Summary of risk assessment of money laundering and terrorist financing for the life insurance sector

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Contents

Summary

The Financial Supervisory Authority (the FIN-FSA) has prepared a sector-specific risk assessment of the risks of money laundering and terrorist financing of life insurance companies it supervises.

According to the risk assessment, the risk of money laundering and terrorist financing facing the life insurance sector as a whole is moderately significant (2/4), the second lowest on a four-step scale.

As regards products offered by life insurance companies, endowment insurance and capital redemption policies elevate the risk associated with the activities, from the perspective of both money laundering and terrorist financing. These products allow flexible premiums, an option to transfer the policy to third parties and a free right of repurchase/termination.

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Based on information regularly collected by the FIN-FSA and supervisory measures, deficiencies have been revealed in life insurance companies' risk controls.

1 Purpose and scope of application of the sectoral risk assessment

The sectoral risk assessment of money laundering and terrorist financing for life insurance companies is the FIN-FSA assessment of the money laundering and terrorist financing risks for life insurance companies at the sectoral level. In the FIN-FSA’s inherent risk assessment of money laundering and terrorism financing, risks associated with different sectors are examined at the top level and only from the standpoint of the products and services typically provided in the sectors. For the sectoral risk assessment, the FIN-FSA studied more thoroughly the products and services offered by life insurance companies authorised in Finland, as well as their customers, distribution channels and geographical coverage. In addition, their risk controls were included in the analysis. The assessment was formed at the sectoral level instead of individual supervised entities.

The risk assessment guides the FIN-FSA in directing supervisory resources and selecting supervisory measures based on risk. In accordance with the European Banking Authority's (EBA) guidelines on risk-based supervision, the FIN-FSA shall devise an anti-money laundering and counter-terrorist financing supervisory strategy, and risk assessments specific to the various supervised sectors are a key component of this strategy.

The most recent summary of the assessment of money laundering risk concerning the life insurance sector was published by the FIN-FSA on 14 December 2020. The present risk assessment describes the situation at the end of 2024, when the FIN-FSA’ register had nine authorised life insurance companies. Data on eight life insurance companies were included in the risk assessment[1].

Finnish branches of life insurance companies authorised in other EEA member states are excluded from the assessment, since they do not report to the FIN-FSA in the RA data collection on money laundering and terrorist financing risks as well as sanctions risks and controls.

[1] The risk assessment excluded SHB Liv, whose operations have discontinued.

2 Preparation of the risk assessment

In assessing money-laundering and terrorist financing risks, the FIN-FSA applies a four-step scale, which corresponds to the assessment scale[2] used by the European Banking Authority (EBA). A corresponding risk score is determined to describe each risk level.

Risk level	Risk score corresponding to the risk level
Very significant	4
Significant	3
Moderately significant	2
Less significant	1

The sectoral risk assessment is made by assessing the risk level associated with the following categories of risks and controls:

- Risk categories:
  - Products and services
  - Geographical location
  - Customers
  - Distribution channels
- Control categories:
  - Risk-based approach to operations
  - Organisation of activities
  - Customer due diligence
  - Monitoring

Both the risk and control categories are assessed in terms of the degree of risk associated with them. As regards controls, attention focuses on shortcomings and the risk-increasing effect of these shortcomings.

The overall risk level is a joint assessment of the risk levels of the risk and control categories. The risk level of the risk categories has been weighted heavily than that of the control categories. This is because it is neither possible nor always appropriate to try completely eliminate the risk of money laundering or terrorist financing through controls. Furthermore, the view of controls is largely based on data reported by supervised entities in the RA data collection and not verified through supervisory measures.

In preparing the risk assessment, for example, the following information was utilised:

- Data reported by life insurance companies to the FIN-FSA in the RA data collection (reference date 31 December 2024) and information obtained in connection with supervisory actions.
- Life insurance companies' risk assessments and the FIN-FSA's risk assessment on the life insurance sector of 14 December 2020[3]

[2] EBA The Risk-Based Supervision Guidelines EBA/GL/2021/16, chapter 4.3.6

[3] Summary of the risk assessment on the life insurance sector

- Guidelines of the EBA and the Financial Action Task Force[4]
- Statistics compiled by the FIN-FSA[5] and Finance Finland[6]

3 Risk assessment and its justifications

3.1 Results of sectoral risk assessment

The FIN-FSA has assessed that the overall risk of money laundering and terrorist financing in the life insurance sector is **moderately significant,** i.e. second lowest on a four-step scale.

