct enhanced due diligence measures

Illustrative list of Suspicious Transactions:

- Customer insisting on anonymity, reluctance to provide identifying information, or providing minimal, seemingly fictitious information;
- Cash based suspicious transactions for payment of premium and top ups over and above Rs. 5 lakhs per person per month. It should also consider multiple DDs each denominated for less than Rs. 50,000/-;
- Frequent free look surrenders by customers;
- Assignments/Top ups to unrelated parties without valid consideration;
- Request for a purchase of policy in amount considered beyond his apparent need;
- Unusual terminating of policies and refunds;
- Frequent request for change in addresses;
- Borrowing the maximum amount against a policy soon after buying it;
- 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;
- Overpayment of premiums with a request for a refund of the amount overpaid;
- Multiple DD"s each of Denomination for less than Rs.50,000 for payment of Premium and Top-ups over and above Rs.2 lakhs per person per month
- Media Reports about a customer
- Information sought by Enforcement Agencies

How to mitigate Money Laundering Risk

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Stringent KYC & Due Diligence process



AML training (mandatory for employees & agents)



Monitoring and Surveillance



Checking customer names against negative listed Individuals / terrorists



Suspicious Activity Reporting

Cash Acceptance Limit:

- We have restricted Cash transactions of Rs. 2 lakhs and above
- Cash acceptance is beyond Rs.50,000 up-to Rs.1.99 lakhs. A duly filled declaration stating the source needs to be obtained from the customer

Media Report about Customer:

- Adverse media report about an existing Policyholder should be reported to Principal Officer/AML Team immediately
- Media report of customer in Criminal or Anti criminal activities or tax evasion etc.

PEP Cases:

- PEP are individuals who are or have been entrusted with prominent public functions (Political), for e.g Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

The relatives of above are also treated as PEPs

- The contracts with PEP's are concluded after approval of senior management officials preferably Head(underwriting)/Chief Risk Officer level/any authorized person
- PEP's applies to the Proposer/Life Assured/Nominee/Assignee/Beneficiary owner/Third party premium payer

Reporting of Counterfeit Currency notes:

- Counterfeit money is imitation currency produced without the legal sanction of the state or government. Producing or using counterfeit money is a form of fraud or forgery
- Any forged or counterfeit currency notes if detected/ identified at the Branches must be reported to the AML Compliance Department immediately

United Nations Security Council (UNSC) & (Financial Action Task Force) FATF screening:

- India is a member of FATF. Ministry of Home Affairs (MHS) has circulated list of banned entities.
- 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

Case Study-I

A businessman with annual turnover of Rs. 2 crores, bought an Insurance policy by part payment through bank and Cash => 50,000/-. In free-look period, he cancelled his policy & wished to take another policy with better terms. He was paid back the money on NAV. After a week's time, he vanished. Later, a local newspaper published, that the customer was arrested on a non- bailable warrant and is a prime suspect in the smuggling racket of cocaine.

Learning's:-

His adequate KYC & Income documents needs to be collected and a close track on the Media report about the customer needs to be traced.

Any news about the customer in media should be immediately reported to the AML Team/ Principal officer

Case Study-II

A drug trafficker purchased a life insurance policy with a value of Rs.1 lakh. The policy was purchased through an agent of a life insurance company using a Demand Draft. Three months following this transaction, the investigation showed that the drug dealer cashed in his policy

Learning's:-

A DD declaration ascertaining the mode through which DD is made and a appropriately filled Source of Funds declaration needs to be collected to ascertain the source of income of the client

Customer insisting on anonymity, reluctance to provide identifying information, or providing minimal, seemingly fictitious information

- a) We accept the case without proper identification
- b) We reject the case and report the same to AML team
- c) Obtain requisite details for proper identification of the customers
- d) We will accept the case with the forged documents

If any RNLIC employee comes across a media reports about a Customer

- a) Tip -off the customer
- b) Report immediately to the AML Team/ Principal Officer
- c) Accept the policy without informing the AML Team/Principal Officer
- d) Deny the policy from login

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- The management decision in any case shall be final and binding
- At some of the places we have used extract of policy and matrix. For more details and understanding, your are requested to refer detailed AML policy and AML matrix . You may also contact AML Team for your any query.

Reliance Nippon Life Insurance Co. Ltd. (IRDAI Registration No:- 121)

CIN: U66010MH2001PLC167089

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Thank you for
your time.