



SUPPLEMENTARY INFORMATION
Appendix FC- (iv)
Examples of Suspicious Transactions



Examples of Suspicious Transactions History

Change Date	Description of Changes
October 2005	Initial Launch



Appendix FC – (iv): Examples of Suspicious Transactions

Introduction

This Appendix provides some examples of transactions where an insurance firm or insurance broker would be expected to make further enquiries to satisfy themselves as to the genuineness of the transaction and the source of the funds. In the event of failure to do so, and the transaction subsequently being discovered to involve funds that are the proceeds of crime, then the firm or broker (and the employees and agents concerned) could render themselves liable to prosecution, if they have not complied with the reporting requirements given in these regulations.



MODULE	FC:	Financial Crime
APPENDIX	(iv):	Examples of Suspicious Transactions

New Business

Examples of new business-related suspicious transactions include:

- (a) **A** personal lines customer that is unable or reluctant to provide satisfactory evidence of identity, or where the evidence presented is out of date, of poor quality or does not provide conclusive evidence;
- (b) **A** personal lines customer who provides evidence of identity on behalf of another proposer, where it would be considered appropriate for the proposer to attend in person, and where the proposer is unable or reluctant to attend in person (where it would be reasonable to do so and in the absence of extenuating circumstances);
- (c) **A** proposer with no discernible reason for purchasing insurance, e.g. a life policy with an unusually high limit where the proposer has no outstanding mortgage and no dependants, or where the insurance is bought at abnormally high cost or the product is otherwise unsuitable;
- (d) **A** proposer for a savings product, and/or an intermediary, where either or both are based in countries where production of drugs or drug trafficking may be prevalent;
- (e) **A** proposer who is not resident and where the purchase of an insurance policy in Bahrain appears abnormal or suspicious;
- (f) **A**ny transaction in which the insured is unknown (e.g. business introduced under binding authorities);
- (g) **A** proposal from an intermediary not in keeping with the normal business introduced;
- (h) **A** proposal 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;
- (i) **A**ny 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;
- (j) **A** transaction not in keeping with normal practice in the market to which they relate, e.g. with reference to size or class of business;
- (k) **O**ther 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;
- (l) **W**illingness to pay premium on high risks which have a likelihood of regular claims being made; and
- (m) **A**n attempt was made to purchase life policies for a number of foreign nationals. The underwriter was requested to provide life coverage with an indemnity value the same as the premium. There were also indications that in the event that the policies were to be cancelled, and return premium was to be paid into a bank account in a different jurisdiction to the assured.



MODULE	FC:	Financial Crime
APPENDIX	(iv):	Examples of Suspicious Transactions

Premiums

Examples of premiums-related suspicious transactions include:

- (a) 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;
- (b) Large or unusual payment of premiums or transaction settlement by cash;
- (c) Overpayment of premium with a request to refund the excess to a third party or different country;
- (d) Payment by way of third party cheque or money transfer where there is a variation between the account holder, the signatory and the prospective insured;
- (e) Another strategy involves the purchase of large, single-premium insurance policies and their subsequent rapid redemption. A money launderer does this to obtain payment from an insurance company. The person may face a redemption fee or cost, but this is willingly paid in exchange for the value that having funds with an insurance company as the immediate source provides;
- (f) Another simple method by which funds can be laundered is by arranging for excessive numbers or excessively high value of insurance reimbursements by cheques or wire transfers to be made;
- (g) A money launderer may well own legitimate assets or businesses as well as the illegal enterprise. In this method, the launderer may arrange for insurance of the legitimate assets and 'accidentally', but on a recurring basis, significantly overpay his premiums and request a refund for the excess. Often, the person does so in the belief that his relationship with his representative at the company is such that the representative will be unwilling to confront a customer who is both profitable to the company and important to his own success;
- (h) There are several cases where the early cancellation of policies with return of premium has been used to launder money. This has occurred where there have been:
 - (i) A number of policies entered into by the same insurer/intermediary for small amounts and then cancelled at the same time;
 - (ii) Return premium being credited to an account different from the original account;
 - (iii) Requests for return premiums in currencies different to the original premium; and
 - (iv) Regular purchase and cancellation of policies;
- (i) The overpayment of premium is more likely to be relevant to an insurance broker rather than an insurer. However, the overpayment of premium, has in the past, been used as a method of money laundering. Underwriters should be especially vigilant where:
 - (i) The overpayment is over a certain size (say US\$10,000 or equivalent);
 - (ii) The request to refund the excess premium was to a third party;
 - (iii) The assured is in a jurisdiction associated with money laundering; and
 - (iv) Where the size or regularity of overpayments is suspicious; and
- (j) High brokerage can be used to pay off third parties unrelated to the insurance contract. This often coincides with the example of unusual premium routes.



MODULE	FC:	Financial Crime
APPENDIX	(iv):	Examples of Suspicious Transactions

Cancellation and Assignment

Examples of cancellation and assignment-related suspicious transactions include:

- (a) Assignment of policies to apparently unrelated third parties;
- (b) Early cancellation of policies with return of premium, with no discernible purpose or in circumstances which appear unusual; and
- (c) 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.



MODULE	FC:	Financial Crime
APPENDIX	(iv):	Examples of Suspicious Transactions

Claims

Examples of claims-related suspicious transactions include:

- (a) Payment of claims to a third party without any apparent connection with the investor;
- (b) Abnormal settlement instructions, including payment to apparently unconnected parties or to countries in which the insured is not known to operate;
- (c) Strong likelihood of claims occurring, with consequently high premium;
- (d) Claims paid to persons other than the insured;
- (e) Claims which, while appearing legitimate, occur with abnormal regularity;
- (f) Regular small claims within premium limit;
- (g) Treaty reinsurances with high incidence of small claims;
- (h) Regular reinsurance claims paid overseas to third parties;
- (i) Recent change of ownership/assignment of policies just prior to a loss; and
- (j) Abnormal loss ratios for the nature and class of risk bound under a binding authority.



MODULE	FC:	Financial Crime
APPENDIX	(iv):	Examples of Suspicious Transactions

Reinsurance Business

Examples of reinsurance business-related suspicious transactions include:

- (a) **L**arge proportion of business is reinsured (ceded) to a reinsurer:
 - (i) **W**ho is unrated or whose security is otherwise questionable;
 - (ii) **W**ho is located in a country which is identified by the FATF as being non-cooperative in combating money laundering or about which the FATF has issued a Recommendation 21 press release; or
 - (iii) **W**ho is not generally regarded as a market for the class of business concerned;
- (b) **R**equest for “fronting” business by a non-resident insurer or reinsurer, where the business is abnormal or suspicious in terms of:
 - (i) **T**he volume of business reinsured;
 - (ii) **T**he unusual nature of the risks;
 - (iii) **T**he lack of underwriting information; or
 - (iv) **T**he business appears to be written on terms which are not commercial or imprudent in relation to the underlying claims data.
- (c) **R**einsurance Business ceded which:
 - (i) **I**s abnormal in its pattern, amount or nature;
 - (ii) **I**s ceded from an insurer who is located in a country which (i) is identified by the FATF as being non-cooperative in combating money laundering (ii) about which the FATF has issued a Recommendation 21 press release;
 - (iii) **R**elates to a single reinsured person, where the ceding company, on enquiry, cannot provide a satisfactory explanation for the rationale of the transaction; or
 - (iv) **I**s irregular, from year to year, in the pattern of business ceded (in a manner that is abnormal from industry practice).