The overall risk in the sector is similar from the perspective of both money laundering and terrorist financing. This is because the risk of money laundering and terrorist financing is being elevated practically by the same elements in both products and services. With regard to geographical risk and risks associated with customers and distribution channels, money laundering and terrorist financing have not yet been separated at the level of the sectoral risk assessment. With regard to controls, the controls for money laundering and terrorist financing have also been assessed as a whole.

In the risk assessment, risk related to products and services was weighted more than other risk factors. The justification for this is that products and services determine how a sector, subsector or individual entity can be exploited in money laundering or terrorist financing. Without products or services that involve a risk of money laundering or terrorist financing, it is difficult for the sector to be exploited in money laundering or terrorist financing.

No major changes have occurred in the overall risk level concerning money laundering and terrorist financing in the life insurance sector since the previous sectoral risk assessment. Hence, the sector's overall risk remains assessed at risk level two (2).[7] Life insurance companies continue to provide mainly the same products and services, and new factors elevating the risk of money laundering and terrorist financing in the sector have not been identified internationally, either. Nevertheless, potential risks must be identified and also prepared for in the life insurance sector's activities. Life insurance companies' awareness of potential risks related to their own activities has increased. In their risk assessments, the companies have analysed risks more comprehensively than before, and classified their customers and products offered, among other things, accordingly. According to the risk assessments, efforts have been made to improve IT systems, internal guidelines and training of the personnel.

According to the FIN-FSA's assessment, life insurance companies continue to have room for improvement in risk controls, particularly actions related to customer due diligence and the updating of customer due diligence information. There is variation within the sector in the extent of suspicious transactions detected by the companies in their own operations and how many reports they make to the Financial Intelligence Unit. The FIN-FSA finds it important that the companies continue to put efforts in the development of IT system as part of their risk management. Moreover, it is important that the companies have sufficient resources at their disposal to meet their obligations appropriately.

[4] EBA Guidelines on ML/TF Risk Factors (incl. amending Guidelines EBA/GL/2024/01), FATF Recommendations: Risk-based Approach Guidance for the Life Insurance Sector.

[5] https://www.finanssivalvonta.fi/en/statistics/insurance/life-insurance/, Premiums written in 2024

[6] https://www.finanssiala.fi/aiheet/tilastot

[7] According to the risk classification used in the summary of the money laundering risk assessment for the life insurance sector published on 14 December 2020, level 2 represented a normal risk level.

The risk scores corresponding to the risk levels determined for the risk and control categories are shown in the table below:

Risk categories:	
Products and services	2
Geographical location	1
Customers	1
Distribution channels	3
Risk level of risk categories:	**2**
Control categories:	
Risk-based approach	2
Organisation of operations	2
Customer due diligence	2
Monitoring	2
Risk level of control categories:	2
Overall risk level of the sector	**2**

3.2 Risk categories

3.2.1 Products and services

The products and services provided have a crucial role underlying the risk of a sector or individual entity to be abused in money laundering.

A starting point for the assessment of risks associated with products and services is the FIN-FSA's inherent risk assessment of money laundering and terrorist financing and the inherent risk levels determined therein for different products and services. In the inherent risk assessment published by the FIN-FSA in 2022, the inherent risk level of both money laundering and terrorist financing related to life insurance companies was assessed as being moderately significant (level 2).

Savings and investment policies provided by life insurance companies are products intended for long-term saving and investing. They aim to generate return and accumulate the savings amount or obtain cover for the event of death. Life insurance policies can be divided into risk life policies and savings life (endowment) policies. Pension insurance products are used to save for additional cover for retirement age. Insurance investment also includes capital redemption policies provided by life insurance companies, which do not involve any insured person. The summary of money laundering risk assessment for the life insurance sector published in 2020 provides a more detailed product-specific description.

Summary of insurance products

In life insurance companies' product range, risk life policies and voluntary pension insurance are considered to involve generally low risk of money laundering and terrorist financing. These products involve very limited funds transfers. Moderately significant risk of money laundering and terrorist financing is associated with insurance products involving easy funds transfers and liquidation and allowing a high insurance premium or policy payment. These products comprise endowment insurance policies and capital redemption policies. It is characteristics of these products that the saved funds can be easily withdrawn entirely or in instalments, transferred to third parties or used as loan collateral. The bulk of Finnish life insurance companies' premiums written stems from endowment insurance policies and capital redemption policies.

The characteristics of products provided by life insurance companies have been assessed from the perspective of risk related to money laundering and terrorist financing. The impact of the products was assessed for example in terms of the number of insurance contracts and volume of savings.

Overall, the risk of money laundering and terrorist financing pertaining to products and services provided by life insurance companies is **moderately significant**.

3.2.2 Risk related to geographical location

The risk related to geographical location is assessed as being **less significant**.

Risk related to geographical location reflects the location of life insurance companies' branches, subsidiaries and agents. Factors elevating the risk level include location outside the EEA or in a high-risk country. According to the RA data collection, life insurance companies conduct their operations mainly in Finland, not having subsidiaries, agents, or branches in the above-mentioned risk-elevating areas. Geographical risk also reflects the geographical location of customer fund accounts or payment accounts.

3.2.3 Customer risk

The risk related to customers is assessed as being **less significant.**

In assessing the risk related to customers, the data reported in the RA data collection about different client groups have been considered. Both absolute and percentage customer numbers have been taken into consideration, for example with regard to high-risk customers and customers located abroad. Failure of supervised entities to identify high-risk customers also affects the risk.

3.2.4 Distribution channel risk

The risk level associated with distribution channels was assessed to be **significant**.

Life insurance companies have reported in the RA data collection that they have hundreds of insurance agents as a distribution channel. The large number of agents elevates the risk of money laundering and terrorist financing. In this regard, life insurance companies need sufficient risk controls and resources.

3.3 Control categories

3.3.1 Risk-based approach

Through the RA data collection, life insurance companies have reported that they take into account all regulatory requirements in their risk assessment and classify customers into risk categories. All of the companies have prepared a risk assessment. In the risk assessments, companies identify money laundering and terrorist financing risks associated with its own activities. According to data collected via the RA survey, the companies still have room for development in customer risk rating. For example, if risk rating by a company places all of its customers into the same risk category, the risk rating cannot be considered sufficient. Risks identified in the risk assessment should be taken into consideration in defining customer risk categories and ongoing monitoring actions.

3.3.2 Organisation of activities

In the RA data collection, life insurance companies have reported that, during the last two years, they have drawn up or updated their policies, codes of conduct and work instructions regarding the prevention of money laundering and terrorist financing. The FIN-FSA's supervisory findings support the reported information. The RA data collection does not contain reported data on resources allocated by life insurance companies the prevention of money laundering and terrorist financing. According to the FIN-FSA's supervisory findings, the companies' limited resources in anti-money laundering and terrorist financing functions may contribute to impaired risk management.

Based on data reported in the RA survey, life insurance companies have reported having outsourced functions pertaining to customer due diligence. The outsourcing of functions increases risks and requires that control and monitoring responsibilities concerning compliance in the outsourced function have been defined clearly.

3.3.3 Customer due diligence

In the RA data collection, life insurance companies have reported using strong electronic identification for customer identification. Some companies reported they have outsourced customer identification or rely on third parties. This elevates risk in general.

There are delays in updating customer due diligence information. Un-updated customer due diligence information also elevate the risk.

3.3.4 Monitoring

In the RA data collection, life insurance companies have reported that they use systems-based monitoring to track money flows related to insurance contracts. A majority of the companies also reported that they use systems-based monitoring on customers' other activities and to detect suspicious transactions.

According to information reported in the RA data collection, life insurance companies have reported suspicious transactions to a very varying degree both internally and to the Financial Intelligence Unit. Low number of reports relative to entities operating in other sectors may indicate shortcomings in procedures related to monitoring and reporting.

4 Targeting of supervision

The FIN-FSA's duty is to ensure that obliged entities have policies, procedures and controls referred to in chapter 2, section 3 of the Anti-Money Laundering Act (444/2017) in place to ensure that obliged entities comply with obligations imposed on them by regulation. In its supervision, the FIN-FSA primarily seeks to ensure that supervised entities in their own activities meet the minimum requirements laid down in law and the FIN-FSA's binding regulations and interpretations. Supervision by the FIN-FSA is based on risks, and supervisory resources are primarily allocated to sectors with the most significant risk exposure.

In its 2022 inherent risk assessment, the FIN-FSA published its assessment of the significance of each of its supervised sectors in combating money laundering and terrorist financing, using the same four-step scale used in sectoral risk assessments. In terms of risk, life insurance companies were classified as a moderately significant (2) sector, considering the inherent risk of the sector and the number of customers.

The FIN-FSA supervises the operation of the life insurance sector with respect to the prevention of money laundering and terrorist financing as part of ongoing supervision in close cooperation with other supervision concerning these companies. Necessary supervisory actions concerning individual life insurance companies will be taken based on findings made in supervision.